Entergy

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May 2, 2001
JPN-01- 009
IPN-01-042

U.S. Nuclear Regulatory Commission
Mail Stop O-P1-17
Washington, D.C. 20555-0001
ATTN: Document Control Desk

SUBJECT: Indian Point 3 Nuclear Power Plant
Docket No. 50-286
James A. FitzPatrick Nuclear Power Plant
Docket No. 50-333
Annual Financial Report for 2000

Dear Sir:

Enclosed are ten (10) copies of Entergy's Annual Report for 2000. This report is submitted in accordance with the requirements of 10CFR50.71(b).

There are no new commitments made in this letter. If you have any questions, please contact Ms. Charlene Faison at 914-272-3378.

Very truly yours,

Michael R. Kansler
Senior Vice President and
Chief Operating Officer

Enclosed: Entergy's 2000 Annual Report (10 copies)

cc: See next page

M004
1/10
5 cys advanced to A. Wunder
4 cys advanced to: Guy Vissing

cc: w/o enclosures

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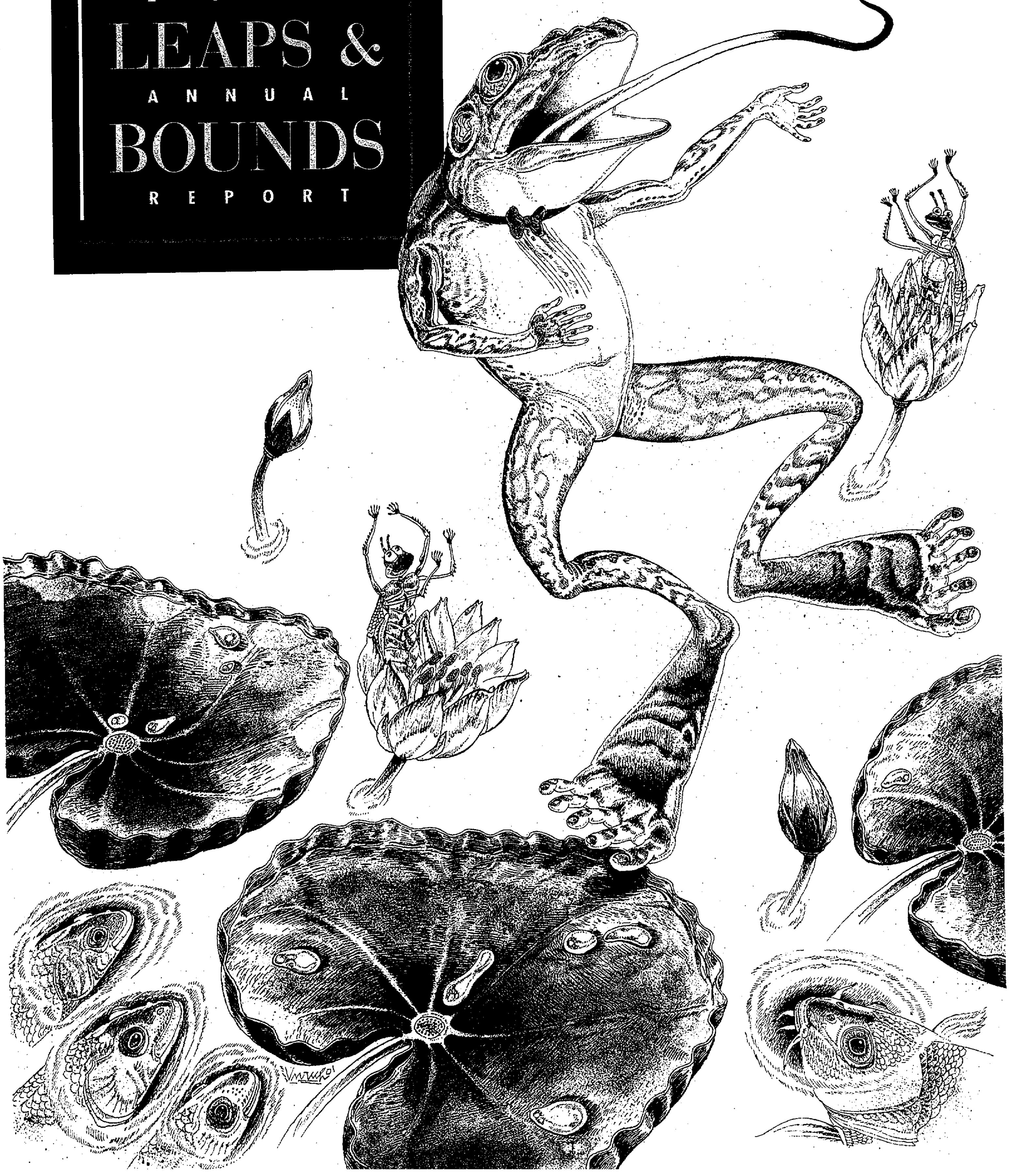
A YEAR OF LEAPS & BOUNDS

2000 ANNUAL REPORT

Entergy



HEADQUARTERED IN NEW ORLEANS, ENTERGY IS A MAJOR GLOBAL ENERGY COMPANY WITH POWER PRODUCTION, DISTRIBUTION OPERATIONS, AND RELATED DIVERSIFIED SERVICES. OUR UTILITY COMPANIES DELIVER ELECTRICITY TO ABOUT 2.6 MILLION CUSTOMERS IN PORTIONS OF ARKANSAS, LOUISIANA, MISSISSIPPI, AND TEXAS. ENTERGY OWNS, MANAGES, OR INVESTS IN MORE THAN 30,000 MEGAWATTS OF ELECTRIC GENERATION DOMESTICALLY AND INTERNATIONALLY. THROUGH ENTERGY-KOCH, L.P., WE ARE ALSO A LEADING PROVIDER OF WHOLESALE ENERGY MARKETING AND TRADING SERVICES.

HIGHLIGHTS

ENTERGY CORPORATION AND SUBSIDIARIES

Dollars in millions, except per share amounts	2000	% CHANGE	1999	% CHANGE	1998
FINANCIAL RESULTS					
Total operating revenues	$ 10,016	14.2%	$ 8,773	(23.7%)	$ 11,495
Earnings applicable to common stock	$ 679	23.0%	$ 552	(25.3%)	$ 739
Earnings per share					
Basic	$ 3.00	33.3%	$ 2.25	(25.0%)	$ 3.00
Diluted	$ 2.97	32.0%	$ 2.25	(25.0%)	$ 3.00
Average shares outstanding (in millions)					
Basic	226.6	(7.5%)	245.1	(0.5%)	246.4
Diluted	228.5	(6.8%)	245.3	(0.5%)	246.6
Net cash flow provided by operating activities	$ 1,968	41.7%	$ 1,389	(24.3%)	$ 1,836
Net debt	$ 7,561	24.0%	$ 6,098	12.9%	$ 5,401
DOMESTIC ELECTRIC UTILITY OPERATING DATA					
Retail kilowatt-hour sales (in millions)	103,216	2.7%	100,519	0.3%	100,224
Peak demand (in megawatts)	22,052	6.7%	20,664	0.4%	20,591
Retail customers – year end (in thousands)	2,556	1.3%	2,522	1.1%	2,495
Total employees – year end	13,884	13.7%	12,214	(3.8%)	12,697

Growing revenues and earnings in 2000 reflect the successful execution of the refocused strategy that Entergy has pursued since 1998. Entergy's competitive businesses – wholesale energy and nuclear generation – and its regulated utility both contributed to improved performance. Entergy's share repurchase program also contributed to higher earnings per share. Financial performance measures for earlier years reflect the divestiture program that Entergy carried out in 1998 and early 1999 as part of the refocused strategy. Earnings per share of $3.00 in 1998 included a $1.00 per share gain on the sale of London Electricity. Divestitures of over $4 billion in assets are also reflected in decreased revenues and cash flows in 1999, compared with 1998 levels.

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LEAP YEAR.

IN 2000, ENTERGY CORPORATION COMPLETED A SERIES OF STEPS THAT ADDED UP TO A SIGNIFICANT LEAP FORWARD – TO INDUSTRY LEADERSHIP AND NEW OPPORTUNITY FOR GROWTH. ALL ALONG THE WAY, OUR COMPANY SET RECORDS FOR OPERATIONAL AND FINANCIAL PERFORMANCE.

Even as Entergy pursued initiatives that transformed our capacity for future growth – initiatives that are highlighted in this report – we never lost our focus on day-to-day execution. The company turned in four consecutive quarters of record earnings and capped that performance with a record-high year-end closing price for Entergy stock. Stock price appreciation, combined with an increased dividend, produced a total shareholder return of 71 percent for the year.

An independent study published in April 2000 ranked Entergy first among all U.S. electric utilities surveyed for a one-year improvement in customer satisfaction. We achieved the best safety record in the history of the company, with a 25 percent decline in lost-time accidents. And the utility continued to improve on measures of reliability, despite one of the hottest summers in recent years and the worst winter ice storms in our company's history.

DEAR STAKEHOLDERS:

OUR COMPANY IS FUNDAMENTALLY DIFFERENT TODAY FROM WHAT IT WAS A YEAR AGO. THE YEAR 2000 WAS TRULY A YEAR OF LEAPS AND BOUNDS FOR ENTERGY, IN ESTABLISHING A TRACK RECORD OF SUCCESS AND CREATING A PLATFORM FOR CONTINUED GROWTH.

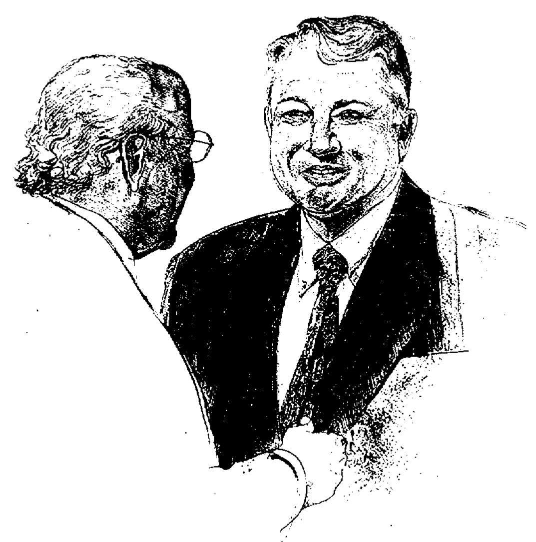
While management focused primarily on building scale advantages and skills, Entergy employees focused on day-to-day execution. That is why we can report record results for the year. In 2000, Entergy achieved record earnings from operations of $3.12 per share. Even after excluding the effect of more favorable weather in 2000, earnings from operations increased 35 percent over the 1999 level. In October, the Board of Directors approved a 5 percent increase in the common dividend, to $1.26 per share on an annualized basis. And Entergy common stock performed exceptionally well in the market, achieving a total return to shareholders for the year of 71 percent and ending 2000 at a record price of $42 5/16.

First, protect the core

Before we get into the growth initiatives that are transforming Entergy, let's start with the basics. The utility business is our nest egg. We have $16 billion invested, and 22,000 megawatts of generation to serve electricity to 2.6 million customers. If we don't protect the core business, then there is no possibility whatsoever that we'll be able to grow.

Entergy recorded the biggest improvement in customer satisfaction in the industry last year. At the same time we compiled the best safety record in the history of the company. After declining by 41 percent in 1999, lost-time accidents declined an additional 25 percent in 2000 over 1999's improved performance.

Entergy met the challenges of one of the hottest summers in recent years. And, as the year ended, we responded to two waves of ice storms, the worst ice storms in our company's history. With the help of more than 10,000 workers from 25 states, Entergy restored service to over 230,000 customers in Arkansas and Louisiana within one week of each storm. Gov. Mike Huckabee of Arkansas exemplified the overwhelming public response when he said, "The hardworking people of Entergy and other electric companies sacrificed their own holidays far from their homes and loved ones so that they could get our lights back on."



Chairman Robert v.d. Luft *talks with Dr. Norman C. Francis, President of Xavier University of Louisiana and a member of the Entergy Corporation Board of Directors.*

Building from a solid foundation

The success we achieved during the year has positioned us to move to the next level. We are confident that our current focus and consistent execution are the critical ingredients to long-term success. We know that in newly competitive electric markets, scale will be an important advantage in order to manage risk, keep costs down, assemble a critical mass of skills, and to build financial strength.

We have taken a leadership position in the industry in committing ourselves to winning in focused areas where we can compete. We believe we have the right raw materials in our utility and each of our unregulated businesses to succeed; and we will move out of areas where we don't achieve a leadership position. But we will stay focused. We know that if your strategy is unfocused, and your assets and energies are all over the place, and your partners don't bring anything other than size, then getting bigger only makes the problem worse. That's why we refocused our strategy three years ago.

Outstanding partners: Koch, Shaw, Framatome

Entergy's strategy is to concentrate on businesses that align with our proven capabilities – utility operations, wholesale energy, and nuclear generation – and to obtain scale and deeper skills by teaming up with premier specialists in each field. We formed a venture with Koch Industries to create one of the nation's leading energy companies. Entergy-Koch, L.P., opened for business in early 2001. Koch is exactly the right partner for us. The second-largest privately held U.S. company, Koch brings one of the top marketing and trading companies in the energy business and significant natural gas assets.

All electric companies are looking for a strategy to capitalize on the convergence of natural gas and electricity. Some have paid many times what we've invested in Entergy-Koch, yet the assets and capabilities they gained were far less valuable. Koch is regarded as a premier gas pipeline operator and a disciplined trading house that makes money year in, year out.

Koch provides world-class risk management skills and back office support. Also, Koch has a reputation for developing profitable ideas, such as the creation of weather derivatives – a significant growth opportunity for Entergy-Koch. Koch's weather derivatives work was recently named as one of the top 100 accomplishments in the energy business in the last 100 years.

When we set out to strengthen our marketing and trading operations, we simply wanted to better manage the price risk around our assets. With Entergy-Koch we also have a business that will contribute to earnings this year and provide future growth.

In September, we launched EntergyShaw, L.L.C., a premier power plant construction company. Our partner, The Shaw Group Inc., is the only integrated provider of complete piping systems and engineering services for the power generation industry. Shaw has been involved in the construction of over 200,000 megawatts worldwide and recently enhanced its capabilities with the purchase of Stone & Webster.

Also in 2000, we announced an agreement with Framatome Technologies to create a full-service nuclear operations company. Framatome has designed and installed 69 reactors representing over 70,000 megawatts of nuclear power, and the company provides services to every single nuclear plant in the United States.

In April 2001, by mutual decision, we decided to terminate our merger agreement with FPL Group. We saw the proposed merger with FPL as an attractive opportunity to add scale and scope, but a merger of equals is just one type of partnership we've proven capable of executing in order to enhance our scale and scope. Accordingly, we will continue to identify and evaluate ventures of various types that align well with our strategic objectives.

Building scale, skills – and margins

Each of the steps we've taken is about building margins, not empires. If all you're doing is selling a non-differentiated product into a market for a non-storable commodity that's already crowded with a lot of developers, you won't make much money and you'll warehouse a lot of risk. So we're building scale and skill advantages to increase margins. Every business we have is expected to create competitive advantage, achieve a leadership position, and earn above its cost of capital.

Power development is a good example. Even the most opportunistic developer of an individual project, one that executes really well and secures attractive forward pricing, can expect to earn something close to the cost of capital, and that's about all. We must do better than that – and we can – by executing across the value chain.

We have and are creating scale advantages that could add another 3 percent or more to our rate of return. For example, as the fourth-biggest power producer in the country, we already have scale in operations. We achieved additional scale in our turbine purchase from General Electric. It's a $2 billion transaction involving 30 turbines on excellent terms.

EntergyShaw adds scale advantages with standardized reference plans that can be shared among projects. EntergyShaw also adds engineering, procurement, and construction skills critical to completing projects on time and on or under budget.

As we create a portfolio of generating assets, we can sell firm (not interruptible) power, instead of power that's contingent on a single plant – and firm power is obviously a higher-value product. Having a portfolio of generating plants in a given region also creates opportunities for our energy trading operations.

Axia Energy, a subsidiary of Entergy-Koch, leverages our existing trading capabilities and provides further scale advantages, as well as new products and services.

No single step will get us where we want to be. That's why we have to move on many fronts at once.

Reducing uncertainty and risk

One of our most important goals this year was to resolve uncertainties, and we were successful in addressing many of those issues.

One issue was our nuclear strategy, and a concern that other utilities would jump on the bandwagon and bid up prices to uneconomic levels. Today, we remain among a select group of nuclear operators that can compete for the desirable plants that come on the market. The price we agreed to pay last year for three plants in New York was considerably less per kilowatt than the prices paid for coal plants that carry substantial environmental risk. And we have had the discipline to walk away from other opportunities when auctions turned into bidding wars.

A second issue was our investment in the United Kingdom, where we've built two merchant plants with 2,000 megawatts of generation. Today, both plants are in operation. However, the introduction of NETA (New Electricity Trading Arrangements) in late March 2001 will bring about significant structural changes in the UK electricity market. In order to address these changes we will develop a strategy to effectively manage our risk exposure in this evolving market.

Third, we faced ongoing regulatory uncertainty in our utility jurisdictions, including questions about the pace and details of the transition to competition. In 2000, we made considerable progress in resolving several outstanding issues. In jurisdictions that have decided that competition is not in the public interest "at this time," we're seeking definition of the time frame – through a moratorium, for example – when transition might be reconsidered.

Finally, and perhaps most importantly, with each successive quarter of strong performance, we've alleviated uncertainty about our ability to execute our strategy and deliver 8-10 percent earnings growth. By taking on the complexity of joint ventures, we've raised the degree of difficulty. But each time the bar has been raised, Entergy people have responded with record performance. In fact, we are very proud that we have achieved 11 consecutive quarters of exceeding the consensus forecasts on Wall Street, which we believe to be an industry record. Each quarter in 2000 was a new quarterly earnings record for Entergy.

What it all means for stakeholders

The changes we've set in motion in 2000 truly transform our company. So it's fair to ask, will any of our stakeholders be left behind? Absolutely not. A stronger Entergy will benefit all our stakeholders.

Some people will always see the world as win/lose: for us to maximize shareholder value, someone else has to pay. Maybe that's true for our competitors, but certainly not for our stakeholders. Since we adopted our back-to-basics strategy in 1998, we believe we've done a better job serving all stakeholders.

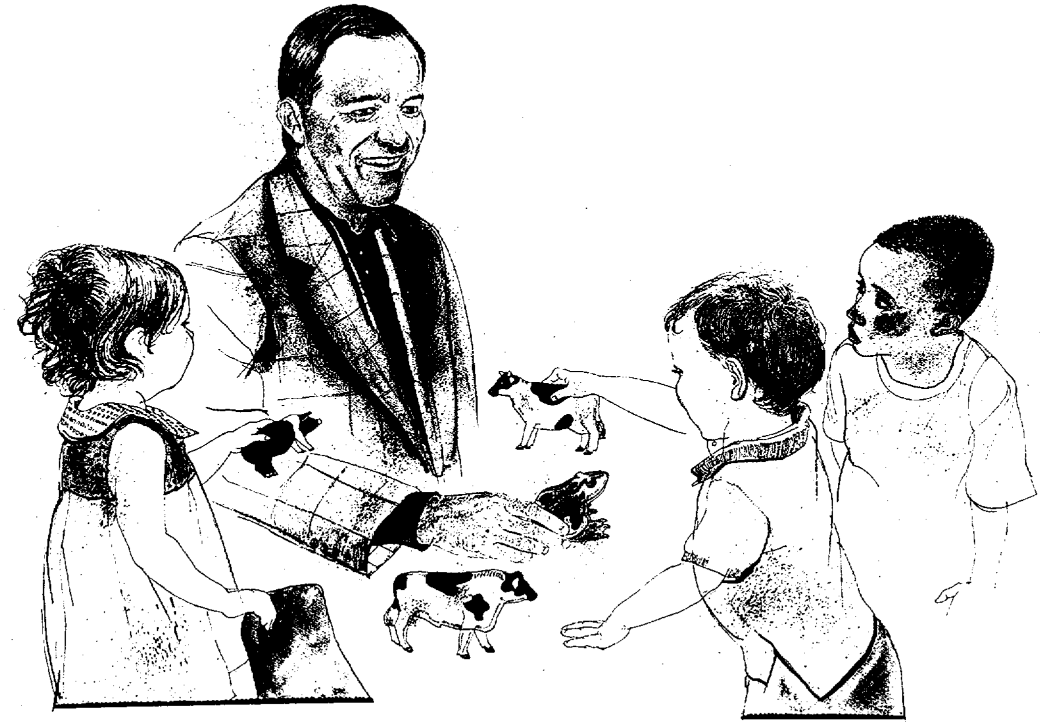
Take safety, for example. In the electric business, nothing is more important to us, to our employees and their families. But our safety record should be important to other stakeholders, as well. There's probably no better statistic to gauge a company's operations. Because if you're not having accidents, you have a well-trained, conscientious, team-oriented work force that does it right the first time. If employees are not doing a good job of protecting their own safety – their highest priority – lower priorities such as maintenance work are surely suffering. And that's bad news for customers and investors.

The leaps and bounds of the past year improve the financial strength of our company, reduce our costs, enhance our ability to offer opportunity to employees and attract top talent, expand our skills and access to best practices, and reinforce our commitment to our communities and to the environment. These are changes that benefit *all* Entergy stakeholders.

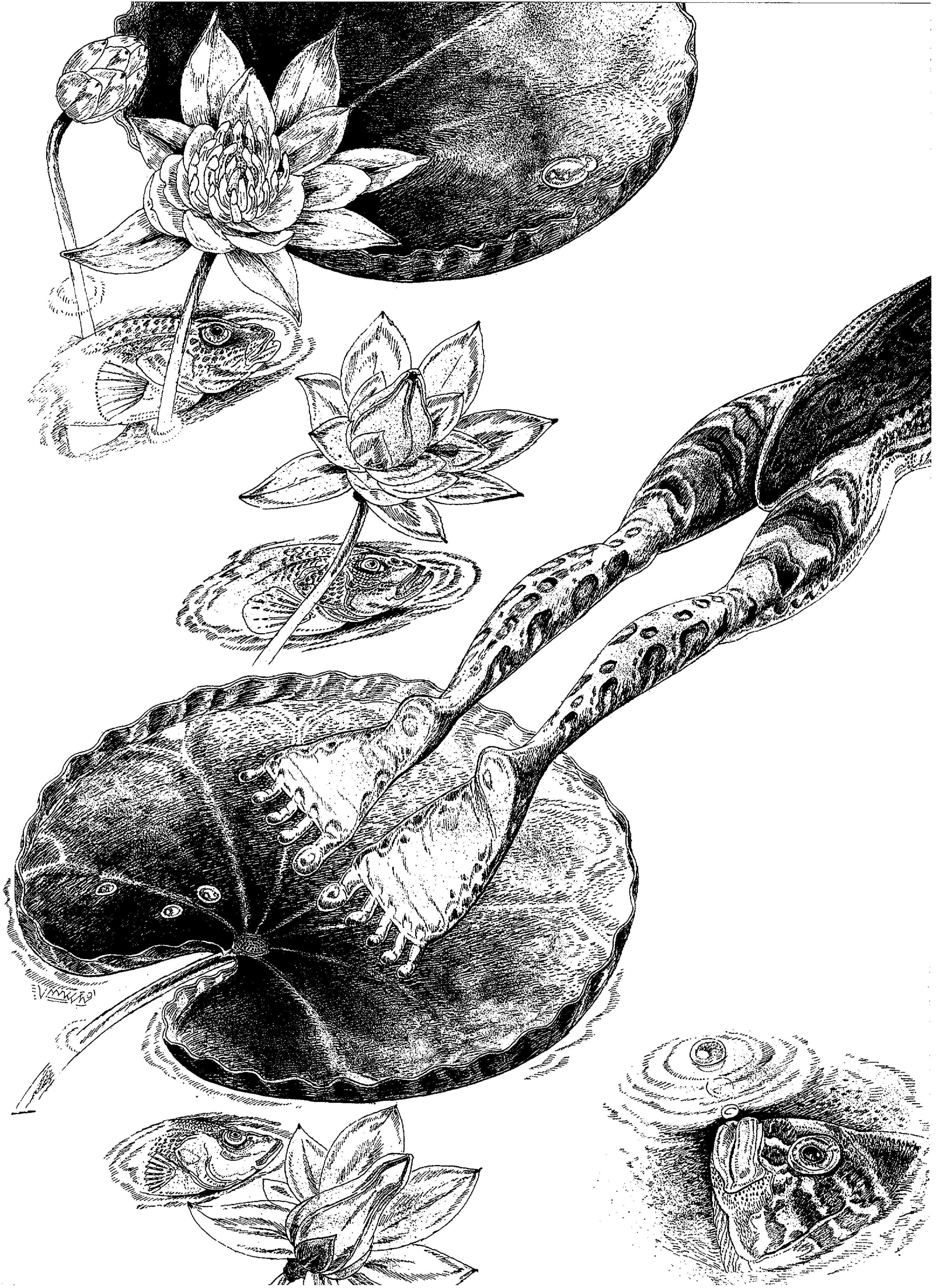
We're determined to make sure that all stakeholders continue to benefit from the changes that are transforming Entergy, and we thank you for your continued support.

ROBERT V.D. LUFT,
CHAIRMAN

J. WAYNE LEONARD,
CHIEF EXECUTIVE OFFICER



Chief Executive Officer J. Wayne Leonard *gets together with children at Kidopolis in New Orleans. Kidopolis is part of "The Agenda for Children" project funded by the Foundation for the Mid South, which receives support from Entergy.*



LAUNCH PAD.

IN 2000, ENTERGY COMBINED A CONSISTENT, FOCUSED STRATEGY AND STRONG EXECUTION TO LEAPFROG TO THE TOP OF THE INDUSTRY. WE ALSO STRENGTHENED EACH OF OUR CORE BUSINESSES – UTILITY OPERATIONS, WHOLESALE ENERGY, AND NUCLEAR GENERATION – AS A LAUNCH PAD FOR FUTURE GROWTH.

Throughout the year, we pursued a wide variety of initiatives, all leading in the direction of our focused growth strategy. The high points:

A venture with Koch Industries, announced in April, which is today one of the nation's top energy trading and marketing companies

An agreement with The Shaw Group to create a premier power plant construction company – also up and running

Acquisition of the nuclear decommissioning firm TLG Services and an agreement with Framatome Technologies to offer license renewal services to U.S. nuclear plants

A series of regulatory filings and settlements which resolve uncertainty surrounding outstanding issues and transition to competition

Financial close on two nuclear plants in New York – which are already contributing to Entergy earnings – and an agreement to purchase an additional, adjacent unit

Utility: Reaching a New Level.

IN 2000, ENTERGY CONTINUED TO IMPROVE SERVICE, RELIABILITY, RELATIONSHIPS, AND RESULTS IN ITS UTILITY OPERATIONS, INCLUDING ADVANCING ITS TRANSCO PROPOSAL.

Operating performance continues to improve

We led the industry in increased customer satisfaction by improving service and reliability.

We've dramatically enhanced the performance of our call centers. Today we have virtually no busy signals, and we can answer calls in 13 seconds on average. That is down from 15 seconds in 1999 and is the best in the industry. We've vastly reduced calls to our call centers over a two-year period, primarily because outage complaints are down dramatically, thanks to improved reliability.

Key measures of reliability – duration and frequency of outages – improved 25 percent and 17 percent, respectively, over 1999. The utility made it through one of the hottest summers in recent years with no major events. In fact, the utility turned in solid performance in terms of high reliability and minimal industrial interruptions. A key factor was that we returned 417 megawatts of capacity to service and improved output at other units to meet growing utility demand.

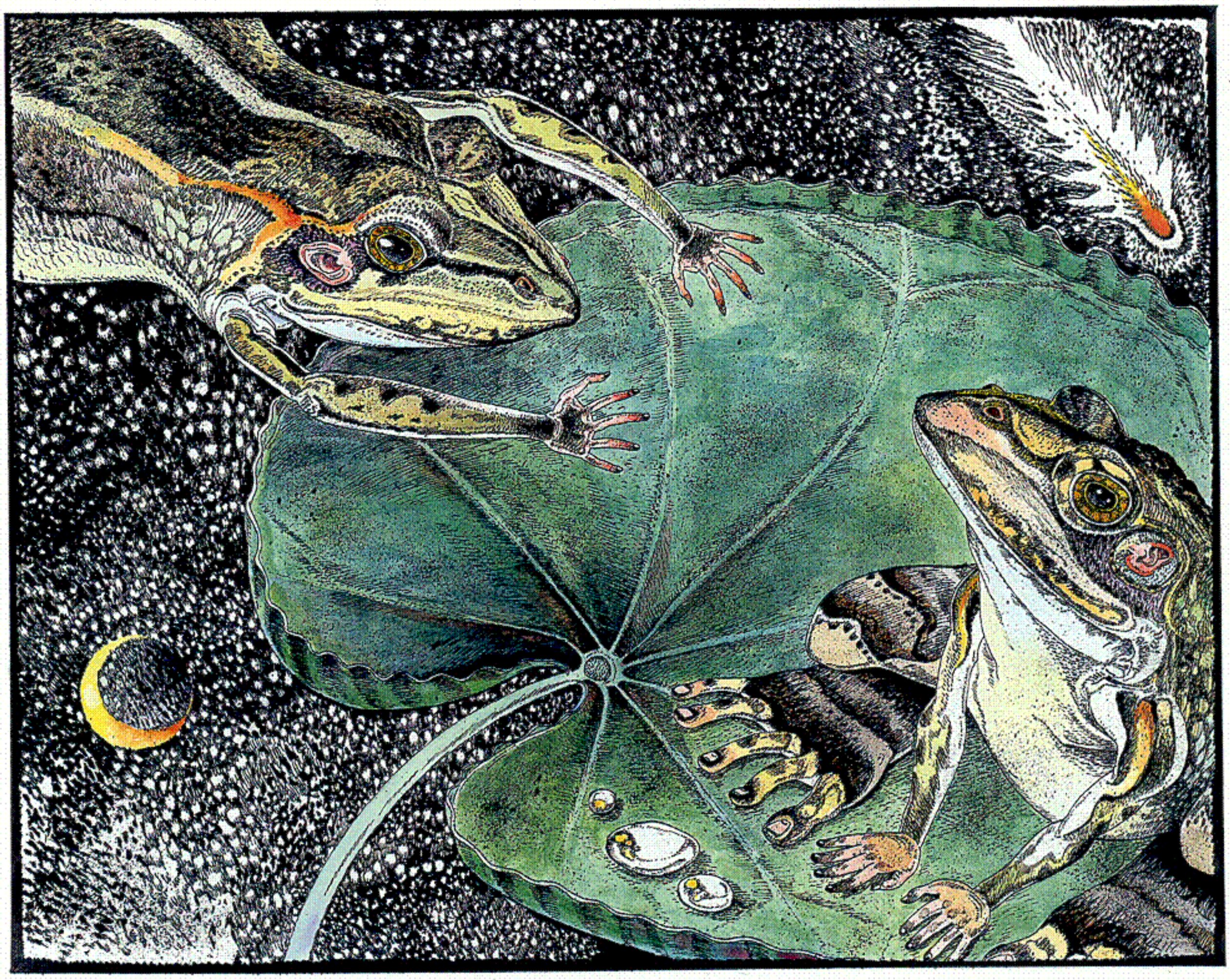
At the same time, we had our best safety year in the history of the company. Following a 41 percent decline in 1999, lost-time accidents declined by an additional 25 percent in 2000. Our safety performance is moving Entergy to the top of the industry. And it is the area of improvement of which we are most proud.

Resolving uncertainty, preparing for the future

With an aggressive schedule of regulatory activities during 2000, we continued to reduce the uncertainty that has been an overhang on our stock. We filled in details of the transition to competition with a series of filings in Arkansas – which has delayed the start of retail open access until at least October 2003 – and Texas. We also resolved rate issues affecting Entergy Gulf States in Texas and Louisiana, in settlements that reflect improved relationships with regulators.

In Louisiana, we settled a series of four annual earnings reviews that have been pending since 1994. The settlement was fully covered by accounting reserves, and it left only one issue unresolved. In Texas, we settled a multi-year fuel review for an amount well within our expectations.

Another major uncertainty was resolved during 2000 with the settlement of litigation challenging Entergy Louisiana's fuel adjustment clause filings over a 25-year period from January 1975



C01

ENTERGY'S LEAP TO PREMIER UTILITY OPERATIONS BUILDS RELATIONSHIPS

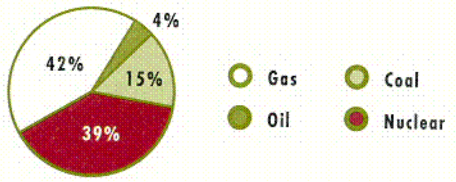
ENTERGY'S UTILITIES – Improved service results in benefits to all stakeholders

Since 1998, we've concentrated on improving service and reliability in our core utility business. And our efforts are paying off. An independent study published in April 2000 ranked Entergy first among all U.S. electric utilities surveyed for a one-year improvement in customer satisfaction. Over the last two years our utility operations have achieved a 40 percent improvement in service reliability, an 80 percent reduction in time to answer a call in the phone center, and a 50 percent reduction in complaints to regulators. Entergy's commitment to customer service and corporate citizenship (see page 11) forms the basis for better relationships with customers, communities, and regulators.

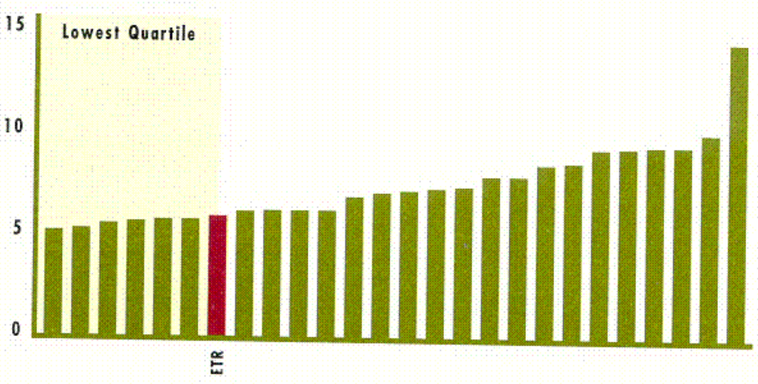
Clean generation, competitive rates.

Entergy is the nation's largest operator of natural gas-fired power plants, and one of the nation's largest nuclear generators. As a result, the Entergy generating fleet has emission rates among the lowest of all U.S. electric companies. Entergy's generation is also cost-competitive, as evidenced by rates in the lowest quartile of companies in the Standard & Poor's Electric Index. And most lower-cost companies face substantial environmental risk in meeting potential requirements to address global climate change – and billions of dollars in costs to achieve Entergy's level of emissions.

Cleanest Generation in the Industry



Rates Compare Favorably – 1999 Average Electricity Rates of SPELEC Companies
(In cents/KWH)



through December 1999. This settlement was also adequately covered by accounting reserves.

During the past year, we've continued to advance our proposal for an independent, incentive-driven company – called a Transco – that would control and operate Entergy's transmission system and those of other companies. In May, we formed a partnership with the Southwest Power Pool (SPP) that would allow a Transco including Entergy to operate under the oversight of the proposed SPP Regional Transmission Organization. This partnership allows for a truly regional transmission organization that meets the requirements of the Federal Energy Regulatory Commission.

In filings at FERC in late 2000, we proposed tariffs for Transco operations beginning in December 2001. Early this year, we made necessary filings in our utility jurisdictions to request approval of the transfer of our transmission assets to the Transco. We expect FERC to hold hearings later in the year on the tariff proposal and anticipate FERC approval in the fall.

Staying focused to advance

Taking our company to the next level will require that we continue to pursue operational and financial excellence and the Entergy team has proven that they can deliver. We will continue to build skills in our utility and we will continue to concentrate on safety. Our accomplishments in 2000 are proof that excellence in service, reliability, and safety go hand in hand.

We know what it takes to build relationships among competing interests and we have the experience, skills, and desire to succeed to the mutual benefit of our customers and shareholders. We leaped ahead in building relationships across our jurisdictions and we will stay the course to continue this effort. Entergy is poised to jump to the next level.

CO2

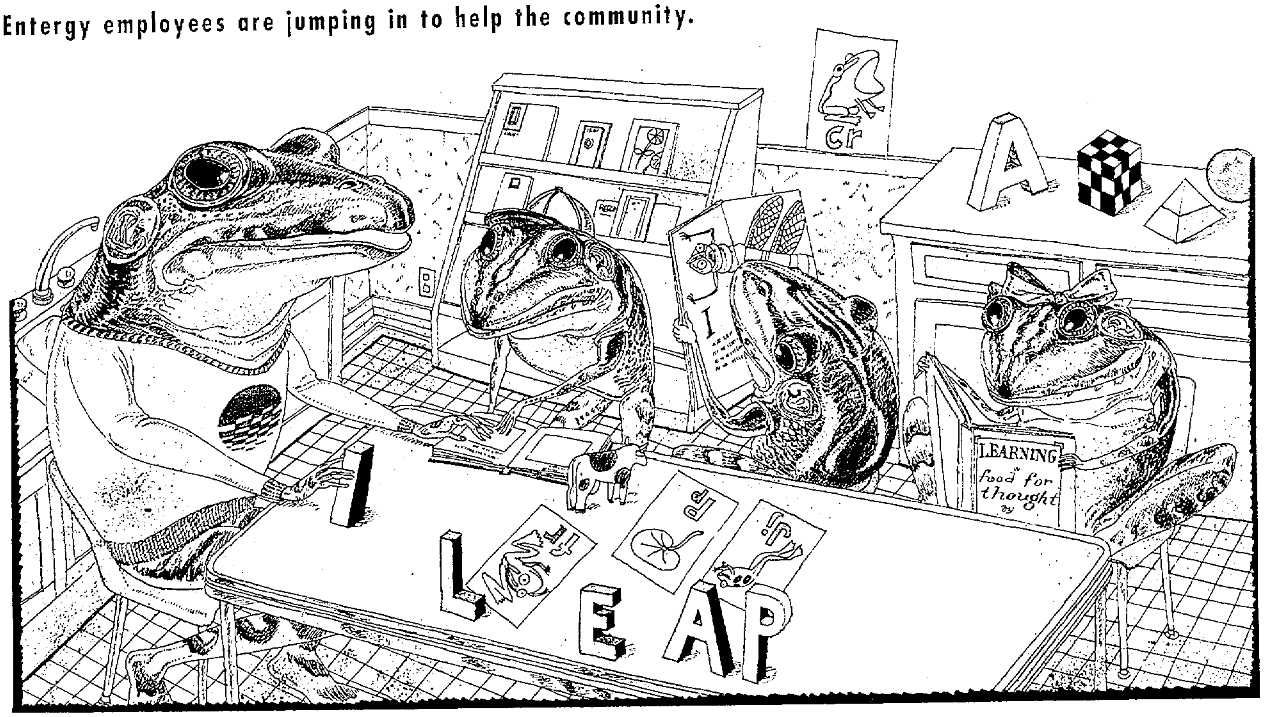
ENTERGY'S COMMITMENT TO SERVING OUR COMMUNITIES

Entergy's commitment to the communities we serve goes beyond self-interest. That commitment goes to the heart of the kind of company we want to be. We believe that the way we serve our communities – and particularly our low-income or otherwise disadvantaged customers – reflects our capacity to serve all our stakeholders.

In November 2000, we unveiled the Entergy Charitable Foundation, dedicated primarily to assisting other charitable institutions that focus on low-income initiatives, education, and literacy programs in our service territory. The foundation complements Entergy's ongoing economic development programs throughout our region, our support of key institutions such as the Foundation for the Mid South, and our active participation in efforts such as the Mississippi Delta Regional Initiative.

The strongest expression of our commitment is the volunteer effort of our employees – from reading programs for children to assistance for the homeless to volunteer fire departments (see page 76). Entergy's Community Connectors program provides grants to eligible community organizations, based on the volunteer time contributed by our employees. Employees can seek grants through Entergy's Environmental Stewardship program for projects in which they are personally involved to enhance the environment in Entergy communities. We also support our employees' generosity by matching many of their contributions to the United Way and to educational institutions of their choice.

Entergy employees are jumping in to help the community.



Wholesale: Adding to Our Strengths.

IN 2000, ENTERGY BUILT INDUSTRY-LEADING CAPABILITIES IN WHOLESALE ENERGY MARKETS BY TEAMING UP WITH PREMIER PARTNERS RATHER THAN EXPANDING OUR OWN ORGANIZATION.

We replaced vertical integration with virtual integration. Today's market leaders are specialists, each achieving scale and low costs in its field – and we're joining forces with the best of them.

Alliances catapult Entergy to the lead

Entergy-Koch, L.P. – our venture with Koch Industries – combines Koch's unsurpassed energy commodity trading capabilities with Entergy's wholesale electric generation assets, physical trading, and customer base. The venture gives us access to a whole new level of risk management, middle and back office systems, and multi-commodity trading. Entergy-Koch's trading subsidiary, Axia Energy, has the critical mass, scale, and scope to become a leading player in global energy commodity markets.

Entergy-Koch has joined with other leading energy trading companies in TradeSpark, an electronic marketplace for trading natural gas, electricity, coal, weather derivatives, and emission credits. TradeSpark is well positioned to provide our trading organization and customers with increased liquidity, transparency, and reduced transaction costs.

In September, we closed on a joint venture with The Shaw Group to create a premier engineering, procurement, construction, and commissioning company for electric power plants. EntergyShaw adds a key capability to our strategy of building low-cost power plants, and it goes hand-in-hand with our commitment to a consistent turbine technology and a secure supply of General Electric turbines.

Aggressive but focused power development

Entergy Wholesale Operations (EWO) continues project development in North America and Europe. EWO is actively marketing its Latin American assets so that we can redeploy capital in Entergy's key strategic markets in North America and Europe. To maximize the value of the 30 General Electric turbines scheduled for delivery in the next four years, we're evaluating and permitting as many as three sites for each set of turbines.

North America: In September 2000, EWO broke ground on two merchant plants in Entergy's utility service area. The first, a 425-megawatt cogeneration plant in Louisiana, is a joint venture with PPG Industries. The plant is 15 to 18 percent more efficient than a conventional power plant, and half of the low-cost power will be available to EWO for wholesale sales.

EWO also began construction of a 300-megawatt natural gas-fired merchant plant in Mississippi, designed to operate during periods of peak demand for power. Its four GE turbines have been installed, and it is scheduled to be in operation by summer.

C03

LEAPFROGGING AHEAD OF THE COMPETITION IN WHOLESALE ENERGY MARKETS

ENTERGY-KOCH: A combination of assets and talents unlike any other

When we joined key elements of our business with those of Koch Industries, we set our sights on the very top energy marketing and trading companies. Entergy-Koch has the scale to compete and grow, trading volumes in excess of 100 million MWH of electricity annually and 5 Bcf of gas daily – a scale that is generally recognized as necessary for ongoing profitability. What's more, we have a combination of skills, infrastructure, assets, and customers that not even the leaders in this business can claim. Entergy-Koch not only provides solid risk management and trading support to our current businesses, but also opens a whole new growth opportunity.

Late in 2000, EWO reached financial close on another 300-megawatt peaking plant south of Chicago, virtually identical to the Mississippi project.

In June, EWO sold its Freestone project – a 1,000-megawatt, natural gas-fired combined-cycle power plant under development in Texas. The sale yielded a return that was higher than the return we anticipated from operating the plant. We look for the best possible return on investment, whether that means operating an asset or selling it.

Europe: Entergy has begun operation of its two merchant power plants in the United Kingdom. The 1,200-megawatt Saltend plant began commercial operation in November 2000. Saltend supplies power and steam to British Petroleum's adjacent chemicals plant, and the balance of its power is sold to the UK electricity pool. The 800-megawatt Damhead Creek plant began commercial operation in February 2001, with its output sold to the pool.

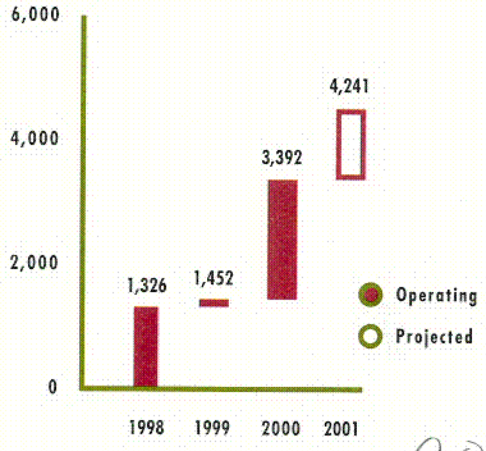
While both plants are performing well from an operational standpoint, the introduction of NETA (New Electricity Trading Arrangements) in late March 2001 will bring about significant structural changes in the UK electricity market. In order to address these changes, we are actively implementing strategies to effectively manage our risk exposure in this evolving market.

In Bulgaria, EWO is arranging financing to rehabilitate the 840-megawatt Maritza East III lignite power plant, following approval early in 2001 by the Bulgarian government. EWO will own approximately 70 percent of this project upon financial close expected in the second half of 2001. The project will help Bulgaria satisfy environmental standards to join the European Union.

EWO is developing an 800-megawatt gas-fired combined-cycle power plant in northeastern Spain, with commercial operation projected in 2004. We are also permitting a site for a second plant in Spain, and other projects in Europe are in preliminary development stages. We are carefully assessing our business in Europe. We are currently "preserving the option" with the assets and trading capability we have there. Our commitment – in Europe and everywhere – is to develop a winning hand or exit.

Entergy's wholesale generation capacity is picking up steam. *With the addition of the Saltend and Damhead Creek plants, which began operations in 2000, Entergy's non-nuclear wholesale generating capacity totaled 3,392 megawatts in operation at the end of the year. Entergy Wholesale Operations expects to add more than 800 megawatts in 2001, and scheduled deliveries of GE turbines will support accelerating growth over the next several years.*

Growing Wholesale Generation Capacity
(In megawatts)



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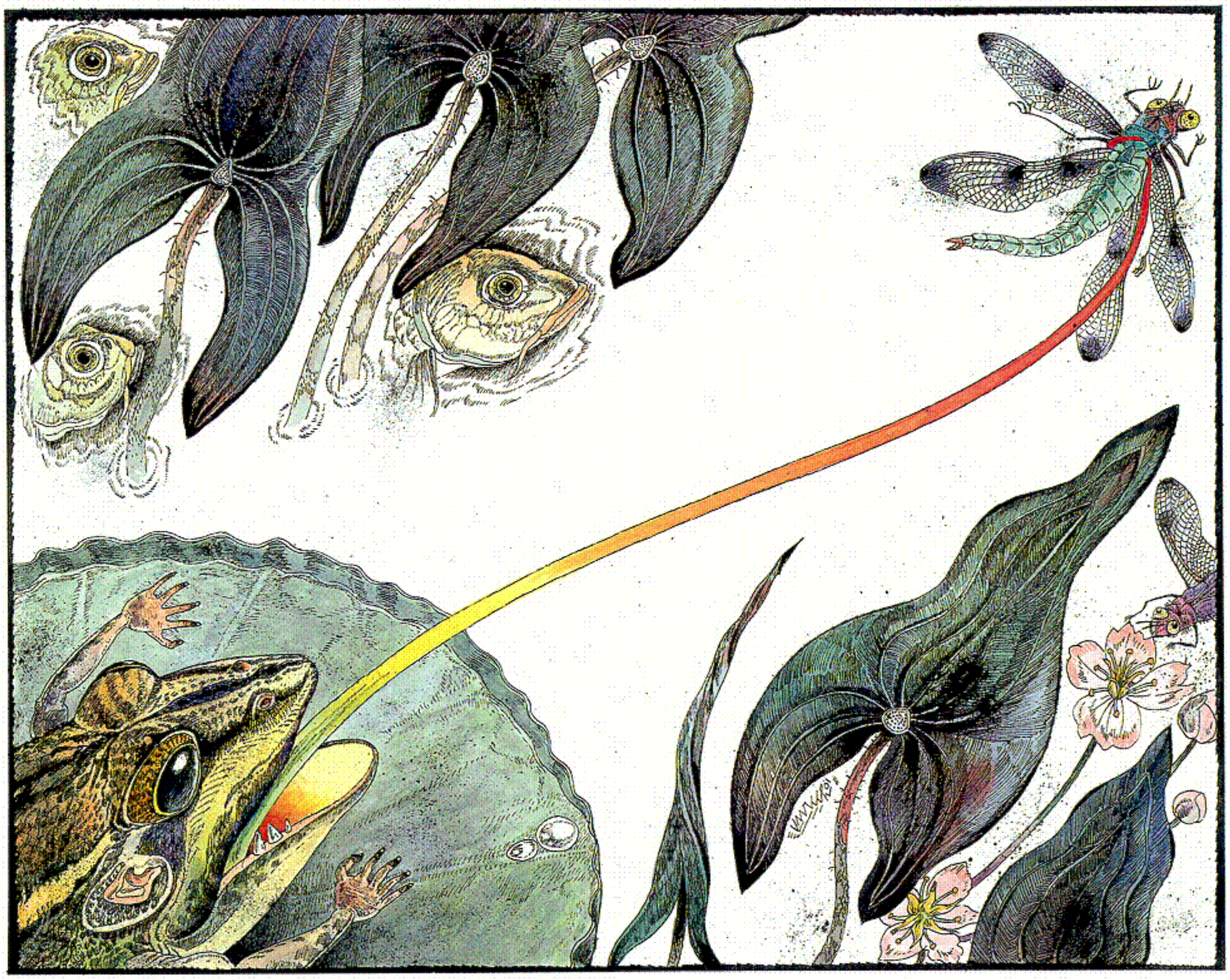


C05

SCALE AND SKILLS TO CAPTURE HEALTHY MARGINS IN TOUGH MARKETS

ENTERGYSHAW: The margin of success in power development

EntergyShaw, L.L.C., a joint venture with The Shaw Group, establishes a new paradigm for power plant engineering, procurement, construction, and project management. EntergyShaw combines Shaw's engineering and construction expertise with Entergy's business development and operations skills. By developing standardized plants, we can share the designs, drawings, and overhead, and we can reduce life-cycle costs with common operations, training, and spare parts. We believe that we can reduce the capital cost of our standardized plant by about 15 percent – a critical margin in a competitive market. The Shaw Group supplies 75 percent of the integrated power plant piping worldwide and is expected to supply 90 percent of the piping for GE gas turbines produced between 1999 and 2004.

Nuclear: Industry Leadership.

IN 2000, ENTERGY CONTINUED TO DEMONSTRATE THE VALUE OF ITS FOCUS ON NUCLEAR OPERATIONS. THE COMPANY COMBINED OUTSTANDING OPERATIONS, SUCCESSFUL ACQUISITIONS, AND EXPANDING CAPABILITIES TO ACHIEVE STRONG RESULTS AND BUILD ITS INDUSTRY LEADERSHIP.

Our first full year of operation at the Pilgrim Nuclear Station – which we purchased in July 1999 – contributed 20 cents to earnings per share. The Massachusetts plant set a production record in March 2000, operating in excess of 100 percent of its rated capacity, and maintained a 93.7 percent capacity factor for the full year.

Growing Northeast nuclear operations

In November, Entergy Nuclear, Inc. (ENI) added two units to its Northeast operations, when it completed the purchase of Indian Point 3 and James A. FitzPatrick from the New York Power Authority. The purchase, agreed to in March 2000, is the largest yet by Entergy in our nuclear growth strategy.

Also in November, Entergy agreed to purchase Indian Point 2 from Consolidated Edison, and we expect to close that transaction in mid-2001. Con Edison has replaced the four steam generators in Indian Point 2 and has returned the unit to service – a condition under the sale agreement for the transaction to close. ENI entered into a power purchase agreement to sell all the energy of Indian Point 2 to Con Edison through the end of 2004.

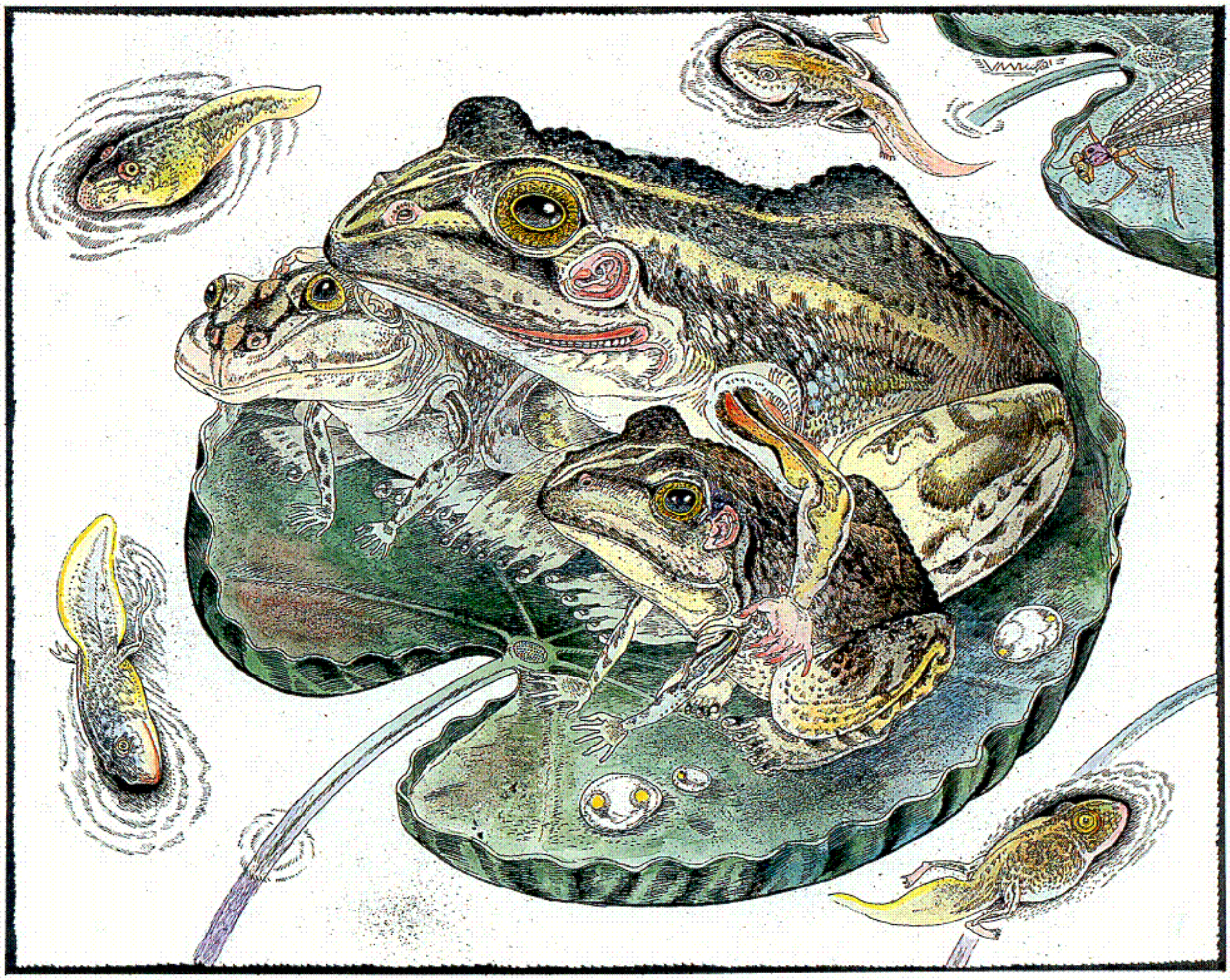
With our acquisition of Indian Point 2, both operating units at the plant will be managed by a single organization, and Entergy will operate four nuclear units in the Northeast with nearly 3,500 megawatts of capacity. This figure could grow if we are successful in acquiring the Vermont Yankee plant. We expect to create savings through sharing resources in best practices, performance management, purchasing, training, licensing, and environmental areas – all of which should make these plants more productive and competitive.

In 2000, Entergy also managed decommissioning activities at two Northeast plants, Millstone 1 in Connecticut and Maine Yankee.

Entergy Nuclear was unsuccessful in some of its efforts during the year to expand the company's nuclear fleet – a fact that reflects ENI's discipline in not overpaying for assets. As we enter 2001 we are adapting our business strategy to deal with diminishing nuclear acquisition opportunities.

Nuclear operations serve our regulated utility customers

In addition to the plants operated by Entergy Nuclear Northeast, Entergy has operated five power reactors at four locations in Arkansas, Mississippi, and Louisiana under regulatory jurisdictions for more than 20 years.



C06

STAYING AHEAD OF THE PACK OF NUCLEAR PLANT OPERATORS

FRAMATOME AND TLG: Building on Entergy's lead in nuclear generation

Entergy Nuclear bolstered its leadership position by teaming up with two of the nuclear power industry's leading service providers. Framatome Technologies is number 1 in Europe and number 2 in the United States in its field of expertise: a full range of inspection, maintenance, and improvement services. Framatome has designed, manufactured, and installed 69 reactors worldwide, and it provides parts or service to every single U.S. plant. TLG Services is actively involved in all recent and current commercial nuclear power plant decommissioning. TLG has prepared decommissioning engineering and cost studies for 128 nuclear power units and more than 200 fossil-fueled units.

In November, Entergy's Waterford 3 nuclear plant completed a 34-day refueling outage, the shortest yet in the plant's 15-year operating history. Waterford 3 employees, staff shared by other Entergy plants, and outage contractors worked together to set the new record.

In February 2000, Entergy formally applied with the Nuclear Regulatory Commission for renewal of the operating license for Unit 1 at Arkansas Nuclear One until 2034. The request is only the third to be considered by the NRC. ANO's Unit 1 began commercial operation in 1974 and was originally licensed to operate into 2014. The approval process is expected to take about two years.

Entergy Nuclear also moved forward with projects to increase the capacity of Grand Gulf Nuclear Station in Mississippi by 48 megawatts on an annual average basis. The projects will be completed by July 2002.

Adding to our industry-leading capabilities

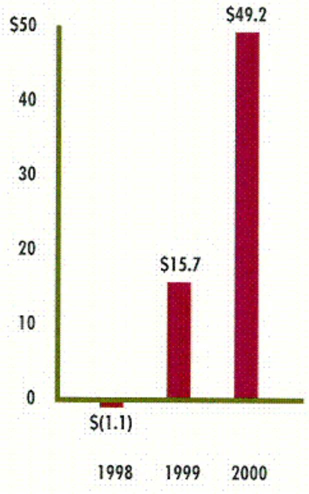
Entergy strengthened its leading position in the nuclear industry by adding the capabilities of two leading service companies: TLG Services and Framatome Technologies. By acquiring TLG, ENI solidified its lead in managing decommissioning for other companies. Adding TLG's capabilities will also reduce decommissioning risk at Entergy Nuclear's existing and future nuclear plants.

ENI also teamed up with Framatome Technologies to offer operating license renewal services to nuclear power plants in the United States. We're combining Entergy's extensive knowledge as one of the largest nuclear operators in the country with Framatome's proven expertise in providing license renewal services and engineering to a number of nuclear utilities – including all pressurized water reactor types in the United States.

Growing returns from Entergy's nuclear business.

In 2000, just two years after Entergy announced that nuclear generation would be a key element of our refocused strategy, our nuclear business contributed $49 million, or 22 cents per share, in earnings from operations. These results reflect continued strong performance from Pilgrim Nuclear Station, which we acquired in 1999, and immediate contributions from the Indian Point 3 and FitzPatrick nuclear plants acquired in late 2000.

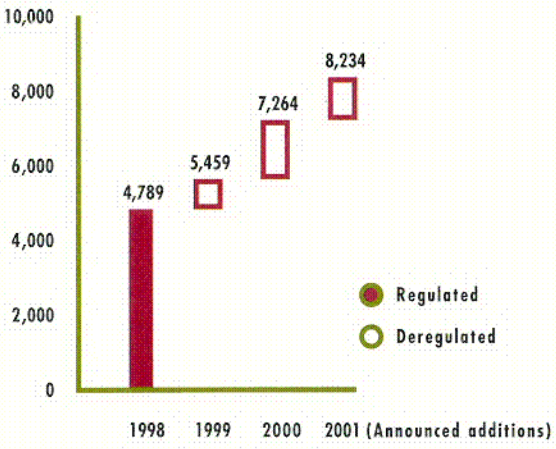
Nuclear Business Adds Operational Earnings
(In millions)



C07

Entergy will operate the nation's second-largest nuclear generation fleet. *In 1998, Entergy had just less than 5,000 megawatts of nuclear generating capacity, all serving our regulated utility business. Since that time, we have added about 2,500 megawatts of capacity at three plants in the Northeast as part of our growing deregulated portfolio. With the acquisition of Indian Point 2 – a transaction that is expected to close in 2001 – Entergy will operate a total of 8,234 megawatts of nuclear generation.*

Expanding Nuclear Generation Capacity
(In megawatts)



C08

AHEAD OF THE NUCLEAR CURVE

Entergy is demonstrating why nuclear power is a great opportunity.

One result of electric deregulation is the emergence of a select group of premier, national nuclear owners and operators. Entergy is among the leaders, because we recognized the growth potential of nuclear power when many others had given it up for dead.

Nuclear power plants are operating at record levels, and Entergy believes that well-managed nuclear plants can be very competitive with other base load generation on a going-forward basis.

Emerging environmental concerns about greenhouse gases are increasing public and political support for nuclear generation. Carbon dioxide emissions from coal-fired generating plants are a key focus in efforts to address global warming. Nuclear energy provides 20 percent of the nation's electric power, without emissions of greenhouse gases.

The U.S. nuclear industry has compiled an excellent safety record – far superior to that of fossil fuel-fired plants – and the trend toward premier national nuclear companies will add to the margin of safety.

While some plants are nearing the end of their regulatory life – and Entergy is creating a niche in managing nuclear plant decommissioning – we see a far greater growth opportunity in owning and operating nuclear generation.

We're seeking opportunities in turning around poor-performing nuclear plants – as we've done at Arkansas Nuclear One and at River Bend – and in acquiring plants that are operated by a company with only one or two units, and achieving economies of scale in a multi-unit operation.

Future: Stretch Goals.

WE MUST MAXIMIZE THE VALUE OF THE OPPORTUNITIES WE HAVE CREATED IN A YEAR OF LEAPS AND BOUNDS. ACHIEVING THE FULL MEASURE OF SUCCESS DEPENDS ON SETTING GOALS THAT STRETCH OUR ABILITIES AND CALL FORTH OUR BEST EFFORT. 2000 WAS JUST THE START OF WHAT LIES AHEAD.

Entergy's success in 2000 reflects the ambitious goals we set for the year. But setting ambitious goals also means that we didn't achieve everything we set out to do. The utility made less progress than expected in working out agreements on the transition to competition – due largely to doubts nationwide about electric industry deregulation.

At EWO, new project announcements surpassed our target of 1,500 megawatts, but we failed to meet all of our deal flow goals, as we focused on developing multiple competing sites for every turbine. And Entergy Nuclear was limited in its attempts to expand our nuclear fleet by our discipline in not overpaying for assets.

In the coming year, we must continue to create new opportunities at an unprecedented pace. The future success of Entergy's growth strategy also depends on continued strong execution in day-to-day operations. We have once again set aggressive goals for each business in 2001.

In our utility business:

- We will continue to improve performance in safety, reliability, and customer service, and step up our efforts to serve our communities.
- We will continue to work with public officials in our utility jurisdictions to promote a transition to competition that works to the benefit of all our stakeholders.

In our wholesale energy business:

- We will manage our investment in Entergy-Koch, L.P., to establish a leadership position in wholesale energy markets, to develop the competitive capabilities of the enterprise, and to seize outstanding growth opportunities.
- We will reach critical mass in Entergy's unregulated generation portfolio and realize the full value of the GE turbines by securing optimal sites and bringing plants on-line, on schedule and under budget.

In our nuclear generation business:

- We will strengthen our leadership position in nuclear generation by expanding both our asset portfolio and our capabilities to provide services to other operators.
- We will drive continued improvement in operational and financial performance of our nuclear business, with particular emphasis on our growing Northeast portfolio.

And finally, we will reap the benefits of these achievements to deliver financial results that meet or exceed our shareholders' expectations.

Financial Review.

CONTENTS

GLOSSARY

Boston Edison
Boston Edison Company.

CitiPower
CitiPower Pty., an electric distribution company serving Melbourne, Australia and surrounding suburbs, which was acquired by Entergy effective January 5, 1996, and was sold by Entergy effective December 31, 1998.

Domestic Utility Companies
Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans, collectively.

Entergy
Entergy Corporation and its various direct and indirect subsidiaries.

Entergy Corporation
Entergy Corporation, a Delaware corporation.

Entergy Gulf States
Entergy Gulf States, Inc., including its wholly owned subsidiaries - Varibus Corporation, GSG&T, Inc., Prudential Oil & Gas, Inc., and Southern Gulf Railway Company.

Entergy London
Entergy London Investments plc, formerly Entergy Power UK plc (including its wholly owned subsidiary, London Electricity plc), which was sold by Entergy effective December 4, 1998.

FitzPatrick
James A. FitzPatrick nuclear power plant, 825 MW facility located near Oswego, New York, purchased in November 2000 from New York Power Authority by Entergy's domestic non-utility nuclear business.

FPL Group
FPL Group, Inc., a Florida corporation and parent company of Florida Power & Light Company.

Indian Point 3
Indian Point 3 nuclear power plant, 980 MW facility located in Westchester County, New York, purchased in November 2000 from New York Power Authority by Entergy's domestic non-utility nuclear business.

London Electricity
London Electricity plc - a regional electric company serving London, England, which was acquired by Entergy London effective February 1, 1997, and was sold by Entergy effective December 4, 1998.

Merger
The business combination transaction pursuant to which the outstanding shares of FPL Group and the outstanding shares of Entergy Corporation will be converted into 1.00 and 0.585 shares, respectively, of a new company.

Merger Agreement
Agreement and Plan of Merger dated July 30, 2000, by and between FPL Group, Entergy Corporation, WCB Holding Corporation, Ranger Acquisition Corporation, and Ring Acquisition Corporation. This agreement was terminated effective April 1, 2001.

Pilgrim
Pilgrim Nuclear Station, 670 MW facility located in Plymouth, Massachusetts purchased in July 1999 from Boston Edison by Entergy's domestic non-utility nuclear business.

System Energy
System Energy Resources, Inc.

FORWARD-LOOKING INFORMATION

The following constitutes a "Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: Investors are cautioned that forward-looking statements contained herein with respect to the revenues, earnings, performance, strategies, prospects and other aspects of the business of Entergy Corporation or its affiliated companies may involve risks and uncertainties. A number of factors could cause actual results or outcomes to differ materially from those indicated by such forward-looking statements. These factors include, but are not limited to, risks and uncertainties relating to: the effects of weather, the performance of generating units and transmission systems, the possession of nuclear materials, fuel and purchased power prices and availability, the effects of regulatory decisions and changes in law, litigation, capital spending requirements, the onset of competition, including the ability to recover net regulatory assets and other potential stranded costs, the effects of recent developments in the California electricity market on the utility industry nationally, advances in technology, changes in accounting standards, corporate restructuring and changes in capital structure, consummation of the Koch Industries joint venture, the success of new business ventures, changes in the markets for electricity and other energy-related commodities, changes in interest rates and in financial and foreign currency markets generally, the economic climate and growth in Entergy's service territory, changes in corporate strategies, and other factors.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL AND OPERATING DATA

In thousands, except percentages and per share amounts	2000	1999	1998 (a)	1997 (b)	1996 (c)
SELECTED FINANCIAL DATA AS REPORTED:					
Operating revenues	$10,016,148	$ 8,773,228	$11,494,772	$ 9,538,926	$ 7,163,526
Consolidated net income	$ 710,915	$ 595,026	$ 785,629	$ 300,899	$ 490,563
Earnings per share–basic	$ 3.00	$ 2.25	$ 3.00	$ 1.03	$ 1.83
Earnings per share–diluted	$ 2.97	$ 2.25	$ 3.00	$ 1.03	$ 1.83
Dividends declared per share	$ 1.22	$ 1.20	$ 1.50	$ 1.80	$ 1.80
Book value per share, year-end	$ 31.89	$ 29.78	$ 28.82	$ 27.23	$ 28.51
Common shares outstanding:					
At year-end	219,605	239,037	246,620	245,842	232,960
Weighted average–basic	226,580	245,127	246,396	240,208	229,084
Weighted average–diluted	228,541	245,327	246,572	240,347	229,250
Total assets	$25,565,227	$22,969,640	$22,836,694	$27,000,700	$22,956,025
Long-term obligations(d)	$ 8,214,724	$ 7,252,697	$ 7,349,349	$10,154,330	$ 8,335,150
Preferred and preference stock	$ 400,446	$ 558,105	$ 655,978	$ 673,460	$ 797,941
Long-term debt (excluding currently maturing debt)	$ 7,732,093	$ 6,612,583	$ 6,596,617	$ 9,068,325	$ 7,590,804
Return on average common equity	9.62%	7.77%	10.71%	3.71%	6.41%
Cash from operations	$ 1,967,847	$ 1,389,024	$ 1,835,682	$ 1,792,771	$ 1,580,253
DOMESTIC UTILITY ELECTRIC REVENUES:					
Residential	$ 2,524,529	$ 2,231,091	$ 2,299,317	$ 2,271,363	$ 2,277,647
Commercial	1,699,699	1,502,267	1,513,050	1,581,878	1,573,251
Industrial	2,177,236	1,878,363	1,829,085	2,018,625	1,987,640
Governmental	185,286	163,403	172,368	171,773	169,287
Total retail	6,586,750	5,775,124	5,813,820	6,043,639	6,007,825
Sales for resale	423,519	397,844	448,842	359,881	376,011
Other	209,417	98,446	(126,340)	135,311	67,104
Total	$ 7,219,686	$ 6,271,414	$ 6,136,322	$ 6,538,831	$ 6,450,940
DOMESTIC UTILITY ELECTRIC SALES:					
(Millions of KWH)					
Residential	31,998	30,631	30,935	28,286	28,303
Commercial	24,657	23,775	23,177	21,671	21,234
Industrial	43,956	43,549	43,453	44,649	44,340
Governmental	2,605	2,564	2,659	2,507	2,449
Total retail	103,216	100,519	100,224	97,113	96,326
Sales for resale	9,794	9,714	11,187	9,707	10,583
Total	113,010	110,233	111,411	106,820	106,909

(a) Includes the effects of the sale of London Electricity and CitiPower in December 1998.

(b) Includes the effects of the London Electricity acquisition in February 1997.

(c) Includes the effects of the CitiPower acquisition in January 1996.

(d) Includes long-term debt (excluding currently maturing debt), preferred stock with sinking fund, preference stock, preferred securities of subsidiary trusts and partnership, and noncurrent capital lease obligations.

SIGNIFICANT FACTORS AND KNOWN TRENDS

BUSINESS COMBINATION WITH FPL GROUP

On July 30, 2000, Entergy Corporation and FPL Group entered into the Merger Agreement providing for a business combination that will result in the creation of a new company. However, effective April 1, 2001, Entergy Corporation and FPL Group terminated, by mutual decision, the Merger Agreement. Both companies agreed that no termination fee is payable under the terms of the Merger Agreement, unless within nine months of the termination one party agrees to a substantially similar transaction with another party. Each company will bear its own merger-related expenses. Entergy will withdraw its merger-related filings currently pending before the Federal Energy Regulatory Commission (FERC), the Securities and Exchange Commission (SEC), and state and local regulatory agencies.

For most electric utilities, the transition from a regulated monopoly to a competitive business is challenging and complex. Entergy is continuing to work with regulatory and legislative officials in all jurisdictions in designing the rules surrounding a competitive electricity industry.

DOMESTIC TRANSITION TO COMPETITION

The electric utility industry for years has been preparing for the advent of competition in its business. For most electric utilities, the transition from a regulated monopoly to a competitive business is challenging and complex. The new electric utility environment presents opportunities to compete for new customers and creates the risk of loss of existing customers. It presents risks along with opportunities to enter into new businesses and to restructure existing businesses.

For Entergy, the domestic transition to competition is a formidable undertaking, made uniquely difficult because the domestic utility companies operate in five retail regulatory jurisdictions and are subject to the System Agreement, which contemplates the integrated operation of Entergy's electric generation and transmission assets throughout the retail service territories. Entergy is striving to achieve consistent paths to competition in all five retail regulatory jurisdictions. In some cases, however, actions by one jurisdiction may conflict with actions by another. The Arkansas and Texas legislatures have enacted laws to bring about electric utility competition. Entergy is continuing to work with regulatory and legislative officials in all jurisdictions in designing the rules surrounding a competitive electricity industry. There can be no assurance given as to the timing or results of the transition to competition in Entergy's service territories. Following is a summary of the status of the transition to competition in the five retail jurisdictions:

JURISDICTION	STATUS OF RETAIL OPEN ACCESS	% OF ENTERGY'S 2000 REVENUES DERIVED FROM RETAIL ELECTRIC UTILITY OPERATIONS IN THE JURISDICTION
Arkansas	Commencement delayed by amended law until at least October 2003.	12.3%
Texas	Scheduled to commence January 1, 2002.	9.4%
Louisiana	Louisiana Public Service Commission (LPSC) Staff report due in April 2001. The LPSC deferred pursuing open access in 1999.	31.4%
Mississippi	Mississippi Public Service Commission (MPSC) has recommended not pursuing open access at this time.	8.0%
New Orleans	Council of the City of New Orleans, Louisiana (Council) has taken no action on Entergy's proposal filed in 1997.	4.6%

State Regulatory and Legislative Activity

Arkansas — In April 1999, the Arkansas legislature enacted a law providing for competition in the electric utility industry through retail open access. With retail open access, generation operations would become a competitive business, but transmission and distribution operations will continue to be regulated either by federal or state regulatory commissions. In compliance with the provisions of the deregulation law, Entergy Arkansas has taken the following steps:

- Entergy Arkansas has filed separate generation, transmission, distribution, and customer service rates with the Arkansas Public Service Commission (APSC) and also filed notice of its intent to recover stranded costs. In December 2000, the APSC approved the unbundled rates as filed. These rates will become effective six months prior to retail open access.
- Entergy Arkansas has filed a functional, but not corporate, unbundling plan with the APSC. The functional unbundling plan initially established separate business units for distribution, generation, and a new retail energy service provider. The plan contemplates the transfer of transmission assets to the Transco discussed herein.

See Note 2 to the consolidated financial statements for additional details concerning provisions of the retail open access law.

In June 1999, the Texas legislature enacted a law providing for competition in the electric utility industry through retail open access. With retail open access, generation and a new retail electric provider operation will be competitive businesses.

Texas — In June 1999, the Texas legislature enacted a law providing for competition in the electric utility industry through retail open access. With retail open access, generation and a new retail electric provider operation will be competitive businesses, but transmission and distribution operations will continue to be regulated. The new retail electric provider will be the primary point of contact with customers. The provisions of the new law include, among other things, the following:

- The law requires a rate freeze through December 31, 2001, with rates reduced by 6% beyond that for residential and small commercial customers of most incumbent utilities except Entergy Gulf States, whose rates are exempt from the 6% reduction requirement. These rates to residential and small commercial customers are known as the "Price to Beat," and they may be adjusted periodically after January 1, 2002 for fuel and purchased power costs according to the Public Utility Commission of Texas (PUCT) rules.
- The law requires utilities to charge the Price to Beat rates through 2004, or until 40% of customers in the jurisdiction have chosen an alternative supplier, whichever comes first. However, the Price to Beat rates must continue to be made available through 2006.

Pursuant to the provisions of the retail open access law, Entergy Gulf States filed a business separation plan with the PUCT in January 2000, and amended that plan in June and December 2000. The plan provides that, by January 2002, Entergy Gulf States will be divided into:

- a Texas distribution company;
- a Texas transmission company;
- a Texas generation company;
- at least two Texas retail electricity providers; and
- a Louisiana company that will encompass distribution, generation, transmission, and retail operations.

In July 2000, the PUCT issued an interim order to approve the amended business separation plan. Regulatory approvals from FERC, the SEC, and the LPSC, and final approval from the PUCT will be required before the business separation plan can be implemented. Remaining business separation issues in Texas subsequent to the July 2000 interim order will be addressed in the cost unbundling proceeding before the PUCT. See Note 2 to the consolidated financial statements for further discussion of the business separation plan and the related regulatory proceedings before the PUCT and the LPSC.

Pursuant to the Texas restructuring legislation, Entergy Gulf States filed its separated business cost data and proposed transmission, distribution, and competition tariffs with the PUCT on March 31, 2000. On March 6, 2001, Entergy Gulf States filed with the PUCT a non-unanimous settlement agreement in that case that establishes the distribution revenue requirement. The settlement agreement is between Entergy Gulf States, the PUCT Staff, and other parties. Pursuant to a generic rule prescribed by the PUCT, Entergy Gulf States' allowed return on equity will be 11.25%. The generic capital structure prescribed by the PUCT is 60% debt and 40% equity. Hearings before the PUCT on approval of the settlement are scheduled to begin in April 2001. Management cannot predict the timing or outcome of this proceeding.

See Note 2 to the consolidated financial statements for additional details concerning provisions of the Texas retail open access law and the proceedings occurring in Texas pursuant to that law, including discussion of market power measures and the provider of last resort rules.

Louisiana — In March 1999, the LPSC deferred making a decision on whether competition in the electric industry is in the public interest. However, the LPSC staff, outside consultants, and counsel were directed to work together to analyze and resolve issues related to competition and then recommend a plan for its implementation to be considered by the LPSC. In January 2001, a draft response was circulated among interested parties. It is expected that, after a comment period, a final staff response will be presented to the LPSC in April 2001.

Mississippi — In May 2000, after two years of studies and hearings, the MPSC announced that it was suspending its docket studying the opening of the state's retail electricity markets to competition. The MPSC based its decision on its finding that competition could raise the electric rates paid by residential and small commercial customers. The final decision regarding the introduction of retail competition ultimately lies with the Mississippi Legislature, which is holding its 2001 session from January through March. Management cannot predict when, or if, Mississippi will deregulate its retail electricity market, but does not expect it to occur before 2003.

New Orleans — In 1997, Entergy New Orleans filed an electric business restructuring plan with the Council. The Council has not established a procedural schedule to consider electricity restructuring or Entergy's plan.

After studying retail gas open access, advisors to the Council issued a final report that proposed various pilot programs and found that retail gas open access is not in the public interest at this time. The Council accepted an offer of settlement from Entergy New Orleans in this matter that allows for a voluntary pilot program for a limited number of large industrial non-jurisdictional gas customers.

Federal Regulatory and Legislative Activity

Proposed System Agreement Amendments — In June 2000, Entergy's domestic utility companies filed with FERC proposed amendments to the System Agreement to facilitate the implementation of retail competition in Arkansas and Texas and to provide for continued equalization of costs among the domestic utilities in Louisiana and Mississippi. The amendments provide the following:

- cessation of participation in all aspects of the System Agreement, other than those related to transmission equalization, for any jurisdictional division of a domestic utility operating in a jurisdiction that initiates retail open access;
- that certain sections of the System Agreement will no longer apply to the sales of generating capacity, whether through the sale of the asset or the output thereof, by a domestic utility operating in a jurisdiction that has established a date by which it will implement retail open access; and
- modification of the service schedule developed to track changes in energy costs resulting from the Entergy-Gulf States Utilities merger to include one final true-up of fuel costs upon cessation of one company's participation in the System Agreement, after which the service schedule will no longer be applicable for any purpose.

Previously, in April 2000, the LPSC and the Council filed a complaint with FERC seeking revisions to the System Agreement. The LPSC and the Council allege that the revisions are necessary to accommodate the introduction of retail competition in Texas and Arkansas and to protect Entergy's Louisiana customers from any adverse impact that may occur due to the introduction of retail competition in some jurisdictions but not others. The LPSC and the Council requested that FERC cap certain of the System Agreement obligations of Entergy Gulf States, Entergy Louisiana, and Entergy New Orleans and fix these companies' access to pool energy at the average level existing for the three years prior to the date that retail competition is initiated in Texas and Arkansas. Alternatively, the LPSC and the Council requested that FERC require Entergy to provide wholesale power contracts to these companies to satisfy their energy requirements at costs no higher than would have been incurred if retail competition were not implemented. The LPSC and the Council requested that the relief be made available for at least eight years after implementation of retail competition or the withdrawal of Entergy Arkansas and Entergy Gulf States from the System Agreement, or until retail competition is implemented in Louisiana and New Orleans. In addition, among other things, the LPSC and the Council asserted in their complaint that:

- unless the requested relief is granted, the restructuring legislation adopted in Texas and Arkansas, to the extent such legislation requires, or has the effect of, altering the rights of parties under the System Agreement, will violate provisions of the U.S. Constitution; and
- the failure of the domestic utility companies to honor a right of first refusal at cost with respect to any sale of generating capacity and associated energy under the System Agreement, and any attempt to eliminate a right of first refusal from the System Agreement, would violate the Federal Power Act and constitute a breach of the System Agreement.

The proceedings relating to Entergy's proposed amendments have been consolidated with the complaint by the LPSC and the Council. Several other parties have also intervened in the proceedings. If FERC considers Entergy's proposed amendments, the LPSC and the Council have asserted that FERC also needs to reconsider the charges to the domestic utility companies under the Unit Power Sales Agreement. Entergy has requested a final decision from FERC by October 2001. A procedural schedule has been established, with the hearing beginning in March 2001 and an initial Administrative Law Judge (ALJ) decision scheduled in June 2001. These proceedings have been consolidated with a previous complaint filed with FERC by the LPSC in 1995. In that complaint, the LPSC requests, among other things, modification of the System Agreement to exclude curtailable load from the cost allocation determination. Neither the timing, nor the ultimate outcome of these proceedings at FERC, can be predicted at this time.

It appears that FERC will be flexible regarding the structure of RTOs. For example, it appears that RTOs may be for-profit or not-for-profit and may be organized as joint ventures or legal entities of various other types.

Open Access Transmission and Entergy's Transco Proposal — FERC issued Order 2000 in December 1999, which calls for owners and operators of transmission lines in the United States to join regional transmission organizations (RTOs) on a voluntary basis. Order 2000 requires that RTOs commence independent operations no later than December 15, 2001.

It appears that FERC will be flexible regarding the structure of RTOs. For example, it appears that RTOs may be for-profit or not-for-profit and may be organized as joint ventures or legal entities of various other types. However, RTOs will be required, among other things, to be independent market participants, to have sufficient regional scope to maintain reliability and efficiency, to be non-discriminatory in granting service, and to maintain operational control over their regional transmission systems.

In October 2000, in compliance with Order 2000, Entergy made a filing with FERC that requested:

- authorization to establish a RTO referred to as Transco;
- authorization to transfer the domestic utility companies' transmission assets to the Transco; and

- a determination that the partnership arrangement with the Southwest Power Pool (SPP) that the Transco proposes to operate in would qualify as an independent RTO. The partnership arrangement provides for operations under the oversight of, and within, the SPP RTO.

The amounts of Entergy's net transmission utility plant assets recorded are provided in Note 1 to the consolidated financial statements under the heading "Utility Plant."

The proposed Transco will be a limited liability company. The managing member of the Transco will be a separate corporation with a board of directors independent of Entergy. The Transco will be:

- regulated by FERC;
- composed of the transmission system transferred to it by the domestic utility companies and other transmission owners in Entergy's current service territory region;
- operated and maintained by employees who would work exclusively for the Transco and would not be employed by Entergy or the domestic utility companies; and
- passively owned by the domestic utility companies and other member companies who will transfer assets but not control or otherwise direct its operation and management.

Entergy filed in December 2000 for FERC approval of the rates for transmission service across the Transco's facilities. Included in this rate filing is a request to cancel the service schedule in the System Agreement related to equalization of certain transmission costs. In March 2001, Entergy, Entergy Services, and the domestic utility companies requested SEC approval under the Public Utility Holding Company Act of 1935, as amended (PUHCA) of certain elements of the Transco plan. The domestic utility companies have also made filings with their local regulators seeking authorization to implement the Transco plan. Under its planned timeline, Entergy expects to have the necessary regulatory approvals by the third quarter of 2001, with the transmission asset transfers occurring before the Transco commences independent operations in December 2001.

Deregulation Legislation — Over the past several years, a number of bills have been introduced in the United States Congress to deregulate the generation function of the electric power industry. The bills generally have provisions that would give retail consumers the ability to choose their own electric service provider. Entergy Corporation has supported some deregulation legislation in Congress that would lead to an orderly transition to competition and would also repeal PUHCA and the Public Utility Regulatory Policies Act of 1978 (PURPA). Congressional sentiment appears to be against mandating retail competition by a certain date and in favor of clarifying state authority to order retail choice for consumers. Congress adjourned in 2000 without final action on a deregulation bill by a committee of the House or Senate, and has not taken final action on such a bill in its 2001 session thus far.

Industrial and Commercial Customers

The domestic utility companies face the risk of losing customers due to competition. Some of their large industrial and commercial customers are exploring ways to reduce their energy costs. In particular, cogeneration is an option available to a significant portion of the domestic utility companies' industrial customer base. The domestic utility companies have responded by working with some industrial and commercial customers and negotiating electric service contracts that provide service at rates lower than would otherwise be charged. Despite these actions, Entergy Gulf States and Entergy Louisiana have lost an immaterial amount of operating income in recent years from large industrial customers who have completed cogeneration projects. Material losses to cogeneration are not expected in 2001.

STATE AND LOCAL RATE REGULATION

The retail regulatory basis for setting rates for electric service is shifting in some jurisdictions from traditional, exclusively cost-of-service regulation to include performance-based elements. Performance-based formula rate plans are designed to reward increased efficiency and productivity, with utility shareholders and customers sharing in the benefits. Entergy Mississippi and Entergy Louisiana have implemented performance-based rate plans. Entergy Mississippi's 2000 filing indicated that no change in rate levels was warranted. Entergy Louisiana and Entergy Gulf States had the following rate activity in 2000:

FILING	RATE ACTIVITY	IMPLEMENTATION DATE
Entergy Louisiana 4th annual performance-based rate plan	$6.4 million refund	July 2000
Entergy Louisiana 5th annual performance-based rate plan	$24.8 million base rate reduction*	August 2000
Entergy Gulf States 2nd, 3rd, 4th, and 5th annual earnings reviews	$83 million refund, including interest	July to September 2000

* Entergy Louisiana is proposing to increase prospectively the allowed rate of return on common equity from 10.5% to 11.6%, which, if approved by the LPSC, would reduce the amount of the rate reduction.

The domestic utility companies' retail and wholesale rate matters and proceedings are discussed more thoroughly in Note 2 to the consolidated financial statements.

OTHER ELECTRIC UTILITY TRENDS

In some areas of the country, utilities have either sold or are attempting to sell all or a substantial portion of their generation assets in order to focus their businesses on transmission and/or distribution services. Entergy, through its global power development and domestic non-utility nuclear businesses, intends to expand its generation business. While the global power development business is focused on building new power plants or modifying existing plants, the nuclear business expansion plan focuses on acquiring generation assets of other utilities.

In 1998, California implemented electricity deregulation legislation. The law required the major investor-owned utilities in the state to effectively divest their generation assets by requiring them to sell their output to the Power Exchange. The Power Exchange is an independent spot market power pool in which electricity is bought and sold at wholesale prices. The deregulation law requires the investor-owned utilities to buy power from the Power Exchange at market set rates, but freezes the amount that those utilities can recover from their customers. Therefore, the investor-owned utilities' short positions were not covered by generation assets and were exposed to increases in the Power Exchange prices. The jurisdictions in which Entergy's domestic utility companies operate currently allow recovery of all prudently incurred fuel and purchased power costs through various recovery mechanisms. In addition, the deregulation legislation enacted in Arkansas and Texas allows for adjustments to the prices that the distribution businesses will be allowed to recover based on changes in fuel and purchased power costs.

In 2000, the California Power Exchange prices that the California investor-owned utilities have to pay for their electricity supplies soared above the amounts that they are allowed to recover from their customers. The California utilities therefore have accumulated billions of dollars of under-recovered purchased power expenses. These under-recovered costs have caused the California utilities to default on certain of their credit obligations and have spawned several lawsuits and legislative and regulatory activity. The ultimate effect of these events on the investor-owned utilities in California and the electric energy industry nationwide is uncertain.

Entergy, through its global power development and domestic non-utility nuclear power businesses, intends to expand its generation business. While the global power development business is focused on building new power plants or modifying existing plants, the nuclear business expansion plan focuses on acquiring generation assets of other utilities.

CONTINUED APPLICATION OF SFAS 71 AND STRANDED COST EXPOSURE

The domestic utility companies' and System Energy's financial statements primarily reflect assets and costs based on existing cost-based ratemaking regulation in accordance with Statement of Financial Accounting Standards (SFAS) 71, "Accounting for the Effects of Certain Types of Regulation." Under traditional ratemaking practice, regulated electric utilities are granted exclusive geographic franchises to sell electricity. In return, the utilities must make investments and incur obligations to serve customers. Prudently incurred costs are recovered from customers along with a return on investment. Regulators may require utilities to defer collecting from customers some operating costs until a future date. These deferred costs are recorded as regulatory assets in the financial statements. In order to continue applying SFAS 71 to its financial statements, a utility's rates must be set by an independent regulator on a cost-of-service basis and the rates must be charged to and collected from customers.

As the generation portion of the utility industry moves toward competition, it is likely that generation rates will no longer be set on a cost-of-service basis. When that occurs, the generation portion of the business could be required to discontinue application of SFAS 71. The result of discontinuing application of SFAS 71 could be the recording of asset impairments and the removal of regulatory assets and liabilities from the consolidated balance sheet. This result is because some of the costs or commitments incurred under a regulated pricing system might be impaired or not recovered in a competitive market. These costs are referred to as stranded costs.

Nearly all of Entergy's exposure to potential stranded costs involves commitments that were approved by regulators. These exposures include the following:

- the allowed cost of constructing its nuclear generating plants;
- long-term contracts to purchase power under the Unit Power Sales Agreement and associated with the Vidalia project, which may require paying above-market prices in a competitive environment;
- nuclear power plant decommissioning costs;
- the construction cost of some fossil-fueled generating plants and related contracts to buy fuel that may be above-market price in a competitive market; and
- regulatory assets reflected in the consolidated balance sheets.

See Notes 1 and 9 to the consolidated financial statements for further discussion on Entergy's net investment and commitments.

As of December 31, 2000, the amount of these potentially strandable costs for Entergy reflected in the consolidated financial statements is approximately $7.7 billion, which includes $1.8 billion at Entergy Arkansas, and $3.2 billion at Entergy Gulf States. The estimated net present value of the obligations described above that are not reflected in the consolidated financial statements for Entergy is approximately $3.7 billion, which includes $1.0 billion at Entergy Arkansas and $0.3 billion at Entergy Gulf States. These amounts can increase due to increased capital spending; however, in the normal course of business, depreciation, amortization, and payments under the contractual obligations should reduce these amounts. The actual amount of these costs and obligations that will be identified as stranded will be determined in regulatory proceedings. The outcome of the proceedings cannot be predicted and will depend upon a number of variables, including the timing of stranded cost determination, the values attributable to certain strandable assets, assumptions concerning future market prices for electricity, and other factors. In addition, because transition legislation or regulation is not in place in Louisiana, Mississippi, or New Orleans, Entergy cannot predict how those jurisdictions will treat stranded costs and whether Entergy will be able to recover all or a part of the costs in those jurisdictions.

In June 2000, Entergy Arkansas filed an application to continue the stranded cost mitigation efforts agreed upon in the 1997 settlement agreement approved by the APSC. The filing included a stranded cost estimate intended to support Entergy Arkansas' recommendation that the mitigation efforts continue. The filing presents an estimated range of stranded costs based upon the comparison of possible generation asset market values to the generation assets' book values and contractual obligations. The range of possible generation asset market values used in the estimate was determined using generation asset sales from other jurisdictions. Rebuttal testimony filed by Entergy Arkansas in November 2000 estimates that stranded costs in Arkansas could be from $227.8 million to $1.58 billion. The wide range in the estimate is because of the wide range in the comparable asset sales used in the estimate.

In the non-unanimous settlement agreement filed with the PUCT by Entergy Gulf States in March 2001, the parties agree that Entergy Gulf States will not implement a charge to recover stranded costs in Texas. A rider to recover nuclear decommissioning costs will be implemented. Hearings before the PUCT for approval of the settlement are scheduled to begin in April 2001.

Management believes that definitive outcomes have not yet been determined regarding the transition to competition in each of Entergy's jurisdictions. Arkansas and Texas have enacted retail open access laws as described above, but Entergy believes that significant issues remain to be addressed by Arkansas and Texas regulators, and the enacted laws do not provide sufficient detail to determine definitively the impact on Entergy Arkansas' and Entergy Gulf States' regulated operations. Until the regulatory proceedings in Arkansas and Texas provide a greater level of certainty, both Entergy Arkansas and Entergy Gulf States will continue to apply SFAS 71 to their regulated operations. Final approval of the settlement agreement in Texas will likely result in Entergy Gulf States discontinuing application of SFAS 71 to its Texas generation operations. SFAS 71 will continue to be applied in the Louisiana, Mississippi, and New Orleans jurisdictions pending legislative or regulatory developments relating to transition to competition. If SFAS 71 is no longer applied by the respective domestic utility companies and System Energy, and regulation or legislation does not allow for recovery of all or a portion of its stranded costs, there could be a material adverse impact on the respective domestic utility companies' and Entergy's financial statements. The impact of approval of the Texas settlement agreement will depend upon a final determination of the market value of generation assets in Texas. Entergy believes that the amount of costs that will be stranded without a means of recovery or mitigation for the domestic utility companies will be significantly less than the strandable cost amounts given above. The specifics of the accounting application of SFAS 71 are discussed more thoroughly in Note 1 to the consolidated financial statements.

MARKET RISKS DISCLOSURE

Entergy is exposed to the following market risks:

- the commodity price risk associated with its power marketing and trading business;
- the interest rate risk associated with certain of its variable rate credit facilities;
- the foreign currency exchange rate risk associated with certain of its contractual obligations; and
- the interest rate and equity price risk associated with its investments in decommissioning trust funds.

Entergy's power marketing and trading business enters into sales and purchases of electricity and natural gas for delivery in the future. Because the market prices of electricity and natural gas can be volatile, Entergy's power marketing and trading business is exposed to risk arising from differences between the fixed prices in its commitments and fluctuating market prices. To mitigate its exposure, Entergy's power marketing and trading business enters into electricity and natural gas futures, swaps, option contracts, and electricity forward agreements. The business also manages its exposure with policies limiting its exposure to market risk and daily monitoring of its potential financial exposure.

Entergy's power marketing and trading business uses a value-at-risk model (VAR) as one measure of the market risk of a loss in fair value for the traded portfolio. VAR acts in conjunction with stress testing, position reporting, and profit and loss reporting in order to measure and control the risk inherent in the traded portfolio. The primary use of VAR is to provide a benchmark for market risk contained in the trading portfolio. VAR does not function as a comprehensive measure of all risks in a portfolio. Furthermore, VAR is only an appropriate risk measure for products traded in relatively liquid markets.

Management's VAR methodology uses a variance/covariance approach to the measurement of market risk. The variance/covariance approach assumes that prices follow a "random-walk" process in which prices are lognormally distributed. This approach requires the following inputs:

- a one-tailed test with a 95% confidence interval that measures the probability of loss;
- a 20-day window for measuring volatility;
- a cross-product correlation matrix that measures the tendency of different basis products to move together; and
- an inter-temporal correlation matrix that measures the tendency of commodities with different delivery periods to move together.

The following is information on power marketing and trading's VAR for 2000:

• VAR at December 31, 2000	$2.9 million
• Average month-end VAR	$4.2 million
• High month-end VAR	$8.5 million
• Low month-end VAR	$2.5 million

Power marketing and trading's VAR at December 31, 1999, was $3.3 million.

Management's calculation of VAR exposure represents an estimate of reasonably possible net losses that would be recognized on its portfolio of derivative financial instruments, assuming hypothetical movements in prices. It does not represent the maximum possible loss or an expected loss that may occur, because actual future gains and losses will differ from those estimated based upon actual fluctuations in market rates, operating exposures, and the timing thereof, and changes in the portfolio of derivative financial instruments during the year.

In November 2000, System Fuels, Inc. and Entergy's domestic non-utility nuclear business entered 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 were 82.8 million Euro ($73.2 million) and the forward currency rates range from .8690 to .8981. The maturities of these forward contracts depend on the contractual payment dates and range in time from August 2001 to February 2004. The mark-to-market valuation of the forward contracts at December 31, 2000, was a net asset of $5.9 million. The counterparty banks obligated on these agreements are rated by Standard and Poor's Rating Services at A-1 or above on their short-term obligations and AA- on their long-term obligations.

Entergy uses interest rate swaps to reduce the impact of interest rate changes on certain variable-rate credit facilities associated with its global power development business. Under the interest rate swap agreements, Entergy receives floating-rate interest payments and pays fixed-rate interest rate payments over the life of the agreements. The floating-rate interest that Entergy receives is approximately equal to the interest it must pay on the variable-rate credit facilities. Therefore, through the use of the swap agreements, Entergy effectively achieves a fixed rate of interest on the credit facilities. The following details information about the interest rate swaps as of December 31, 2000:

	NOTIONAL AMOUNT	AVERAGE FIXED PAY RATE	MATURITY	FAIR VALUE
Saltend	$443.3 million	6.44%	2013	($16.6 million)
Damhead Creek	$414.5 million	6.52%	2010	($18.4 million)

Entergy is exposed to fluctuations in equity prices and interest rates through its nuclear decommissioning trust funds. The Nuclear Regulatory Commission (NRC) requires Entergy to maintain trusts to fund the costs of decommissioning Arkansas Nuclear One (ANO) Unit 1, ANO 2, River Bend, Waterford 3, Grand Gulf, and Pilgrim. The funds are invested primarily in equity securities; fixed-rate, fixed-income securities; and cash and cash equivalents. Management believes that its exposure to market fluctuations will not affect results of operations for the ANO, River Bend, Grand Gulf, and Waterford 3 trust funds because of the application of regulatory accounting principles. Details of the Pilgrim trust fund at December 31, 2000, are as follows:

Fixed rate, fixed income securities	$314 million
Equity securities	$116 million
Average coupon rate	6.7%
Average duration	5.8 years
Average maturity	8.8 years

These equity securities are held in a fund that is designed to approximate the Standard & Poor's 500 Index. The decommissioning trust funds are discussed more thoroughly in Notes 1 and 9 to the consolidated financial statements.

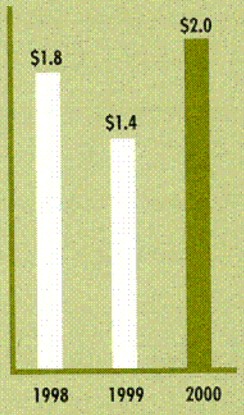
NEW ACCOUNTING PRONOUNCEMENT

In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," which will be implemented by Entergy in 2001. See Note 1 to the consolidated financial statements for a discussion of the expected effect of this pronouncement on Entergy.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW

Net Cash Flow From Operations
(In billions)



Operations

Net cash flow from operations totaled $2.0 billion, $1.4 billion, and $1.8 billion for the years 2000, 1999, and 1998, respectively.

Entergy's consolidated cash flow from operations increased in 2000 primarily due to the domestic utility companies and System Energy providing an additional $277.5 million and the competitive businesses providing an additional $223.7 million to operating cash flows for the year ended December 31, 2000.

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Fuel cost recovery activity in 2000 significantly affected the operating cash flows for the domestic utility companies. Historically high natural gas and purchased power costs in 2000 caused the domestic utility companies' fuel payments to increase significantly during the year. In the case of Entergy Arkansas, the Texas portion of Entergy Gulf States, and Entergy Mississippi, the 2000 under-recoveries have been treated as regulatory investments in the consolidated cash flow statements because those companies are allowed by their regulatory jurisdictions to recover the fuel costs accumulated in 2000 over longer than a twelve-month period, and the companies will earn a return on the under-recovered balances.

Cash flow also increased due to improved operations in the power marketing and trading and global power development businesses in 2000.

Entergy's operating cash flow was also affected by an increase in net income for the year ended December 31, 2000, partially offset by the following:

- the increased use of cash for fuel costs related to the Louisiana jurisdiction of Entergy Gulf States, Entergy Louisiana and Entergy New Orleans; and
- refunds of $83 million paid to Louisiana customers during the third quarter of 2000 at Entergy Gulf States as a result of earnings reviews settled with the LPSC, as discussed further in Note 2 to the consolidated financial statements.

The increase in operating cash flow for the competitive businesses is attributable to the following:

- the operations of Pilgrim, Indian Point 3, and FitzPatrick that primarily caused an increase of $73.9 million in operating cash flow from the domestic non-utility nuclear business; and
- improved operations in the power marketing and trading and global power development businesses in 2000, and net income thereby generated, which resulted in an additional $40.2 million and $91.0 million of operating cash flow, respectively, compared with net losses from their operations in 1999.

Pilgrim was purchased in July 1999 and provided operating cash flow for all of 2000 compared with only six months in 1999. Indian Point 3 and FitzPatrick were purchased in November 2000 and provided operating cash flow for two months in 2000.

Entergy's consolidated cash flow from operations for 1999 decreased as compared to 1998 primarily due to less cash provided by competitive businesses. The decrease was also due to the completion of rate phase-in plans for some of the domestic utility companies during 1998.

In 1999, competitive businesses used $9.3 million of operating cash flow from operations compared with providing $151.7 million of operating cash flow for 1998. This change was primarily due to the sales of London Electricity and CitiPower in December 1998 both of which contributed operating cash flow in 1998 but did not contribute at all in 1999. Offsetting the decrease in operating cash flow in 1999 were the sales of Efficient Solutions, Inc. in September 1998 and Entergy Security, Inc. in January 1999. These businesses used operating cash flow in 1998 and used none in 1999. Also, the power marketing and trading business used less operating cash flow in 1999 than in 1998.

Investing Activities

Net cash used in investing activities increased for 2000 due to increased construction expenditures, decreased proceeds from sales of businesses, decreased net proceeds from maturities of notes receivable, and higher fuel costs.

The increased construction expenditures were primarily due to:

- spending on customer service and reliability improvements by the domestic utility companies;
- costs incurred related to the December 2000 ice storms, primarily at Entergy Arkansas; and
- costs incurred for replacement of the steam generators at ANO 2.

The following items also contributed to the overall increase in cash used in 2000:

- the maturity of notes receivable in August 1999 when only a portion of the proceeds were reinvested in other temporary investments;
- payments made by Entergy's global power development business in 2000 for turbines; and
- the under-recovery of deferred fuel costs incurred in 2000 at certain of the domestic utility companies due to significantly higher market prices of fuel and purchased power expenses. Entergy Arkansas, the Texas portion of Entergy Gulf States, and Entergy Mississippi have treated these costs as regulatory investments because those companies are allowed by their regulatory jurisdictions to recover the fuel cost regulatory asset accumulated in 2000 over longer than a twelve-month period, and the companies will earn a return on the under-recovered balances.

Partially offsetting the overall increase in cash used is the maturity of other temporary investments and proceeds from the sale of the Freestone power project in 2000.

Investing activities used cash in 1999 compared to 1998 due to the sales in 1998 of London Electricity and CitiPower, and higher construction expenditures in 1999 compared with 1998. The increased construction expenditures were primarily due to:

- construction of the Saltend and Damhead Creek power plants by Entergy's global power development business; and

- spending on customer service, reliability improvements, and the return to service of generation plants by the domestic utility companies.

The maturity and reinvestment of a portion of the proceeds of notes receivable in August 1999, and the sales in 1999 of Entergy Security, Inc., Entergy Power Edesur Holding, LTD and several other telecommunications businesses partially offset the overall decrease in 1999.

Financing Activities

Financing activities provided cash for 2000 primarily due to:

- new long-term debt issuances by the domestic utility companies; and
- increased borrowings under the Entergy Corporation credit facility.

Partially offsetting the overall cash provided were the following in 2000:

- increased repurchases of Entergy Corporation common stock;
- redemption of Entergy Gulf States' preference stock; and
- decreased borrowings under the credit facilities for the construction of the Saltend and Damhead Creek power projects by Entergy's global power development business.

Net cash used in financing activities decreased in 1999 compared to 1998 primarily due to:

- the retirement in 1998 of debt associated with the acquisition of London Electricity and CitiPower;
- increased borrowings in 1999 under the credit facilities for the construction of the Saltend and Damhead Creek power plants by Entergy's global power development business; and
- a reduction in dividend payments made by Entergy Corporation in 1999 compared to 1998.

Partially offsetting the 1999 overall decrease were the following uses:

- the 1999 repayment of bank borrowings by Entergy Corporation and Entergy Technology Holding Company with a portion of the proceeds from the sale of Entergy Security, Inc.;
- the redemption of preferred stock in 1999 at certain of the domestic utility companies; and
- the repurchase of Entergy Corporation common stock.

CAPITAL RESOURCES

Entergy's sources to meet its capital requirements include:

- internally generated funds;
- cash on hand;
- debt or preferred stock issuances;
- common stock issuances;
- bank financing under new or existing facilities;
- short-term borrowings; and
- sales of assets.

Entergy requires capital resources for:

- working capital purposes, including the financing of fuel and purchased power costs;
- construction and other capital expenditures;
- debt and preferred stock maturities;
- common stock repurchases;
- capital investments;
- funding of subsidiaries; and
- dividend and interest payments.

Sources of Capital

All of the domestic utility companies issued new debt in 2000. The net proceeds of these issuances have been or will be used for general corporate purposes including capital expenditures, the retirement of short-term indebtedness incurred for working capital or other purposes, and, in the case of Entergy Gulf States, the mandatory redemption of preference stock. The domestic utility companies plan to issue debt in 2001 for similar purposes as in 2000. In addition, rising fuel prices in 2000 and the resulting increases in the domestic utility companies' fuel costs have increased these companies' needs for working capital financing in 2001. Entergy Arkansas' liquidity was also affected by incurring approximately $195 million of restoration costs associated with ice storms in December 2000. See Note 2 to the consolidated financial statements for more information regarding the December 2000 ice storms.

All debt and common and preferred stock issuances by the domestic utility companies and System Energy require prior regulatory approval. Preferred stock and debt issuances are subject to issuance tests set forth in corporate charters, bond indentures, and other agreements. The domestic utility companies have sufficient capacity under these issuance tests to consummate the financings planned for 2001. The domestic utility companies may also establish special purpose trusts or limited partnerships as financing subsidiaries for the purpose of issuing preferred securities.

In 2001, Entergy obtained 364-day credit facilities totaling $118 million, all of which has been fully drawn. Entergy will primarily use the proceeds to pay for costs incurred in the December 2000 ice storms, general corporate purposes, and working capital needs. The facilities have variable interest rates and the average commitment fee is 0.13%.

In 2001, Entergy requested an increase from the SEC in its current authorized short-term borrowing limits, which includes borrowings under the inter-company money pool, from $1.343 billion to $1.620 billion. The current SEC-authorized limit is effective through November 30, 2001. Note 4 to the consolidated financial statements contains details of the amount of short-term indebtedness outstanding for Entergy as of December 31, 2000.

In 2000, long-term debt on Entergy's consolidated balance sheet was increased by approximately $750 million by the issuance of notes payable to the New York Power Authority (NYPA) in the Indian Point 3 and FitzPatrick acquisition. Also in 2000, the global power development business increased its borrowings under the Damhead Creek credit facility by approximately $164 million to finance construction of the plant. Damhead Creek commenced commercial operation in 2001.

Note 7 to the consolidated financial statements more thoroughly discusses these long-term debts.

Uses of Capital

Capital Investment Plan 2001–2003
(In billions)

For the years 2001 through 2003, Entergy plans to spend $8.2 billion in a capital investment plan focused on improving service at the domestic utility companies and growing its global power development and domestic non-utility nuclear businesses. The estimated allocation in the plan is $2.6 billion to the domestic utility companies, $3.6 billion to the global power development business, and $2.0 billion to the domestic non-utility nuclear business. Management provides more information on construction expenditures and long-term debt and preferred stock maturities in Notes 5, 6, 7, and 9 to the consolidated financial statements.

The capital investment plan discussed above is subject to modification based on the ongoing effects of transition to competition planning, and the ability to recover the regulated utility costs in rates. Additionally, the plan is contingent upon the ability to access the capital necessary to finance the planned expenditures, and significant borrowings may be necessary to implement these capital spending plans.

The restrictions on issuance of securities, capital expenditures, dispositions, incurrence or guarantee of indebtedness, and trading or marketing of energy contained in the Merger Agreement ceased to apply to Entergy when the Merger Agreement was terminated on April 1, 2001.

PUHCA Restrictions on Uses of Capital — Entergy's ability to invest in domestic and foreign generation businesses is subject to the SEC's regulations under PUHCA. Absent SEC approval, these regulations limit Entergy Corporation's aggregate investment in domestic and foreign generation businesses at the time an investment is made to an amount equal to 50% of average consolidated retained earnings for the previous four quarters. In June 2000, the SEC issued an order that allows Entergy's exempt wholesale generator and foreign exempt utility subsidiaries' investments to increase from 50% to 100% of Entergy's average consolidated retained earnings. As of December 31, 2000, Entergy's investments subject to this rule totaled $770 million constituting 25% of its average consolidated retained earnings.

Entergy's ability to guarantee obligations of its non-utility subsidiaries is also limited by SEC regulations under PUHCA. In August 2000, the SEC issued an order, effective through December 31, 2005, that allows Entergy to issue up to $2 billion of guarantees to its non-utility companies, excluding guarantees outstanding as of that date that were issued under a previous order.

Under PUHCA, the SEC imposes a limit equal to 15% of consolidated capitalization on the amount that may be invested in "energy-related" businesses without specific SEC approval. Entergy has made investments in energy-related businesses, including power marketing and trading. Entergy's available capacity to make additional investments at December 31, 2000, was approximately $1.8 billion.

Other Uses of Capital — Under the terms of the Merger Agreement, Entergy agreed to use commercially reasonable efforts to purchase in open market transactions $430 million of its common stock prior to the close of the Merger. As of December 31, 2000, Entergy has repurchased 4.2 million shares for an aggregate amount of $145.6 million after the signing of the Merger Agreement. Because the Merger Agreement has been terminated, Entergy has no further obligation to purchase stock under it. Prior to the date of the Merger Agreement, Entergy had been repurchasing shares under two Board authorizations. In October 1998, the Board approved a plan for the repurchase of Entergy common stock through December 31, 2001, to fulfill the requirements of various compensation and benefit plans. This stock repurchase plan provided for open market purchases of up to 5 million shares for an aggregate consideration of up to $250 million. In July 1999, the Board approved the commitment of up to an additional $750 million for the repurchase of Entergy common stock through December 31, 2001. Shares were repurchased on a discretionary basis. Prior to the date of the Merger Agreement, Entergy had repurchased 25.3 million shares for an aggregate amount of $652.5 million under these two Board authorizations.

In 2000, Entergy Corporation paid $271.0 million in cash dividends on its common stock and received dividend payments and returns of capital totaling $918.3 million from subsidiaries. Declarations of dividends on Entergy's common stock are made at the discretion of the Board. The Board evaluates the level of Entergy common stock dividends based upon Entergy's earnings and financial strength. Dividend restrictions are discussed in Note 8 to the consolidated financial statements. Under the Merger Agreement, Entergy agreed to pay dividends at existing levels with increases permitted up to 5% over the amount of the previous twelve-month period. In October 2000 and January 2001, the Board declared quarterly dividends of $0.315 per share on Entergy's common stock.

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Global Power Development Business — Included in the capital investment plan for Entergy's global power development business are payments under an option it obtained in October 1999 to acquire both advanced technology gas and steam turbines as detailed below:

QUANTITY AND DESCRIPTION	EXPECTED FUNDING SOURCES
24 GE7FA gas turbines 8 GE7EA gas turbines 4 steam turbines	• Cash on hand • Project financing • Other external sources • Up to $225 million may be supported by guarantees from Entergy Corporation

In the sale of the Freestone power project in June 2000, Entergy sold the rights to acquire four of the GE7EA turbines and two of the steam turbines. Deliveries of the remaining turbines are scheduled for 2001 through 2004. Management plans to use the turbines in future generation projects of the global power development business.

In 2000, Entergy's global power development business began construction of the Warren Power Project, a 300 MW combined-cycle gas turbine merchant power plant in Vicksburg, Mississippi. The construction costs are expected to be approximately $150 million. Management expects that commercial operation of the plant will begin in the summer of 2001.

Domestic Non-Utility Nuclear Business — In November 2000, Entergy's domestic non-utility nuclear business purchased two nuclear power plants from NYPA. Descriptions of the two plants and the overall terms of the purchase are detailed below:

JAMES A. FITZPATRICK PLANT	
Capacity	825 MW
Location	Oswego, New York

INDIAN POINT 3 PLANT	
Capacity	980 MW
Location	Westchester County, New York

TERMS OF PURCHASE	
Cash at closing	$50 million
Future payments (must be secured by a letter of credit)	Seven annual installments of approximately $108 million commencing one year from closing. Eight annual installments of $20 million commencing eight years from closing.

Entergy currently projects that these installments will be paid primarily from the proceeds of the sale of power from the plants and that Entergy will provide an additional $100 million of funding.

On November 21, 2000, upon closing of the acquisition of the NYPA plants, Entergy delivered a $577 million letter of credit, with NYPA as beneficiary, in accordance with the terms of such agreement. The letter of credit was backed by cash collateral, and this cash is reflected in the consolidated balance sheet as "Special deposits." In February 2001, Entergy replaced $440 million of the cash collateral with an Entergy Corporation guarantee. Most of the cash released by this guarantee was used to fund Entergy's cash contribution made for its interest in the Entergy/Koch Industries joint venture discussed below under "Joint Ventures."

Included in the domestic non-utility nuclear business' capital investment plan is the acquisition of Consolidated Edison's (Con Edison) Indian Point 2 nuclear power plant (IP2). In November 2000, Entergy's domestic non-utility nuclear business signed an agreement with Con Edison to purchase the plant as detailed below:

INDIAN POINT 2 PLANT	
Capacity	957 MW
Location	Westchester County, New York
Cash at closing	$600 million (includes purchase power agreement (PPA) whereby Con Edison will purchase 100% of IP2's output through 2004)
Future payments	$10 million per year to NYPA for up to ten years to begin on the second anniversary of the acquisition

The financing of the purchase may require the support of an Entergy Corporation guarantee. Con Edison will also transfer a $430 million decommissioning trust fund, along with the liability to decommission IP2 and Indian Point 1, to Entergy's domestic non-utility nuclear business. Management expects to close the acquisition by mid-2001, pending the approvals of the NRC, the New York Public Service Commission, and other regulatory agencies.

Joint Ventures — On January 31, 2001, subsidiaries of Entergy and Koch Industries, Inc. formed a new limited partnership called Entergy-Koch, L.P. Entergy contributed its power marketing and trading business in the United States and the United Kingdom and made other contributions, including equity and loans totaling $414 million. Koch Energy, Inc. contributed to the venture its 9,000-mile Koch Gateway Pipeline, gas storage facilities including the Bistineau storage facility near Shreveport, Louisiana, and Koch Energy Trading, which markets and trades electricity, gas, weather derivatives, and other energy-related commodities and services.

Entergy's global power development business has a 50% interest in RS Cogen LLC, a joint venture with PPG Industries. In August 2000, RS Cogen LLC completed a $242 million non-recourse financing for a 425 MW natural gas-fired, combined-cycle power plant, known as the Riverside project. In September 2000, construction of the plant began at estimated construction costs approximately equal to the amount of the financing arrangement. Management expects that commercial operation of the plant will begin in 2002.

RESULTS OF OPERATIONS

Entergy's consolidated earnings applicable to common stock were $679.3 million for the year ended December 31, 2000, resulting in increases in basic and diluted earnings per share of 33% and 32%, respectively. The increase in earnings per share was also affected by Entergy's share repurchase program. Entergy's consolidated earnings applicable to common stock were $552.5 million for the year ended December 31, 1999 resulting in a decrease in basic and diluted earnings per share of 25% compared with 1998.

The changes in earnings applicable to common stock by operating segments for 2000 and 1999 as compared to the prior year are as follows (in thousands):

	INCREASE/(DECREASE)	
OPERATING SEGMENTS	2000	1999
Domestic Utility and System Energy	$ 75,684	$ 29,020
Power Marketing & Trading	20,133	15,049
Domestic Non-Utility Nuclear	33,453	16,768
Global Power Development	46,246	(23,550)
Entergy London and CitiPower	—	(120,852)
Other, including parent company	(48,681)	(103,045)
Total	$126,835	$(186,610)

Other for 1998 included the results of operations for Efficient Solutions, Inc., Entergy Security, Inc., Entergy Power Edesur Holdings, and several telecommunications businesses that were sold between late 1998 and mid-1999. It also included the gains on the 1998 sales of Entergy London and CitiPower. See Note 13 to the consolidated financial statements for additional business segment information.

Entergy's consolidated earnings applicable to common stock were $679.3 million for the year ended December 31, 2000 resulting in increases in basic and diluted earnings per share of 33% and 32%, respectively.

The increase in 2000 earnings at the domestic utility companies and System Energy was primarily due to:

- an increase in energy usage by customers;
- an increase in revenues as a result of a warmer than normal spring and summer and a colder than normal winter;
- a decrease of $21.4 million in interest and other charges;
- a decrease of $45.5 million in reserves recorded in 2000 for potential rate actions; and
- a $10.9 million decrease in preferred dividend requirements primarily due to the retirement of Entergy Gulf States' preference stock.

The increases were partially offset by:

- an increase of $95.8 million in operation and maintenance expense;
- an increase of $44.5 million in depreciation and amortization expense;
- an increase of $23.5 million in taxes other than income taxes; and
- an increase in the effective income tax rate.

The increase at the power marketing and trading business in 2000 was primarily due to:

- improved trading performance in electricity;
- increased long-term marketing of electricity; and
- trading gains in natural gas in the current year due to natural gas prices reaching record high levels compared to trading losses in the prior year.

The increase at the domestic non-utility nuclear business in 2000 was primarily due to the ownership of Pilgrim for the entire year compared to only six months in 1999, and the increase for 1999 was due to the purchase of Pilgrim in July 1999.

The increase at the global power development business in 2000 was primarily due to $55.1 million of liquidated damages received from the Saltend contractor as compensation for lost operating margin from the plant due to construction delays.

Other decreased in 2000 primarily due to the write-down of Entergy's investments in Latin America to their fair market values. Other decreased in 1999 primarily due to the non-recurring gains recorded on business sales in 1998.

Entergy's income before taxes is discussed in two business categories, "Domestic Utility Companies and System Energy" and "Competitive Businesses." Competitive Businesses primarily includes power marketing and trading, domestic non-utility nuclear, global power development, and several businesses that were sold in 1998 and 1999.

DOMESTIC UTILITY COMPANIES AND SYSTEM ENERGY

The changes in electric operating revenues for Entergy's domestic utility companies for 2000 and 1999 are as follows (in millions):

	INCREASE/(DECREASE)	
DESCRIPTION	2000	1999
Base revenues	$ (94.2)	$ 81.2
Rate riders	(17.1)	(164.1)
Fuel cost recovery	792.5	188.7
Sales volume/weather	107.1	5.3
Other revenue (including unbilled)	135.8	74.3
Sales for resale	24.2	(50.3)
Total	$948.3	$ 135.1

Base Revenues

Base revenues decreased in 2000 primarily due to the non-recurring effect on 1999 revenues of the reversal of regulatory reserves associated with the accelerated amortization of accounting order deferrals discussed below.

In 1999, base revenues increased primarily due to two factors:

- A $93.6 million reversal was recorded in June 1999 for regulatory reserves associated with the accelerated amortization of accounting order deferrals in conjunction with the settlement agreement in Entergy Gulf States' Texas 1996 and 1998 rate filings. The settlement agreement was approved by the PUCT in June 1999. The net income effect of this reversal is largely offset by the amortization of rate deferrals discussed below.
- The amount of reserves recorded in 1999 at Entergy Gulf States compared to 1998 for the anticipated effects of rate proceedings in Texas was reduced.

Partially offsetting these increases were:

- annual base rate reductions implemented for Entergy Gulf States' Louisiana and Texas retail customers in 1998 and 1999 and Entergy Mississippi customers in 1999; and
- reserves recorded by Entergy Gulf States related to the Louisiana jurisdiction, Entergy Louisiana, and Entergy New Orleans in 1999 for potential rate actions or rate refunds.

Rate Riders

Rate rider revenues do not impact earnings since specific incurred expenses offset them. In 1999, rate rider revenues decreased $164.1 million due to a revised Grand Gulf rider implemented at Entergy Arkansas and Entergy Mississippi, resulting in a corresponding decrease in the amortization of rate deferrals. The revised rider eliminated revenues attributable to the Grand Gulf phase-in plans, which were completed in 1998, and implemented the Grand Gulf Accelerated Recovery Tariff (GGART), allowing accelerated recovery and payment of a portion of the two companies' Grand Gulf purchased power obligations. The tariffs became effective in January 1999 and October 1998, respectively.

Fuel Cost Recovery

The domestic utility companies are allowed to recover certain fuel and purchased power costs through fuel mechanisms included in electric rates that are recorded as fuel cost recovery revenues. The difference between revenues collected and current fuel and purchased power costs is recorded as deferred fuel costs on Entergy's consolidated financial statements such that these costs generally have no net effect on earnings.

Fuel cost recovery revenues increased in 2000 primarily due to:

- increased fuel recovery factors at Entergy Arkansas, Entergy Gulf States in the Texas jurisdiction, and Entergy Mississippi; and
- higher fuel and purchased power costs at Entergy Louisiana and Entergy New Orleans due to the increased market price of natural gas.

Along with the increase in fuel cost recovery revenue, fuel and purchased power expenses increased by $794.2 million in 2000 primarily due to:

- an increase in the market prices of purchased power, natural gas, and fuel oil; and
- an increase in volume due to an increase in demand.

The increase in fuel and purchased power expenses was partially offset by a $23.5 million adjustment to the Entergy Arkansas deferred fuel balance to record deferred fuel costs that Entergy Arkansas expects to recover in the future through its fuel adjustment clause.

In 1999, fuel cost recovery revenues increased primarily due to:

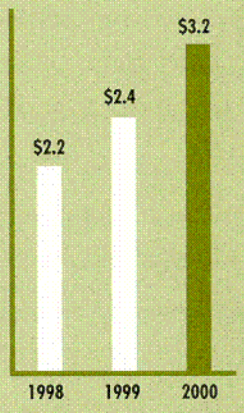
- an increased fuel factor and a new fuel surcharge implemented by Entergy Gulf States in the Texas jurisdiction in 1999;
- recovery of higher-priced fuel and purchased power costs at Entergy Louisiana due to nuclear outages at Waterford 3 in 1999; and
- an increase in the energy cost recovery rate effective April 1999 and the completion of a customer refund obligation in 1998 which lowered 1998 fuel cost recovery at Entergy Arkansas.

In 1999, fuel and purchased power expenses increased due to:

- higher natural gas and purchased power prices as well as increased gas usage at Entergy Arkansas and Entergy Louisiana;
- higher fuel recovery due to an increased fuel factor and fuel surcharge in Entergy Gulf States' Texas jurisdiction; and
- an increased energy cost recovery rate in 1999 and the completion of a customer refund obligation in 1998 which lowered 1998 fuel cost recovery at Entergy Arkansas.

These increases were partially offset by decreased fuel expenses at Entergy Mississippi as a result of lower total generation.

Domestic Utility Fuel and Purchased Power Expenses
(In billions)



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Other Effects on Revenue

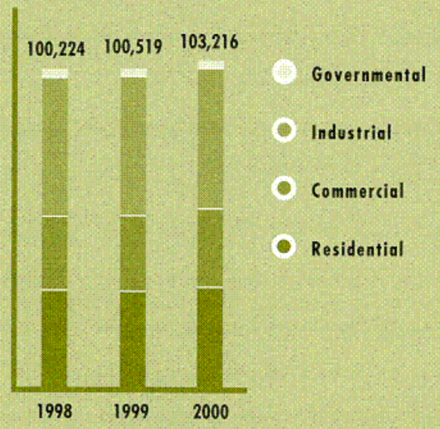
Electric operating revenues also increased in 2000 due to:

- increased sales volume due to increased usage by industrial, commercial, and residential customers;
- increased sales due to weather conditions in 2000;
- increased generation and subsequent sales from River Bend in 2000 as a result of a refueling outage in 1999; and
- higher fuel prices included in unbilled revenues.

Electric sales vary seasonally in response to weather, and usually peak in the summer. The effect of colder than normal winter weather conditions in 2000 contributed to the increase in electric sales. In 2000, electricity sales volume in the domestic utility companies' service territories increased 1,522.7 gigawatt-hours (GWH) due to the impact of weather conditions. Electric sales volume also increased 1,173.9 GWH due to higher demand by industrial, commercial, and residential customers. The number of customers in the domestic utility companies' service territories remained constant during these periods.

Electric operating revenues also increased in 1999 primarily due to a change in estimated unbilled revenues, which more closely aligned the fuel component of unbilled revenues with regulatory treatment. This increase was partially offset by a decline in sales for resale due to the loss of certain municipal and co-op customer contracts at Entergy Arkansas.

Domestic Utility Retail Electric Sales
(In millions of KWH)



Other Operation and Maintenance Expenses

Other operation and maintenance expenses increased $95.8 million in 2000 primarily due to:

- increased property insurance expenses of $22.8 million primarily due to storm damage accruals related to the December 2000 ice storms at Entergy Arkansas and due to changes in storm damage reserve amortization at Entergy Arkansas, Entergy Louisiana, and Entergy Mississippi in accordance with regulatory treatment;
- increased customer service expenses of $11.4 million primarily related to spending on vegetation management at Entergy Arkansas;
- increased nuclear expenses of $17.2 million primarily from Entergy Arkansas and Entergy Gulf States;
- an increase of $28.4 million primarily due to an increase in legal and contract expenses for the transition to retail open access at Entergy Arkansas and Entergy Gulf States and for legal services employed for rate-related proceedings at Entergy Louisiana; and
- an increase of $21.9 million in plant maintenance expense primarily at Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and Entergy Mississippi.

The increase in other operation and maintenance expenses in 2000 was partially offset by the following:

- a $9.5 million larger nuclear insurance refund in 2000 compared to 1999; and
- a decrease in injury and damages claims of $12.3 million.

In 1999, other operation and maintenance expenses increased $68.3 million primarily due to:

- increased customer service and reliability improvements throughout the system;
- increases in storm damage accruals, employee pension and benefits, and environmental expenses; and
- increases in maintenance work at Entergy Arkansas and Entergy Mississippi.

Depreciation and Amortization

Depreciation and amortization expenses increased $44.5 million in 2000 primarily due to:

- the review of plant-in-service dates for consistency with regulatory treatment that reduced depreciation expense by $17.7 million in August 1999;
- increased depreciation of $14.0 million associated with the principal payment on the sale and leaseback of Grand Gulf 1; and
- net capital additions primarily at Entergy Louisiana and Entergy Mississippi.

In 1999, depreciation and amortization expenses decreased $32.8 million due to:

- lower depreciation at Entergy Gulf States as a result of the write-down of the River Bend abeyed plant as required by the Texas rate settlement and a review of plant in-service dates; and
- reduction in principal payments associated with the sale and leaseback in 1989 of a portion of Grand Gulf 1 at System Energy.

Other Regulatory Charges

In 1999, other regulatory charges decreased due to:

- lower accruals for transition costs in 1999 at Entergy Arkansas;

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- a change in the amortization period for deferred River Bend finance charges in Entergy Gulf States' Texas retail jurisdiction; and
- deferral of Year 2000 costs at Entergy Gulf States and Entergy Louisiana in accordance with an LPSC order.

These decreases were partially offset by increased charges at System Energy as a result of the implementation of the GGART at Entergy Arkansas and Entergy Mississippi.

Interest Charges

Interest charges decreased $21.4 million in 2000 primarily due to an adjustment in 1999 at System Energy to the interest recorded for the potential refund to customers of its proposed rate increase pending at FERC. System Energy's proposed rate increase is discussed in Note 2 to the consolidated financial statements.

In 1999, interest charges decreased due to the retirement and refinancing of long-term debt, partially offset by the interest recorded on the potential refund of System Energy's proposed rate increase.

COMPETITIVE BUSINESSES

The changes in operating revenues for the competitive businesses by operating segments in 2000 and 1999 are as follows (in millions):

	INCREASE/(DECREASE)	
	2000	1999
Power Marketing & Trading	$(117.9)	$ (605.7)
Domestic Non-Utility Nuclear	188.4	104.6
Global Power Development	201.4	0.1
Entergy London and CitiPower	—	(2,215.1)
Other	(16.9)	(108.2)
Total	$ 255.0	$(2,824.3)

The decrease in 2000 for the power marketing and trading business results from decreased electricity and gas trading volumes. Although revenues decreased, the power marketing and trading business had an increase in operating income for the year ended December 31, 2000, primarily due to:

- decreased purchased power expenses as discussed below;
- improved trading performance in electricity;
- increased long-term marketing of electricity; and
- trading gains in natural gas in the current year due to natural gas prices reaching record high levels compared to trading losses in the prior year.

The decrease in 1999 for the power marketing and trading business resulted primarily from decreased electricity trading volume due to significantly warmer weather in 1998 than in 1999. However, the impact on net income from these decreased revenues was more than offset by decreased fuel and purchased power expenses as discussed below, resulting in a smaller operating loss for this business for the year ended December 31, 1999 as compared to 1998.

The increase in 2000 for the domestic non-utility nuclear business was primarily from the operation of the Pilgrim, Indian Point 3, and FitzPatrick plants. Pilgrim was purchased in July 1999 and Indian Point 3 and FitzPatrick were purchased in November 2000. The increase in 1999 for the domestic non-utility nuclear business was primarily from the operation of Pilgrim.

The increase in 2000 for the global power development business was primarily due to the results from its interest in Highland Energy, which was acquired in June 2000, and the results from the Saltend plant, which began commercial operation in late November 2000. However, the impact on net income from increased revenues from the global power development business is offset by increased fuel and purchased power as discussed below.

The decrease in 1999 for Entergy London and CitiPower was due to the sale of these businesses in 1998.

Fuel and Purchased Power Expenses

Fuel costs constitute the largest expense for the competitive businesses. Fuel and purchased power expenses increased $20.4 million in 2000, primarily due to Highland Energy's operations and increased expenses for the domestic non-utility nuclear business from Pilgrim contributing for all of 2000 compared with only six months in 1999, along with the acquisition of Indian Point 3 and FitzPatrick in November 2000.

Partially offsetting the overall increase in 2000 in fuel and purchased power expenses is the decrease of $206.9 million from the power marketing and trading business attributable to decreased electricity and gas trading volumes.

Fuel and purchased power expenses decreased in 1999 primarily due to:

- the sales of London Electricity and CitiPower;
- decreased electricity trading volume in the power marketing and trading business; and
- a $44 million ($27 million net of tax) counterparty default incurred in 1998 by the power marketing and trading business.

These decreases were partially offset by increased gas trading volume in the power marketing and trading business.

Fuel costs constitute the largest expense for the competitive businesses. Fuel and purchased power expenses for the competitive businesses increased $20.4 million in 2000.

Other Operation and Maintenance Expenses

Other operation and maintenance expenses increased $98.6 million in 2000 primarily from the operation of Pilgrim for all of 2000 compared with only six months in 1999, partially offset by a decrease in the elimination of mark-to-market profits on intercompany power transactions.

Other operation and maintenance expenses decreased $349.7 million in 1999 primarily due to the sales of London Electricity and CitiPower. The decrease was partially offset by:

- an increase for the power marketing and trading business resulting primarily from increased risk management and back-office support; and
- an increase for the domestic non-utility nuclear business resulting primarily from the operation of Pilgrim for six months in 1999.

Other Income

Other income decreased $38.5 million for the year ended December 31, 2000 primarily due to a $42.5 million ($27.6 million net of tax) write-down in 2000 to their estimated fair values of investments in Latin American projects. The decrease is also due to the absence of the following items that occurred in 1999:

- a $26.7 million ($17 million net of tax) gain on the sale of Entergy Power Edesur Holdings in June 1999;
- a $12.9 million ($8 million net of tax) gain on the sale of Entergy Hyperion Telecommunications in June 1999;
- a $22.0 million ($6.4 million net of tax) gain on the sale of Entergy Security, Inc. in January 1999, including a true-up recognized in December 1999;
- a $7.6 million ($4.9 million net of tax) favorable adjustment to the final sale price of CitiPower in January 1999; and
- a more favorable experience on warranty reserves in 1999 for the businesses sold during 1998.

Partially offsetting the overall decrease was the following in 2000:

- liquidated damages of $55.1 million ($38.6 million net of tax) received from the Saltend contractor as compensation for lost operating margin from the Saltend plant due to construction delays;
- an increase of $16.2 million in interest and dividend income; and
- a $20.5 million ($13.3 million net of tax) gain in June 2000 on the sale of the global power development business' investment in the Freestone project located in Fairfield, Texas.

Other income decreased in 1999 primarily due to the gains recorded in 1998 on the sales of Entergy London of $327.3 million ($246.8 million net of tax) and CitiPower of $29.8 million ($19.3 million net of tax). The decrease in 1999 was partially offset by the following:

- interest income of $58.5 million in 1999 on the proceeds of the sales of Entergy London and CitiPower;
- gains on sales of businesses in 1999, as listed above;
- a $68.6 million ($35.9 million net of tax) loss on the sale of Efficient Solutions, Inc. (formerly Entergy Integrated Solutions, Inc.) in September 1998;
- $32.8 million ($21.3 million net of tax) of write-downs of Entergy's investments in two Asian projects in 1998; and
- favorable experience on warranty reserves for the businesses sold during 1998.

The sale of the global power development business' investment in the Freestone project generated a gain of $20.5 million.

Interest Charges

Other interest charges increased $29.0 million in 2000 primarily due to:

- the accretion of the decommissioning liability associated with Pilgrim; and
- increased interest expense of $16.0 million related to borrowings on Entergy Corporation's short-term credit facility.

INCOME TAXES

The effective income tax rates for 2000, 1999, and 1998 were 40.3%, 37.5%, and 25.3%, respectively. The increase in 2000 was primarily due to the recognition in 1999 of deferred tax benefits related to the expected utilization of foreign tax credits resulting in lower income taxes.

The effective income tax rate increased in 1999, partially offset by the recognition of foreign tax credits discussed above, primarily due to the following in 1998:

- the recognition of $44 million of deferred tax benefits in 1998 related to expected utilization of Entergy's capital loss carryforwards; and
- a $31.7 million reduction in taxes because of reductions in the UK corporation tax rate from 31% to 30% in the third quarter of 1998.

REPORT OF MANAGEMENT

Management of Entergy Corporation and its subsidiaries has prepared and is responsible for the financial statements and related financial information included herein. The financial statements are based on generally accepted accounting principles in the United States. Financial information included elsewhere in this report is consistent with the financial statements.

To meet their responsibilities with respect to financial information, management maintains and enforces a system of internal accounting controls designed to provide reasonable assurance, on a cost-effective basis, as to the integrity, objectivity, and reliability of the financial records, and as to the protection of assets. This system includes communication through written policies and procedures, an employee Code of 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.

The Audit Committee of our Board of Directors, composed solely of Directors who are not employees of our company, meets with the independent auditors, management, and internal accountants periodically to discuss internal accounting controls and auditing and financial reporting matters. Upon recommendation from the Audit Committee, the Board of Directors appoints the independent accountants. The Committee 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, providing free access to the Committee.

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

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

J. Wayne Leonard

J. WAYNE LEONARD
Chief Executive Officer

C. JOHN WILDER
Executive Vice President
and Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Entergy Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of retained earnings, comprehensive income and paid-in-capital and of cash flows (pages 40 through 73) present fairly, in all material respects, the financial position of Entergy Corporation and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

New Orleans, Louisiana
February 1, 2001

In thousands, except share data, for the years ended December 31,	2000	1999	1998
OPERATING REVENUES:			
Domestic electric	$ 7,219,686	$ 6,271,414	$ 6,136,322
Natural gas	165,872	110,355	115,355
Steam products	—	15,852	43,167
Competitive businesses	2,630,590	2,375,607	5,199,928
Total	10,016,148	8,773,228	11,494,772
OPERATING EXPENSES:			
Operating and maintenance:			
Fuel, fuel-related expenses, and gas purchased for resale	2,645,835	2,082,875	1,706,028
Purchased power	2,662,881	2,442,484	4,585,444
Nuclear refueling outage expenses	70,511	76,057	83,885
Other operation and maintenance	1,901,314	1,705,545	1,988,040
Decommissioning	39,484	45,988	46,750
Taxes other than income taxes	370,344	339,284	362,153
Depreciation and amortization	746,125	698,881	938,179
Other regulatory charges—net	3,681	14,833	35,136
Amortization of rate deferrals	30,392	115,627	237,302
Total	8,470,567	7,521,574	9,982,917
OPERATING INCOME	1,545,581	1,251,654	1,511,855
OTHER INCOME:			
Allowance for equity funds used during construction	32,022	29,291	12,465
Gain (loss) on sale of assets—net	(20,466)	71,926	274,941
Miscellaneous—net	190,129	154,423	85,618
Total	201,685	255,640	373,024
INTEREST AND OTHER CHARGES:			
Interest on long-term debt	477,071	476,877	735,601
Other interest—net	85,635	82,471	65,047
Distributions on preferred securities of subsidiaries	18,838	18,838	42,628
Allowance for borrowed funds used during construction	(24,114)	(22,585)	(10,761)
Total	557,430	555,601	832,515
INCOME BEFORE INCOME TAXES	1,189,836	951,693	1,052,364
Income taxes	478,921	356,667	266,735
CONSOLIDATED NET INCOME	710,915	595,026	785,629
Preferred dividend requirements and other	31,621	42,567	46,560
EARNINGS APPLICABLE TO COMMON STOCK	$ 679,294	$ 552,459	$ 739,069
Earnings per average common share:			
Basic	$3.00	$2.25	$3.00
Diluted	$2.97	$2.25	$3.00
Dividends declared per common share	$1.22	$1.20	$1.50
Average number of common shares outstanding:			
Basic	226,580,449	245,127,460	246,396,469
Diluted	228,541,307	245,326,883	246,572,328

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,	2000		1999		1998	
RETAINED EARNINGS						
Retained Earnings—Beginning of period	$2,786,467		$2,526,888		$2,157,912	
Add—Earnings applicable to common stock	679,294	$679,294	552,459	$552,459	739,069	$739,069
Deduct:						
Dividends declared on common stock	275,929		294,352		369,498	
Capital stock and other expenses	(807)		(1,472)		595	
Total	275,122		292,880		370,093	
Retained Earnings—End of period	$3,190,639		$2,786,467		$2,526,888	
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):						
Balance at beginning of period	$(73,805)		$(46,739)		$(69,817)	
Foreign currency translation adjustments	(5,216)	(5,216)	(22,043)	(22,043)	23,078	23,078
Net unrealized investment gains (losses)	3,988	3,988	(5,023)	(5,023)	—	—
Balance at end of period	$(75,033)		$(73,805)		$(46,739)	
Comprehensive Income		$678,066		$525,393		$762,147
PAID-IN CAPITAL						
Paid-in Capital—Beginning of period	$4,636,163		$4,630,609		$4,613,572	
Add:						
Common stock issuances related to stock plans	24,320		5,554		17,037	
Paid-in Capital—End of period	$4,660,483		$4,636,163		$4,630,609	

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

In thousands, as of December 31,	2000	1999
ASSETS		
Current Assets:		
Cash and cash equivalents:		
Cash	$ 157,550	$ 108,198
Temporary cash investments—at cost, which approximates market	640,038	1,105,521
Special deposits	584,836	—
Total cash and cash equivalents	1,382,424	1,213,719
Other temporary investments—at cost, which approximates market	—	321,351
Notes receivable	3,608	2,161
Accounts receivable:		
Customer	497,821	290,331
Allowance for doubtful accounts	(9,947)	(9,507)
Other	395,518	213,939
Accrued unbilled revenues	415,409	298,616
Total receivables	1,298,801	793,379
Deferred fuel costs	568,331	240,661
Fuel inventory—at average cost	93,679	73,231
Materials and supplies—at average cost	425,357	392,403
Rate deferrals	16,581	30,394
Deferred nuclear refueling outage costs	46,544	58,119
Prepayments and other	122,690	78,567
Total	3,958,015	3,203,985
Other Property and Investments:		
Investment in subsidiary companies—at equity	214	214
Decommissioning trust funds	1,315,857	1,246,023
Non-utility property—at cost (less accumulated depreciation)	334,270	317,165
Non-regulated investments	331,604	198,003
Other—at cost (less accumulated depreciation)	22,298	16,714
Total	2,004,243	1,778,119
Utility Plant:		
Electric	25,137,562	23,163,161
Plant acquisition adjustment	390,664	406,929
Property under capital lease	769,370	768,500
Natural gas	190,989	186,041
Construction work in progress	936,785	1,500,617
Nuclear fuel under capital lease	277,673	286,476
Nuclear fuel	157,603	87,693
Total utility plant	27,860,646	26,399,417
Less—accumulated depreciation and amortization	11,364,021	10,898,661
Utility plant—net	16,496,625	15,500,756
Deferred Debits and Other Assets:		
Regulatory assets:		
Rate deferrals	—	16,581
SFAS 109 regulatory asset—net	980,266	1,068,006
Unamortized loss on reacquired debt	183,627	198,631
Deferred fuel costs	95,661	—
Other regulatory assets	792,515	637,870
Long-term receivables	29,575	32,260
Other	1,024,700	533,732
Total	3,106,344	2,487,080
TOTAL ASSETS	$25,565,227	$22,969,940

See Notes to Consolidated Financial Statements.

In thousands, as of December 31,	2000	1999
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Currently maturing long-term debt	$ 464,215	$ 194,555
Notes payable	388,023	120,715
Accounts payable	1,204,227	707,678
Customer deposits	172,169	161,909
Taxes accrued	451,811	445,677
Accumulated deferred income taxes	225,649	72,640
Nuclear refueling outage costs	10,209	11,216
Interest accrued	172,033	129,028
Obligations under capital leases	156,907	178,247
Other	192,908	125,749
Total	3,438,151	2,147,414
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	3,249,083	3,310,340
Accumulated deferred investment tax credits	494,315	519,910
Obligations under capital leases	201,873	205,464
FERC settlement—refund obligation	30,745	37,337
Other regulatory liabilities	218,172	199,139
Decommissioning	749,708	703,453
Transition to competition	191,934	157,034
Regulatory reserves	396,789	378,307
Accumulated provisions	390,116	279,425
Other	853,137	527,027
Total	6,775,872	6,317,436
Long-term debt	7,732,093	6,612,583
Preferred stock with sinking fund	65,758	69,650
Preference stock	—	150,000
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated deferrable debentures	215,000	215,000
Shareholders' Equity:		
Preferred stock without sinking fund	334,688	338,455
Common stock, $.01 par value, authorized 500,000,000 shares; issued 248,094,614 shares in 2000 and 247,082,345 shares in 1999	2,481	2,471
Paid-in capital	4,660,483	4,636,163
Retained earnings	3,190,639	2,786,467
Accumulated other comprehensive income:		
Cumulative foreign currency translation adjustment	(73,998)	(68,782)
Net unrealized investment losses	(1,035)	(5,023)
Less—treasury stock, at cost (28,490,031 shares in 2000 and 8,045,434 shares in 1999)	774,905	231,894
Total	7,338,353	7,457,857
Commitments and Contingencies (Notes 2, 9, 10, and 11)		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$25,565,227	$22,969,940

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands, for the years ended December 31,	2000	1999	1998
OPERATING ACTIVITIES:			
Consolidated net income	$ 710,915	$ 595,026	$ 785,629
Noncash items included in net income:			
Amortization of rate deferrals	30,392	115,627	237,302
Reserve for regulatory adjustments	18,482	10,531	130,603
Other regulatory charges—net	3,681	14,833	35,136
Depreciation, amortization, and decommissioning	785,609	744,869	984,929
Deferred income taxes and investment tax credits	124,457	(189,465)	(64,563)
Allowance for equity funds used during construction	(32,022)	(29,291)	(12,465)
(Gain) loss on sale of assets—net	20,466	(71,926)	(274,941)
Changes in working capital (net of effects from acquisitions and dispositions):			
Receivables	(437,146)	9,246	24,176
Fuel inventory	(20,447)	(1,359)	28,439
Accounts payable	543,606	35,233	31,229
Taxes accrued	20,871	158,733	58,505
Interest accrued	45,789	(56,552)	(37,937)
Deferred fuel	(38,001)	10,583	63,991
Other working capital accounts	102,336	45,285	43,209
Provision for estimated losses and reserves	6,019	(59,464)	(133,880)
Changes in other regulatory assets	(66,903)	(36,379)	(13,684)
Other	149,743	93,494	(49,996)
Net cash flow provided by operating activities	1,967,847	1,389,024	1,835,682
INVESTING ACTIVITIES:			
Construction/capital expenditures	(1,493,717)	(1,195,750)	(1,143,612)
Allowance for equity funds used during construction	32,022	29,291	12,465
Nuclear fuel purchases	(121,127)	(137,649)	(102,747)
Proceeds from sale/leaseback of nuclear fuel	117,154	137,093	128,210
Proceeds from sale of businesses	61,519	351,082	2,275,014
Investment in other nonregulated/nonutility properties	(238,062)	(81,273)	(85,014)
Proceeds from other temporary investments	321,351	956,356	—
Purchase of other temporary investments	—	(321,351)	(947,444)
Decommissioning trust contributions and realized change in trust assets	(63,805)	(61,766)	(73,641)
Other regulatory investments	(385,331)	(81,655)	(82,984)
Other	(44,016)	(42,258)	—
Net cash flow used in investing activities	(1,814,012)	(447,880)	(19,753)

See Notes to Consolidated Financial Statements.

In thousands, for the years ended December 31,	2000	1999	1998
FINANCING ACTIVITIES:			
Proceeds from the issuance of:			
Long-term debt	$ 904,522	$1,113,370	$1,904,074
Common stock	41,908	15,320	19,341
Retirement of:			
Long-term debt	(181,329)	(1,195,451)	(3,151,680)
Repurchase of common stock	(550,206)	(245,004)	(2,964)
Redemption of preferred stock	(157,658)	(98,597)	(17,481)
Changes in short-term borrowings—net	267,000	(165,506)	205,412
Dividends paid:			
Common stock	(271,019)	(291,483)	(373,441)
Preferred stock	(32,400)	(43,621)	(46,809)
Net cash flow provided by (used in) financing activities	20,818	(910,972)	(1,463,548)
Effect of exchange rates on cash and cash equivalents	(5,948)	(948)	1,567
Net increase in cash and cash equivalents	168,705	29,224	353,948
Cash and cash equivalents at beginning of period	1,213,719	1,184,495	830,547
Cash and cash equivalents at end of period	$1,382,424	$1,213,719	$1,184,495
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest—net of amount capitalized	$505,414	$601,739	$833,728
Income taxes	$345,361	$373,537	$273,935
Noncash investing and financing activities:			
Change in unrealized appreciation/(depreciation) of decommissioning trust assets	$(11,577)	$41,582	$46,325
Decommissioning trust fund acquired in Pilgrim acquisition	—	$428,284	—
Acquisition of Indian Point 3 and FitzPatrick:			
Fair value of assets acquired	$917,667	—	—
Initial cash paid at closing	$50,000	—	—
Liabilities assumed and notes issued to seller	$867,667	—	—

See Notes to Consolidated Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of Entergy Corporation and its direct and indirect subsidiaries, including the domestic utility companies and System Energy.

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 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.

Entergy Corporation sold its investments in Entergy London and CitiPower in December 1998. Accordingly, the consolidated statements of income and cash flows for 1998 include amounts for Entergy London and CitiPower through the dates of their respective sales.

Use of Estimates in the Preparation of Financial Statements

The preparation of Entergy Corporation's and its subsidiaries' 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

Entergy Arkansas, Entergy Louisiana, and Entergy Mississippi generate, transmit, and distribute electricity primarily to retail customers in Arkansas, Louisiana, and Mississippi, respectively. Entergy Gulf States generates, transmits, and distributes electricity primarily to retail customers in Texas and Louisiana. Entergy Gulf States also distributes gas to retail customers in and around Baton Rouge, Louisiana. Entergy New Orleans sells both electricity and gas to retail customers in the City of New Orleans, except for Algiers, where Entergy Louisiana is the electricity supplier.

System Energy's operating revenues are intended to recover operating expenses and capital costs attributable to Grand Gulf 1 from Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans. Capital costs are computed by allowing a return on System Energy's common equity funds allocable to its net investment in Grand Gulf 1, plus System Energy's effective interest cost for its debt allocable to its investment in Grand Gulf 1. System Energy's proposed rate increase is discussed in Note 2 to the consolidated financial statements.

Entergy recognizes revenue from electricity and gas sales when the consumers are billed. The domestic utility companies also accrue estimated revenues for energy delivered since the latest billings on a monthly basis. The monthly estimated unbilled revenue amounts are recorded as revenue and a receivable and are reversed the following month.

The domestic utility companies' rate schedules include either fuel adjustment clauses or fixed fuel factors, both of which allow either current recovery or deferral of fuel costs until such costs are reflected in the related revenues. 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 fuel cost recovery in their unbilled revenue calculations. Fixed fuel factors remain in effect until changed as part of a general rate case, fuel reconciliation, or fixed fuel factor filing. In the case of Entergy Arkansas, the Texas portion of Entergy Gulf States, and Entergy Mississippi, their fuel under-recoveries are treated as regulatory investments in the cash flow statements 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 will earn a return on the under-recovered balances.

Utility Plant

Utility plant is stated at original cost. The original cost of utility plant retired or removed, plus the applicable removal costs, less salvage, is charged to accumulated depreciation. Maintenance, repairs, and minor replacement costs are charged to operating expenses. Substantially all of the utility plant is subject to liens from mortgage bond indentures.

With regard to nuclear refueling outage costs, Entergy records the 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 18 months without having to be taken off line. Except with respect to the River Bend plant, the costs are deferred during the outage and amortized over the period to the next outage. For the River Bend plant, the costs are accrued in advance and included in the cost of service used to establish retail rates, and are then amortized over the period between outages, which is in accordance with their regulatory treatment.

Utility plant includes the portions of Grand Gulf 1 and Waterford 3 that have been sold and leased back. For financial reporting purposes, these sale and leaseback arrangements are reflected as financing transactions.

Total net utility plant of $16.5 billion as of December 31, 2000, includes $9.1 billion of production plant, of which $7.1 billion is nuclear; $1.7 billion of transmission plant; $3.5 billion of distribution plant; and $2.2 billion of other plant.

Depreciation is computed on the straight-line basis at rates based on the estimated service lives and costs of removal of the various classes of property. Depreciation rates on average depreciable property approximated 2.9% for 2000 and 1999, and 3.0% for 1998.

Allowance for Funds Used During Construction (AFUDC) represents the approximate net composite interest cost of borrowed funds and a reasonable return on the equity funds used for construction. Although AFUDC increases both utility plant and earnings, it is realized in cash through depreciation provisions included in rates.

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, 2000, the subsidiaries' investment and accumulated depreciation in each of these generating stations were as follows:

GENERATING STATIONS	FUEL TYPE	TOTAL MEGAWATT CAPABILITY	OWNERSHIP	INVESTMENT	ACCUMULATED DEPRECIATION
				(In millions)	
Grand Gulf Unit 1	Nuclear	1,210	90.00%[1]	$3,531	$1,408
Independence Units 1 and 2	Coal	1,678	47.90%	455	205
White Bluff Units 1 and 2	Coal	1,659	57.00%	405	219
Roy S. Nelson Unit 6	Coal	550	70.00%	403	208
Big Cajun 2 Unit 3	Coal	575	42.00%	228	111

(1) Includes an 11.5% leasehold interest held by System Energy. System Energy's Grand Gulf 1 lease obligations are discussed in Note 10 to the consolidated financial statements.

Project Development Costs

Entergy capitalizes costs incurred in developing projects after achieving certain milestones that indicate that completion of the project is probable. These costs include salaries, incremental indirect costs and amounts paid to outside parties for such expenses as legal, engineering, accounting, and other incremental direct costs. Capitalized project development costs are transferred to construction in progress during the construction phase and to electric plant after commencement of operations. Capitalized costs are amortized over the life of operational projects or charged to expense if management determines that the costs are not recoverable through operations of the project.

Income Taxes

Entergy Corporation and its subsidiaries file a U.S. consolidated federal income tax return. Income taxes are allocated to the subsidiaries in proportion to their contribution to consolidated taxable income. SEC regulations require that no Entergy subsidiary pay more taxes than it would have paid if a separate income tax return had been filed. In accordance with 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 on the date of enactment.

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

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 being amortized over the life of the related new issuances, in accordance with ratemaking treatment.

Cash and Cash Equivalents

Entergy considers all unrestricted highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

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 has recorded on the consolidated balance sheet $128 million of additional value in its decommissioning trust funds. This increase represents the amount by which the fair value of the securities held in such funds exceeds the amounts deposited plus the earnings on the deposits. In accordance with the regulatory treatment for decommissioning trust funds, the domestic utility companies and System Energy have recorded an offsetting amount in unrealized gains on investment securities as a regulatory liability in other deferred credits.

Decommissioning trust funds for Pilgrim do not receive regulatory treatment. Accordingly, unrealized gains recorded on the assets in Pilgrim's trust funds are recognized as a separate component of shareholders' equity because these assets are classified as available for sale.

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 a separate component of shareholders' equity. Current exchange rates are used for U.S. dollar disclosures of future obligations denominated in foreign currencies.

Earnings per Share

The average number of common shares outstanding for the presentation of diluted earnings per share was greater by approximately 1,960,858 shares in 2000, 199,000 shares in 1999, and 176,000 shares in 1998, than the number of such shares for the presentation of basic earnings per share due to Entergy's stock option and other stock compensation plans discussed more thoroughly in Note 5 to the consolidated financial statements.

Options to purchase approximately 5,205,000 and 149,000 shares of common stock at various prices were outstanding at the end of 1999 and 1998, respectively, but were not included in the computation of diluted earnings per share because the exercise prices were greater than the average market price of the common shares at the end of each of the years presented. At the end of 2000, all outstanding options, totaling 11,468,316, were included in the computation of diluted earnings per share as a result of the average market price of the common shares being greater than the exercise prices.

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 meet three criteria. The enterprise must have rates that (i) are approved by the 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 may capitalize 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. SFAS 71 requires that rate-regulated enterprises assess the probability of recovering their regulatory assets at each balance sheet date. 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 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.

As described in "Management's Financial Discussion and Analysis – Significant Factors and Known Trends," management believes that definitive outcomes have not yet been determined regarding transition to competition in any of Entergy's jurisdictions. Therefore, the regulated operations of the domestic utility companies and System Energy continue to apply SFAS 71. Arkansas and Texas have enacted retail open access laws, but Entergy believes that significant issues remain to be addressed by Arkansas and Texas regulators, and the enacted laws do not provide sufficient detail to reasonably determine the impact on Entergy Arkansas' and Entergy Gulf States' regulated operations.

Transition to Competition Liabilities

In conjunction with the transition to competition of the electric utility industry in certain jurisdictions in which the domestic utility companies operate, regulatory mechanisms have been established to mitigate potential stranded costs. These mechanisms include the transition cost account at Entergy Arkansas, which is discussed further in Note 2 to the consolidated financial statements. Also included is a provision in the Texas transition legislation that allows depreciation on transmission and distribution assets to be directed toward generation assets. The liabilities recorded as a result of these mechanisms are classified as "transition to competition" deferred credits.

Domestic Operating Company Deregulated Operations

Entergy Gulf States does not apply regulatory accounting principles to its wholesale jurisdiction, steam department, Louisiana retail deregulated portion of River Bend, and the 30% interest in River Bend formerly owned by Cajun. The Louisiana retail deregulated portion of River Bend is operated under a deregulated asset plan representing a portion (approximately 24%) of River Bend plant costs, generation, revenues, and expenses established under a 1992 LPSC order. The plan allows Entergy Gulf States to sell the electricity from the deregulated assets to Louisiana retail customers at 4.6 cents per KWH or off-system at higher prices, with certain provisions for sharing such incremental revenue above 4.6 cents per KWH between ratepayers and shareholders.

The results of these deregulated operations before interest charges for the years ended December 31, 2000, 1999, and 1998 are as follows (in thousands):

	2000	1999	1998
Operating revenues	$200,023	$166,509	$178,303
Operating expenses			
Fuel, operating, and maintenance	141,822	126,917	137,579
Depreciation	36,158	35,141	39,497
Total operating expense	177,980	162,058	177,076
Income tax expense	8,278	628	1,154
Net income from deregulated utility operations	$ 13,765	$ 3,823	$ 73

The net investment associated with these deregulated operations as of December 31, 2000 and 1999, was approximately $822 million and $835 million, respectively.

Impairment of Long-Lived Assets

Entergy periodically reviews long-lived assets whenever events or changes in circumstances indicate that recoverability of these assets is uncertain. Generally, the determination of recoverability is based on the 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.

Assets regulated under traditional cost-of-service ratemaking, and thereby subject to SFAS 71 accounting, are generally not subject to impairment because this form of regulation assures that all allowed costs are subject to recovery. However, certain deregulated assets and other operations of the domestic utility companies totaling approximately $1.5 billion (pre-tax) could be affected in the future. Those assets include Entergy Arkansas' and Entergy Louisiana's retained shares of Grand Gulf 1, Entergy Gulf States' Louisiana deregulated asset plan, the Texas jurisdictional abeyed portion of the River Bend plant and the portion of River Bend transferred from Cajun, and wholesale operations. Additionally, as noted above, the discontinuation of SFAS 71 regulatory accounting principles would require that Entergy review the affected assets for impairment.

Derivative Financial Instruments and Commodity Derivatives

As a part of its overall risk management strategy, Entergy uses a variety of derivative financial instruments and commodity derivatives, including interest rate swaps and natural gas and electricity futures, forwards, and options.

Entergy accounts for derivative financial instruments used to mitigate interest rate risk in accordance with hedge accounting. Gains or losses from rate swaps used for such purposes that are sold or terminated are deferred and amortized over the remaining life of the debt instrument being hedged by the interest rate swap. If the debt instrument being hedged by the interest rate swaps is extinguished, any gain or loss attributable to the swap would be recognized in the period of the transaction. Additional information concerning Entergy's interest rate swaps outstanding as of December 31, 2000, is included in Note 7 to the consolidated financial statements.

Entergy's power marketing and trading business engages in price risk management activities for trading purposes. To conduct these activities, the business uses futures, forwards, swaps, and options, and uses the mark-to-market method of accounting. Under the mark-to-market method of accounting, forwards, futures, swaps, options, and other financial instruments with third parties are reflected at market value in the balance sheets. Changes in the assets and liabilities from these instruments (resulting primarily from newly originated transactions and the impact of price movements) are recognized currently in the statements of income. The market prices used to value these transactions reflect management's best estimate considering various factors including closing exchange and over-the-counter quotations, time value, and volatility factors underlying the commitments.

New Accounting Pronouncements

In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," which was implemented effective January 1, 2001. This statement requires that all derivatives be recognized in the balance sheet, either as assets or liabilities, measured at fair value. The changes in the fair value of 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, if it is, the type of hedge transaction. For fair-value hedge transactions in which Entergy is hedging changes in an asset's, liability's, or firm commitment's fair value, changes in the fair value of the derivative instrument will generally be offset in the income statement by changes in the hedged item's fair value. For cash-flow hedge transactions, in which Entergy is hedging the variability of cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative instrument will be reported in other comprehensive income. The gains and losses on the derivative instrument that are reported in other comprehensive income will be reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges will be recognized in current-period earnings.

Entergy utilizes derivative financial instruments primarily for the following purposes:

- trading activity in its power marketing and trading business;
- to ensure adequate power supplies and to mitigate certain risks in the domestic utility business; and
- to hedge cash flows for various transactions in its competitive businesses.

The implementation of SFAS 133 did not materially impact the power marketing and trading business, as its derivative portfolio is already marked-to-market under the provisions of EITF 98-10, "Measuring the Value of Energy-Related Contracts." Effective January 1, 2001, Entergy recorded a net-of-tax cumulative-effect-type adjustment of approximately $18 million reducing accumulated other comprehensive income to recognize at fair value all derivative instruments that are designated as cash-flow hedging instruments, primarily for interest rate swaps and foreign currency forward contracts related to Entergy's competitive businesses.

The FASB's Derivatives Implementation Group (DIG) is considering a number of issues affecting the power industry. Entergy's interpretation of these issues in its initial implementation of SFAS 133 is based on management's application of existing accounting literature. To the extent that the DIG ultimately interprets these issues differently than Entergy, Entergy's financial statements could be materially affected, although the amount of the possible effect cannot be quantified at this time.

2. RATE AND REGULATORY MATTERS

ELECTRIC INDUSTRY RESTRUCTURING

Arkansas

In April 1999, the Arkansas legislature enacted a law providing for competition in the electric utility industry through retail open access as of January 1, 2002. With retail open access, generation operations would become a competitive business, but transmission and distribution operations will continue to be regulated either by federal or state regulatory commissions. In November 2000, the APSC issued a report to the General Assembly on the status of deregulation implementation and recommended that the deregulation statute remain as passed in 1999 except that the target date for retail open access be delayed until no sooner than October 1, 2003, and no later than October 1, 2005. The investor-owned utilities in Arkansas signed a settlement agreement that supported the recommendation. During the 2001 legislative session, the General Assembly passed an amendment to the deregulation statute to adopt the APSC recommendation to amend the target date for retail open access. The amendment was signed into law by the governor in February 2001. Besides delaying the target date, the amendment includes two new criteria that will allow the APSC to delay the retail open access date beyond the October 1, 2003, target. The additional criteria that could cause further delay include:

- most customers would not have a reasonable opportunity to realize net benefits, specifically including relative price benefits for residential and small business customers; or
- demonstrably effective market structures are not in place, particularly a regional transmission organization or insufficient generation and transmission capacity.

Other provisions of the currently enacted law:

- require utilities to separate (unbundle) their costs into generation, transmission, distribution, and customer service functions;
- require customer service functions to be further unbundled into competitive and regulated services based on the APSC's determination that billing services be competitive as of retail open access;
- require operation of transmission facilities by an organization independent from the generation, distribution, and retail operations;
- provide for the determination of and mitigation measures for generation market power, which could require generation asset divestitures or other mitigation measures;
- allow for recovery of stranded and transition costs if the costs are approved by the APSC;
- allow for the securitization of approved stranded costs; and
- freeze residential and small business customer rates for three years by utilities that will recover stranded costs and one year for other utilities.

Entergy Arkansas filed separate generation, transmission, distribution, and customer service rates with the APSC in December 1999 and also filed notice of its intent to recover stranded costs. Should utilities that have filed notice of stranded cost recovery determine that, due to the delay in retail open access, stranded cost recovery is not required, notice of intent to withdraw from seeking stranded cost recovery must be filed by December 31, 2001. Entergy Arkansas' unbundled rates were based on the cost-of-service study that formed the basis of the rates included in the 1997 settlement agreement. In October 2000, a settlement agreement was filed settling all outstanding issues except one rate design issue. In December 2000, the APSC approved the unbundled rates as filed, approved the October 2000 settlement agreement, and ordered compliance tariffs be filed within 60 days. Bundled rates will continue to be effective until six months prior to retail open access.

The APSC and various participants in the industry, including Entergy Arkansas, are involved in the ongoing process of implementing the legislation through various rulemaking and other proceedings. Some rulemakings were suspended in late 2000 in anticipation of a delay in the target date for retail open access. In compliance with the provisions of the deregulation law and as a result of rulemakings concluded in 2000, Entergy Arkansas has:

- filed a functional, but not corporate, unbundling plan with the APSC in August 2000. The functional unbundling plan initially establishes separate business units for distribution, generation, and a new retail energy service provider. The plan contemplates the transfer of transmission assets to the Transco discussed herein. The functional unbundling plan is tentative because the regulatory requirements to implement the retail open access law have not been finalized, and changes to the plan are possible;
- filed a compliance plan in October 2000 detailing the specific procedures to ensure that the affiliate rules are implemented;
- filed unbundled compliance tariffs in February 2001;
- filed a market power study in October 2000 in accordance with the guidelines adopted by the APSC. The study included both wholesale generation and retail markets and examined vertical and horizontal market power issues. Due to the delay in retail open access, Entergy Arkansas will file an updated study in 2001 reflecting any changes in generation supply in the study region;
- agreed to file the stranded cost proceedings following the market power proceeding; and
- participated in various rulemakings related to standard service package offerings, the declaration of billing services as a competitive service, electronic data exchange, consumer education, and affiliate rules.

In June 2000, the APSC declared that billing would become a competitive service at the beginning of retail open access. In December 2000, the APSC issued an order requiring utilities to file further customer service costs from the competitive services costs. In May 2001, Entergy Arkansas will file further unbundled customer service rates to separate those costs associated with those billings services that were declared competitive as of retail open access from those customer services still regulated by the APSC.

In December 2000, Entergy Arkansas filed an application for approval to transfer Entergy Arkansas' transmission assets to an independent company (Transco). This transfer of transmission assets is to comply with establishing independent transmission operations in accordance with federal and state deregulation requirements. Entergy's Transco proposal is discussed in "Management's Financial Discussion and Analysis – Significant Factors and Known Trends – Open Access Transmission and Entergy's Transco Proposal."

Texas

In June 1999, the Texas legislature enacted a law providing for competition in the electric utility industry through retail open access. The law provides for retail open access by most investor-owned electric utilities, including Entergy Gulf States, on January 1, 2002. With retail open access, generation and a new retail electric provider operation will be competitive businesses, but transmission and distribution operations will continue to be regulated. The new retail electric provider will be the primary point of contact with customers. The provisions of the new law:

- require a rate freeze through December 31, 2001, with rates reduced by 6% beyond that for residential and small commercial customers of most incumbent utilities except Entergy Gulf States, whose rates are exempt from the 6% reduction requirement (these rates to residential and small commercial customers are known as the "Price to Beat," and they may be adjusted periodically after January 1, 2002, for fuel and purchased power costs according to PUCT rules);
- require utilities to charge the Price to Beat rates through 2004, or until 40% of customers in the jurisdiction have chosen an alternative supplier, whichever comes first, and to continue to make these rates available through 2006;
- require utilities to submit a plan to separate (unbundle) their generation, transmission and distribution, and retail electric provider functions, which Entergy Gulf States filed in January 2000 as discussed below;
- require utilities to comply with a code of conduct to ensure that utilities do not allow affiliates to have a business advantage over competitors;
- require operation in a non-discriminatory manner of transmission and distribution facilities by an organization independent from the generation and retail operations by the time competition is implemented;
- allow for recovery of stranded costs incurred in purchasing power and providing electric generation service if the costs are approved by the PUCT;
- allow securitization of regulatory assets and PUCT-approved stranded costs;
- provide for the determination of and mitigation measures for generation market power; and
- required utilities to file separated cost data and proposed transmission, distribution, and competition transition tariffs by April 1, 2000.

Entergy Gulf States filed its business separation plan with the PUCT in January 2000 to separate its functions, and amended that plan in June and December 2000. The plan provides that, by January 2002, Entergy Gulf States will be divided into a Texas distribution company, a Texas transmission company, a Texas generation company, at least two Texas retail electricity providers, and a Louisiana company that will encompass distribution, generation, transmission, and retail operations. In July 2000, the PUCT issued an interim order approving the amended business separation plan. The plan provides that the Louisiana company would retain the liability for all debt obligations of Entergy Gulf States and that the property of the Texas companies would be released from the lien of Entergy Gulf States' mortgage. Except for the Texas retail electric providers, each of the Texas companies would assume a portion of Entergy Gulf States' debt obligations, which assumptions would not act to release the Louisiana company's obligations. Except for the Texas retail electric providers, each of the Texas companies would also grant a lien on its properties in favor of the Louisiana company to secure its obligations to the Louisiana company in respect of the assumed obligations. In addition, under the plan, Entergy Gulf States will refinance or retire the Texas companies' portion of existing debt by the end of 2004.

Regulatory approvals from FERC, the SEC, and the LPSC, and final approval from the PUCT will be required before the business separation plan can be implemented. Remaining business separation issues in Texas subsequent to the July 2000 interim order will be addressed in the cost unbundling proceeding before the PUCT. The LPSC has opened a docket to identify the changes in corporate structure of Entergy Gulf States, and their potential impact on Louisiana retail ratepayers, resulting from restructuring in Texas and Arkansas. Entergy Gulf States filed testimony in that proceeding in August 2000. The LPSC staff filed testimony in that proceeding in October 2000 criticizing Entergy Gulf States' proposal, particularly the part related to the Texas portion of generation assets being transferred to an unregulated entity. Entergy Gulf States filed rebuttal testimony in December 2000. A procedural schedule has not been set.

Beginning January 1, 2002, the market power measures in the open access law will prohibit Entergy Gulf States from owning and controlling more than 20% of the installed generation capacity located in, or capable of delivering electricity to, a "power region," which is defined as a distinct region of the National Electric Reliability Council. In seeking PUCT approval of the Merger, Entergy and FPL Group are required to demonstrate that the merged company will not exceed this threshold. However, all the implications of this limit are uncertain for Entergy Gulf States and Entergy. It is possible that Entergy Gulf States could decide to divest some of its generation assets or seek to reduce transmission constraints if Entergy Gulf States is found to have generation market power in excess of this limit. The legislation also requires affected utilities to sell at auction entitlements to at least 15% of their installed generation capacity in Texas at least 60 days before January 1, 2002. The obligation to auction capacity entitlements continues for up to 60 months after January 1, 2002, or until 40% of current customers have chosen an alternative supplier, whichever comes first.

The PUCT and various participants in the industry are currently in the process of implementing the legislation through various rulemaking and other proceedings. The Provider of Last Resort (POLR) rule was approved by the PUCT in October 2000, requiring that such a provider exist in every area of the state and setting up the process by which such a provider will be selected and its services priced. The PUCT received bids in January 2001 from retail electric providers seeking to become the POLR in each area. The PUCT has stated its preference that the POLR not be the retail electric provider that is affiliated with the incumbent utility in the area. However, depending on the outcome of the bidding process, Entergy Gulf States' affiliate retail electric provider may be required to provide POLR service in Entergy Gulf States' service territory. This may have a material financial impact on the Entergy Gulf States retail electric provider depending on the terms and prices eventually approved by the PUCT for POLR service.

On March 31, 2000, pursuant to the Texas restructuring legislation, Entergy Gulf States filed cost data with the PUCT for its unbundled business functions and proposed tariffs for its unbundled distribution utility. In the filing, Entergy Gulf States is seeking approval for recovery of the following, among other things:

- the unbundled distribution utility's cost of service; and
- a ten-year nonbypassable charge to recover estimated stranded costs and a nonbypassable charge to recover nuclear decommissioning costs.

Also included in the proceeding is consideration of the treatment of the 30% share of River Bend acquired from Cajun, which Entergy Gulf States treats as an asset not subject to regulation by the PUCT.

On March 6, 2001, Entergy Gulf States filed with the PUCT a non-unanimous settlement agreement in the unbundled cost proceeding that establishes the distribution revenue requirement. The settlement agreement is between Entergy Gulf States, the PUCT Staff, and other parties. Pursuant to a generic rule prescribed by the PUCT, Entergy Gulf States' allowed return on equity will be 11.25%. The generic capital structure prescribed by the PUCT is 60% debt and 40% equity. Also in the settlement agreement, the parties agree that Entergy Gulf States' stranded costs and benefits are $0, and no charge to recover stranded costs will be implemented. A rider to recover nuclear decommissioning costs will be implemented. Hearings before the PUCT on approval of the settlement are scheduled to begin in April 2001. Management cannot predict the timing or outcome of this proceeding.

Louisiana

In March 1999, the LPSC deferred making a decision on whether competition in the electric industry is in the public interest. However, the LPSC staff, outside consultants, and counsel were directed to work together to analyze and resolve issues related to competition and then recommend a plan for its implementation to be considered by the LPSC. In January 2001, a draft response was circulated among interested parties. It is expected that, after a comment period, a final staff response will be presented to the LPSC in April 2001.

See above under "Texas" for discussion of the LPSC proceeding considering Entergy Gulf States business separation plan.

Mississippi

In May 2000, after two years of studies and hearings, the MPSC announced that it was suspending its docket studying the opening of the state's retail electricity markets to competition. The MPSC based its decision on its finding that competition could raise the electric rates paid by residential and small commercial customers. The final decision regarding the introduction of retail competition ultimately lies with the Mississippi Legislature, which is holding its 2001 session from January through March. Management cannot predict when, or if, Mississippi will deregulate its retail electricity market, but does not expect it to occur before 2003.

New Orleans

Entergy New Orleans filed an electric transition to competition plan in September 1997. This plan is similar to plans that were filed by the other domestic utility companies. No procedural schedule has been established for consideration of that plan by the Council.

In October 1998, the Council began proceedings to determine if natural gas retail competition is in the public interest. Advisors to the Council issued a final report that proposed various pilot programs and found that retail gas open access is not in the public interest at this time. The Council accepted an offer of settlement from Entergy New Orleans in this matter that allows for a voluntary pilot program for a limited number of large industrial non-jurisdictional gas customers.

RETAIL RATE PROCEEDINGS

Filings with the APSC

Entergy Arkansas is operating under the terms of a settlement agreement approved by the APSC in December 1997 that provides for the following:

- accelerated payment of Entergy Arkansas' Grand Gulf purchased power obligation in an amount totaling $165.3 million over the period from January 1999 to June 2004;
- collecting earnings in excess of an 11% return on equity in a transition cost account to offset stranded costs when retail access is implemented;
- a rate freeze until at least July 1, 2001; and
- rate decreases totaling $200 million over the two-year period 1998-1999. The net income effect from the rate reductions was approximately $22 million.

In June 2000, Entergy Arkansas filed an application to continue the stranded cost mitigation efforts agreed upon in the settlement agreement including the funding of a transition cost account and the accelerated amortization of the Grand Gulf obligation. In December 2000, the APSC approved a settlement agreement that directed Entergy Arkansas to do the following:

- seek FERC approval for the cessation of the accelerated payment of the Grand Gulf purchased power obligation as of July 1, 2001, and approval was applied for in February 2001; and
- continue the collection of excess earnings in a transition cost account at least through 2002.

Entergy Arkansas' 2000 operating expenses reflect reserves of $4.4 million ($2.7 million net of taxes) to record the final determination of 1999 excess earnings. Interest of $5.2 million ($3.2 million net of taxes) was also recorded in the transition cost account for 2000. As of December 31, 2000, the transition cost account balance was $119.6 million. Entergy Arkansas applied $17.5 million ($10.7 million net of tax) of 2000 excess earnings recorded in the third quarter 2000 against 2000 ice storm damage expenses. For additional information on the December 2000 ice storms in Arkansas, refer to "December 2000 Ice Storms" discussed below.

In March 2000, Entergy Arkansas filed its annually redetermined energy cost rate with the APSC in accordance with the energy cost recovery rider formula and special circumstances agreement. The filing reflected that an increase was warranted to collect an under-recovery of energy costs for 1999. The increased energy cost rate is effective April 2000 through March 2001.

In October 2000, the APSC ordered Entergy Arkansas to cease collection of funds to decommission ANO 1 and 2 for the calendar year 2001. Based on anticipated approval of Entergy's application with the NRC to extend the license of ANO 1 by 20 years, the APSC concluded that the funds previously collected will be sufficient to decommission the units. This decision will be reviewed annually and reflected in Entergy's Arkansas' filing of its annual determination of the nuclear decommissioning rate rider.

Filings with the PUCT and Texas Cities

Rate Proceedings — In June 1999, the PUCT approved a settlement agreement that Entergy Gulf States entered into in February 1999. The settlement agreement resolved Entergy Gulf States' 1996 and 1998 rate proceedings and all of the settling parties' pending appeals in other matters, except for the appeal in the River Bend abeyed cost recovery proceeding discussed below. The Office of Public Utility Counsel, an intervenor in the proceeding, has appealed certain aspects of this settlement to Travis County District Court. Entergy Gulf States cannot predict the impact of the appeal.

The settlement agreement provides for the following:

- an annual $4.2 million base rate reduction, effective March 1, 1999, which is in addition to the annual $69 million base rate reduction (net of River Bend accounting order deferrals) in the PUCT's second order on rehearing in October 1998;
- a methodology for semi-annual revisions of the fixed fuel factor through December 2001 based on the market price of natural gas;
- a base rate freeze through June 1, 2000 (extended in the Texas restructuring law through December 2001);
- amortization of the remaining River Bend accounting order deferrals as of January 1, 1999, over three years on a straight-line basis, and the accounting order deferrals will not be recognized in any subsequent base rate case or stranded cost calculation;
- the dismissal of all pending appeals of the settling parties relating to Entergy Gulf States' proceedings with the PUCT, except the River Bend abeyed plant costs appeal discussed below; and
- the potential recovery in the River Bend abeyed plant costs appeal is limited to $115 million net plant in service as of January 1, 2002, less depreciation over the remaining life of the plant beginning January 1, 2002, through the date the plant costs are included in rate base, and any such recovery will not be used to increase rates above the level agreed to in the settlement agreement (see "Recovery of River Bend Costs" in this note for further discussion).

As a result of the settlement agreement, in June 1999, Entergy Gulf States:

- removed from its balance sheet a $207.3 million deferred asset and the associated provision recorded for unrecovered purchased power costs and deferred revenue from NISCO, which had no net income impact on Entergy Gulf States;
- removed the reserve recorded in December 1997 for River Bend plant costs held in abeyance and reduced the plant asset, resulting in other income of $4.8 million; and
- removed the $93.9 million reserve recorded in 1998 for the amortization of River Bend accounting order deferrals to reflect the three-year amortization schedule detailed in the agreement. The income impact of this removal was largely offset by an increase in the rate of amortization of the accounting order deferrals.

In June 1999, the PUCT instituted a proceeding to consider the final adjustment of the rate refunds ordered as a result of Entergy Gulf States' November 1996 rate case. These refunds were required to occur over the 14-month period from August 1998 through September 1999. The PUCT issued an order in July 1999 adopting a calculation methodology which required Entergy Gulf States to refund an additional $25 million. This refund was recorded as a reduction in operating revenues. The PUCT approved the final refund and concluded the proceeding in June 2000.

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 June 1999, subsequent to the settlement agreement discussed above, Entergy Gulf States removed the reserve for River Bend plant costs held in abeyance and reduced the value of the plant asset. The settlement agreement limits potential recovery of the remaining plant asset, less depreciation, to $115 million, beginning January 1, 2002, through the date the plant costs are included in rate base, and any such recovery will not be used to increase rates above the level as agreed to in the settlement agreement. The settlement agreement also prohibits Entergy Gulf States from acting on its appeal until January 1, 2002. Based on advice of counsel, management believes that it is probable that the matter will be remanded again to the PUCT for a further ruling on the prudence of the abeyed plant costs and it is reasonably possible that some portion of these costs will be added to the net book value of the River Bend plant for regulatory purposes. However, no assurance can be given that additional reserves or write-offs will not be required in the future.

PUCT Fuel Cost Review — In September 1998, Entergy Gulf States filed an application with the PUCT for an increase in its fixed fuel factor and for a surcharge to Texas retail customers for the cumulative under-recovery of fuel and purchased power costs. The PUCT issued an order in December 1998 approving the implementation of a revised fuel factor and fuel and purchased power surcharge that would result in recovery of $112.1 million of under-recovered fuel costs, inclusive of interest, over a 24-month period. These increases were implemented in the first billing cycle in February 1999. North Star Steel Texas, Inc. has appealed the PUCT's order to the State District Court in Travis County, Texas. Entergy Gulf States cannot predict the outcome of this appeal.

Based on the settlement agreement discussed above, Entergy Gulf States adopted a methodology for calculating its fixed fuel factor based on the market price of natural gas. This calculation and any necessary adjustments began semi-annually as of March 1, 1999, and are scheduled to continue until December 2001, unless otherwise ordered by the PUCT. The calculation for the factor that was implemented in September 2000 showed that the fuel factor should be increased. This fuel factor increase was approved by the PUCT in August 2000. The amounts collected under Entergy Gulf States' fixed fuel factor are the subject of fuel reconciliation proceedings before the PUCT, including a fuel reconciliation case filed by Entergy Gulf States in January 2001. In connection with the implementation of restructuring in Texas, Entergy Gulf States anticipates that it will file a final fuel reconciliation in March 2003 for the period ending December 31, 2001.

Entergy Gulf States filed a fuel reconciliation case in July 1999 reconciling approximately $731 million (after excluding approximately $14 million related to Cajun issues to be handled in a subsequent proceeding) of fuel and purchased power costs incurred from July 1996 to February 1999. In February 2000, Entergy Gulf States reached a settlement with all but one of the parties to the proceeding. The settlement reduced Entergy Gulf States' requested surcharge in the reconciliation filing from $14.7 million to $2.2 million. In April 2000, the PUCT approved this settlement allowing Entergy Gulf States to recover the $2.2 million surcharge beginning with the April 2000 billing cycle and continuing until January 2001.

In September 1999, Entergy Gulf States filed an application with the PUCT requesting an interim fuel surcharge to collect under-recovered fuel and purchased power expenses incurred from March 1999 through July 1999. In December 1999, the PUCT approved the collection of $33.9 million over a five-month period beginning January 2000. An administrative appeal of the interim fuel surcharge was filed by certain cities in Travis County District Court. Entergy Gulf States cannot predict the outcome of this appeal. The fuel and purchased power expenses contained in this surcharge are subject to the current fuel reconciliation proceeding.

In September 2000, Entergy Gulf States requested an interim surcharge to collect the under-recovered fuel and purchased power expenses, including accrued interest, incurred from August 1999 through July 2000. In December 2000, the PUCT issued an order approving Entergy Gulf States' request for the collection of $79.0 million over an 11-month period beginning February 2001.

In January 2001, Entergy Gulf States filed a fuel reconciliation case covering the period from March 1, 1999 to August 31, 2000. Entergy Gulf States is reconciling approximately $583 million of fuel and purchased power costs. As part of this filing, Entergy Gulf States requested the collection of $28 million plus interest of under-recovered fuel and purchased power costs.

In March 2001, Entergy Gulf States filed an application with the PUCT requesting an interim surcharge to collect under-recovered fuel and purchased power expenses incurred from September 2000 through January 2001. Entergy Gulf States is requesting the recovery of $82 million, plus interest, from July through December 2001. The request is currently pending before the PUCT and an order is expected by June 2001. The fuel and purchased power expenses contained in this surcharge will be subject to future fuel reconciliation proceedings.

Filings with the LPSC

Annual Earnings Reviews — In June 2000, the LPSC approved a settlement between Entergy Gulf States and the LPSC staff to refund $83 million, including interest, resolving refund issues in Entergy Gulf States' second, third, fourth, and fifth post-merger earnings reviews filed with the LPSC in May 1995, 1996, 1997, and 1998, respectively. The refund was made over a three-month period beginning July 2000.

Although refund issues in the third, fourth, and fifth post-merger earnings reviews were resolved by the June 2000 settlement, certain prospective issues remained in dispute following the settlement. On remand from the Louisiana Supreme Court in the third earnings review, Entergy Gulf States' allowed return on common equity was reset at 10.83%. The fourth earnings review is currently on appeal at the Nineteenth Judicial District Court. A final decision from the LPSC in the fifth earnings review is expected in the first or second quarter of 2001.

In May 1999, Entergy Gulf States filed its sixth required post-merger earnings analysis with the LPSC. Hearings were held in February and June 2000. The timing of a final decision in the proceeding is not certain.

In May 2000, Entergy Gulf States filed its seventh required post-merger earnings analysis with the LPSC. This filing will be subject to review by the LPSC, which may result in a change in rates. Entergy Gulf States also is proposing that the allowed return on common equity be increased to 11.60%. Hearings are scheduled for April 2001.

Formula Rate Plan Filings — In May 1997, Entergy Louisiana made its second annual performance-based formula rate plan filing with the LPSC for the 1996 test year. This filing resulted in a total rate reduction of approximately $54.5 million, which was implemented in July 1997. At the same time, rates were reduced by an additional $0.7 million and by an additional $2.9 million effective March 1998. Upon completion of the hearing process in December 1998, the LPSC issued an order requiring an additional rate reduction and refund, although the resulting amounts were not quantified. Entergy Louisiana has appealed this order and obtained a preliminary injunction pending a final decision on appeal.

In April 1999, Entergy Louisiana submitted its fourth annual performance-based formula rate plan filing for the 1998 test year. A rate reduction of $15.0 million was implemented effective August 1, 1999. In May 2000, the LPSC ordered a $6.4 million refund. This refund was made in July 2000.

In May 2000, Entergy Louisiana submitted its fifth annual performance-based formula rate plan filing for the 1999 test year. As a result of this filing, Entergy Louisiana implemented a $24.8 million base rate reduction in August 2000. Entergy Louisiana is proposing to increase prospectively the allowed return on common equity from 10.5 % to 11.6%, which, if approved, would reduce the amount of any rate reduction implemented. This filing will be subject to review by the LPSC. A procedural schedule has not yet been established by the LPSC.

As approved by the LPSC, Entergy Louisiana will continue its annual performance-based formula rate plan filings for an additional year with a filing to be made in April 2001.

Fuel Adjustment Clause Litigation — In May 1998, a group of ratepayers filed a complaint against Entergy Corporation, Entergy Power, and Entergy Louisiana in state court in Orleans Parish purportedly on behalf of all Entergy Louisiana ratepayers. The plaintiffs seek treble damages for alleged injuries arising from alleged violations by the defendants of Louisiana's antitrust laws in connection with the costs included in fuel filings with the LPSC and passed through to ratepayers. Among other things, the plaintiffs allege that Entergy Louisiana improperly introduced certain costs into the calculation of the fuel charges, including high-cost electricity imprudently purchased from its affiliates and high-cost gas imprudently purchased from independent third party suppliers. In addition, plaintiffs seek to recover interest and attorneys' fees. Plaintiffs also requested that the LPSC initiate a review of Entergy

Louisiana's monthly fuel adjustment charge filings and force restitution to ratepayers of all costs that the plaintiffs allege were improperly included in those fuel adjustment filings. A few parties have intervened in the LPSC proceeding. In direct testimony, plaintiffs purport to quantify many of their claims for the period 1989 through 1998 in an amount totaling $544 million, plus interest.

Entergy Louisiana has reached an agreement in principle with the LPSC staff for the settlement of the matter before the LPSC and has executed a definitive agreement with the plaintiffs for the settlement of the matter before the LPSC and the state court. The LPSC approved the settlement agreement following a fairness hearing before an ALJ in November 2000. Plaintiffs have sought class certification and approval of the settlement by the state court, and a hearing on those issues is scheduled for April 2001.

Under the terms of the settlement agreement, Entergy Louisiana agrees to refund to customers approximately $72 million to resolve all claims arising out of or relating to Entergy Louisiana's fuel adjustment clause filings from January 1, 1975, through December 31, 1999, except with respect to purchased power and associated costs included in the fuel adjustment clause filings for the period May 1 through September 30, 1999. Entergy Louisiana previously provided reserves for the refund. Under the terms of the settlement, Entergy Louisiana also consents to future fuel cost recovery under a long-term gas contract based on a formula that would likely result in an under-recovery of actual costs under that contract for the remainder of its term, which runs through 2013. The future under-recovery cannot be precisely estimated at this time because it will depend upon factors that are not certain, such as the price of gas and the amount of gas purchased under the long-term contract. In recent years, Entergy Louisiana has made purchases under that contract totaling from $91 million to $121 million annually. Had the proposed settlement terms been applicable to such purchases, the under-recoveries would have ranged from $4 million to $9 million per year.

Filings with the MPSC

Formula Rate Plan Filings — In March 2000, Entergy Mississippi submitted its annual performance-based formula rate plan for the 1999 test year. The filing indicated that no change in rate levels was warranted and the current rate levels remain in effect.

In March 1999, Entergy Mississippi submitted its annual performance-based formula rate plan filing for the 1998 test year. In April 1999, the MPSC approved a prospective rate reduction of $13.3 million, effective May 1999. In June 1999, Entergy Mississippi revised its March 1999 filing to include a portion of refinanced long-term debt not included in the original filing. This revision resulted in an additional rate reduction of approximately $1.5 million, effective July 1999.

MPSC Fuel Cost Review — In December 2000, the MPSC approved an increase in Entergy Mississippi's energy cost recovery rider to collect the under-recovered fuel and purchased power costs incurred as of September 30, 2000. The recovery of $136.7 million, plus carrying charges, will occur over a 24-month period effective with the first billing cycle of January 2001. As approved by the MPSC, Entergy Mississippi will be making quarterly energy cost recovery filings beginning in January 2001 to reflect under-recovered fuel and purchased power costs from the second prior calendar quarter.

Filings with the Council

1997 Settlement — Entergy New Orleans submitted its cost of service and revenue requirement filing in September 1997 to the Council. In connection with this filing, Entergy New Orleans filed a settlement agreement with the Council, which was approved in November 1998. The settlement agreement required the following:

- base rate reductions for Entergy New Orleans' electric customers of $7.1 million effective January 1, 1999, $3.2 million effective October 1, 1999, and $16.1 million effective October 1, 2000;
- a base rate reduction for Entergy New Orleans' gas customers of $1.9 million effective January 1999; and
- no base rate increases prior to October 1, 2001.

Natural Gas — The Council held hearings in May 1999 regarding the prudence of Entergy New Orleans' natural gas purchasing practices. Entergy New Orleans made an offer to settle this matter in conjunction with the offer to settle the gas retail open access issue, and the offer was accepted by the Council. Management has provided adequate reserves for the outcome of this proceeding.

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 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. Exceptions to the plaintiffs' allegations were filed by Entergy, asserting, among other things, that jurisdiction over these issues rests with the Council and FERC. If necessary, at the appropriate time, Entergy will also raise its defenses to the antitrust claims. At present, the suit in state court is stayed by stipulation of the parties.

Plaintiffs also filed this complaint with the Council in order to initiate a review by the Council of the plaintiffs' allegations and to force restitution to ratepayers of all costs they allege were improperly and imprudently included in the fuel adjustment filings. Discovery has begun in the proceedings before the Council. In April 2000, testimony was filed on behalf of the plaintiffs in this proceeding. The testimony asserts, among other things, that Entergy New Orleans and other defendants have engaged in fuel procurement and power purchasing practices that could have resulted in New Orleans customers being overcharged by more than $59 million over a period of years.

However, it is not clear precisely what periods and damages are being alleged. Entergy intends to defend this matter vigorously, both in court and before the Council. Hearings will be held in October 2001. The ultimate outcome of the lawsuit and the Council proceeding cannot be predicted at this time.

PURCHASED POWER FOR SUMMER 2000

The domestic utility companies filed applications with the APSC, the LPSC, the MPSC, and the Council to approve the sale of power by Entergy Gulf States from its unregulated, undivided 30% interest in River Bend formerly owned by Cajun to the other domestic utility companies during the summer of 2000. In addition, Entergy Gulf States and Entergy Louisiana filed an application with the LPSC for authorization to purchase capacity and electric power from third parties for the summer of 2000. The commissions and Council approved the applications, with a reservation of their right to review the prudence of the purchases and the appropriate categorization of the costs as either capacity or energy charges for purposes of recovery.

The LPSC reviewed the purchases and found that Entergy Louisiana's and Entergy Gulf States' costs were prudently incurred, but decided that approximately 34% of the costs should be categorized as capacity charges, and therefore should be recovered through base rates and not through the fuel adjustment clause. In November 2000, the LPSC ordered refunds of $11.1 million for Entergy Louisiana and $3.6 million for Entergy Gulf States, for which adequate reserves have been made. These costs categorized as capacity charges will be included in the costs of service used to determine the base rates of those companies.

RIVER BEND COST DEFERRALS

Entergy Gulf States was amortizing $182 million of River Bend operating and purchased power costs, depreciation, and accrued carrying charges over a 20-year period. In accordance with the June 1999 Texas settlement agreement discussed above, Entergy Gulf States reduced these deferred costs by $93.9 million, for which adequate reserves had been recorded. Entergy Gulf States also was allowed to amortize the remainder of the accelerated balance as of January 1, 1999, over three years on a straight-line basis ending December 31, 2001.

GRAND GULF 1 DEFERRALS AND RETAINED SHARES

Under the settlement agreement entered into with the APSC in 1985 and amended in 1988, Entergy Arkansas retains 22% of its 36% share of Grand Gulf 1-related costs and recovers the remaining 78% of its share in rates. In the event that Entergy Arkansas is not able to sell its retained share to third parties, it may sell such energy to its retail customers at a price equal to its avoided energy cost, which is currently less than Entergy Arkansas' cost of energy from its retained share.

In a series of LPSC orders, court decisions, and agreements from late 1985 to mid-1988, Entergy Louisiana was granted rate relief with respect to costs associated with Entergy Louisiana's share of capacity and energy from Grand Gulf 1, subject to certain terms and conditions. Entergy Louisiana retains and does not recover from retail ratepayers 18% of its 14% share of the costs of Grand Gulf 1 capacity and energy and recovers the remaining 82% of its share in rates. Entergy Louisiana is allowed to recover through the fuel adjustment clause 4.6 cents per KWH for the energy related to its retained portion of these costs. Non-fuel operation and maintenance costs for Grand Gulf 1 are recovered through Entergy Louisiana's base rates. Alternatively, Entergy Louisiana may sell such energy to nonaffiliated parties at prices above the fuel adjustment clause recovery amount, subject to the LPSC's approval.

Under various rate settlements with the Council in 1986, 1988, and 1991, Entergy New Orleans agreed to absorb and not recover from ratepayers a total of $96.2 million of its Grand Gulf 1 costs. Entergy New Orleans was permitted to implement annual rate increases in decreasing amounts each year through 1995, and to defer certain costs and related carrying charges for recovery on a schedule extending from 1991 through 2001. As of December 31, 2000, the uncollected balance of Entergy New Orleans' deferred costs was $11 million.

FERC SETTLEMENT

In November 1994, FERC approved an agreement settling a long-standing dispute involving income tax allocation procedures of System Energy. In accordance with the agreement, System Energy will refund a total of approximately $62 million, plus interest, to Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans through June 2004. System Energy also reclassified from utility plant to other deferred debits approximately $81 million of other Grand Gulf 1 costs. Although such costs are excluded from rate base, System Energy is amortizing and recovering these costs over a 10-year period. Interest on the $62 million refund and the loss of the return on the $81 million of other Grand Gulf 1 costs will reduce Entergy's and System Energy's net income by approximately $10 million annually.

PROPOSED RATE INCREASE

System Energy applied to FERC in May 1995 for a $65.5 million rate increase. The request sought changes to System Energy's rate schedule, including increases in the revenue requirement associated with decommissioning costs, the depreciation rate, and the rate of return on common equity. The request also includes a proposed change in the accounting recognition of nuclear refueling outage costs from that of expensing those costs as incurred to the deferral and amortization method described in Note 1 to the consolidated financial statements. In December 1995, System Energy implemented the $65.5 million rate increase, subject to refund, for which a portion has been reserved. After holding hearings in 1996, a FERC ALJ found that portions of System Energy's request should be rejected, including a proposed increase in return on common equity from 11% to 13% and a requested change in decommissioning cost methodology. The ALJ recommended a decrease in the return on common equity from 11% to 10.8%. Other portions of System Energy's request for a rate increase were approved by the ALJ.

After a hearing, FERC issued an order in July 2000 in the proceeding. FERC affirmed the ALJ's adoption of a 10.8% return on equity, but modified the return to reflect changes in capital market conditions since the ALJ's decision. FERC adjusted the rate of return to 10.58% for the period December 1995 to the date of FERC's decision, and prospectively adjusted the rate of return to 10.94% from the date of FERC's decision. FERC's decision also changed other aspects of System Energy's proposed rate schedule, including the depreciation rate and decommissioning costs and their methodology.

System Energy has provided reserves for a potential refund to the rate level of the initial ALJ decision, including interest. Management has analyzed the effect of FERC's decision, and, given the reserve in place, has concluded that a refund to the FERC decision rate level is not expected to have a material adverse effect on Entergy's, System Energy's, or the domestic utility companies' results of operations. System Energy has filed a request for rehearing of FERC's order, which defers any refunds until after further FERC action.

Entergy Mississippi's allocation of the proposed System Energy wholesale rate increase is $21.6 million annually. In July 1995, Entergy Mississippi filed a schedule with the MPSC that defers the retail recovery of the System Energy rate increase. The deferral plan, which was approved by the MPSC, began in December 1995, the effective date of the System Energy rate increase, and will end after the issuance of a final order by FERC. Under this plan, the deferral period was anticipated to have ended by September 1998, and the deferred amount would have been amortized over 48 months beginning in October 1998. Entergy Mississippi filed a revised deferral plan with the MPSC in August 1998 that provided for recovery, effective with October 1998 billings, of $11.8 million of the System Energy rate increase that was approved by the FERC ALJ's initial decision in July 1996. The $11.8 million was being amortized over the original 48-month period, which began in October 1998. In August 2000, as a result of the July 2000 FERC Order and Entergy's request for rehearing, Entergy Mississippi filed a second revised deferral plan with the MPSC that provides for a one year suspension of the recovery of the ALJ amount deferred prior to October 1998. The amount of System Energy's proposed increase in excess of the $11.8 million will also continue to be deferred until the issuance of a final order by FERC, or October 2002, whichever occurs first. These deferred amounts, plus carrying charges, will be amortized over a 36-month period beginning in October 2002.

Entergy New Orleans' allocation of the proposed System Energy wholesale rate increase is $11.1 million annually. In February 1996, Entergy New Orleans filed a plan with the Council to defer 50% of the amount of the System Energy rate increase. The deferral began in February 1996 and will end after the issuance of a final order by FERC.

GRAND GULF ACCELERATED RECOVERY TARIFF

In April 1998, FERC approved the GGART that Entergy Arkansas filed as part of the settlement agreement that the APSC approved in December 1997. The GGART was designed to allow Entergy Arkansas to pay down a portion of its Grand Gulf purchased power obligation in advance of the implementation of retail access in Arkansas. The GGART provides for the acceleration of $165.3 million of its obligation over the period January 1, 1999, through June 30, 2004. In December 2000, the APSC approved an amendment to the settlement agreement that directed Entergy Arkansas to seek FERC approval for the cessation of the GGART as of July 1, 2001. The settlement agreement with the APSC is discussed above in "Filings with the APSC."

In September 1998, FERC approved the GGART for Entergy Mississippi's allocable portion of Grand Gulf, which was filed with FERC in August 1998. The GGART provides for the acceleration of Entergy Mississippi's Grand Gulf purchased power obligation in an amount totaling $221.3 million over the period October 1, 1998, through June 30, 2004.

DECEMBER 2000 ICE STORMS

In mid- and late December 2000, two separate ice storms left 226,000 and 212,500 customers, respectively, without electric power in the Entergy Arkansas service area. The storms were the most severe natural disasters ever to affect Entergy Arkansas, causing damage to transmission and distribution lines, equipment, poles, and facilities. Of the $195 million of estimated storm-related costs, approximately $23 million were capitalized in 2000. Entergy Arkansas has applied 2000 excess earnings to offset some of these costs, and Entergy Arkansas intends to seek approval from the APSC for recovery of the remaining storm-related costs. Historically, the APSC has allowed recovery of costs associated with restoration of service from storms and other natural disasters.

3. INCOME TAXES

Income tax expenses for 2000, 1999, and 1998 consist of the following (in thousands):

For the years ended December 31,	2000	1999	1998
Current:			
Federal	$291,616	$452,568	$235,979
Foreign	11,555	27,730	28,156
State	51,293	65,834	67,163
Total	354,464	546,132	331,298
Deferred—net	150,018	(153,304)	(109,474)
Investment tax credit adjustments—net	(25,561)	(36,161)	44,911
Recorded income tax expense	$478,921	$356,667	$266,735

Entergy's total income taxes differ from the amounts computed by applying the statutory income tax rate to income before income taxes. The reasons for the differences for the years 2000, 1999, and 1998 are (in thousands):

For the years ended December 31,	2000	1999	1998
Computed at statutory rate (35%)	$416,443	$333,093	$368,327
Increases (reductions) in tax resulting from:			
State income taxes net of federal income tax effect	47,504	49,487	37,494
Depreciation	49,741	49,460	40,578
Amortization of investment tax credits	(23,783)	(29,015)	(21,285)
Flow-through/permanent differences	(18,495)	(8,042)	(3,570)
US tax on foreign income	1,472	(9,584)	108,194
Non-taxable gain on sale of foreign assets	—	—	(20,283)
Foreign subsidiary basis difference	—	—	(58,235)
Reduced rate on gain on sale of foreign assets	—	—	(56,712)
Change in UK statutory rate	—	—	(31,703)
Non-deductible franchise fees	—	—	7,315
Interest on perpetual instruments	—	—	(5,467)
Change in valuation allowance	—	(46,315)	(106,636)
Other—net	6,039	17,583	8,718
Total income taxes	$478,921	$356,667	$266,735
Effective income tax rate	40.3%	37.5%	25.3%

Significant components of net deferred tax liabilities as of December 31, 2000 and 1999 are as follows (in thousands):

	2000	1999
DEFERRED TAX LIABILITIES:		
Net regulatory liabilities	$(1,193,795)	$(1,268,257)
Plant-related basis differences	(3,073,388)	(3,041,135)
Rate deferrals	(159,147)	(77,652)
Other	(223,095)	(201,958)
Total	$(4,649,425)	$(4,589,002)
DEFERRED TAX ASSETS:		
Accumulated deferred investment tax credit	168,841	178,153
Net operating loss carryforwards	—	2,137
Capital loss carryforwards	39,091	62,754
Foreign tax credits	98,468	116,701
Alternative minimum tax credit	—	40,658
Sale and leaseback	229,169	230,690
Removal cost	105,842	108,572
Unbilled revenues	25,790	40,761
Pension-related items	27,554	32,734
Rate refund	152,408	142,984
Reserve for regulatory adjustments	117,437	124,078
Transition cost accrual	43,568	43,127
FERC Settlement	—	12,638
Other	259,938	161,074
Valuation allowance	(93,413)	(91,039)
Total	$ 1,174,693	$ 1,206,022
Net deferred tax liability	$(3,474,732)	$(3,382,980)

The valuation allowance is provided primarily against foreign tax credit carryforwards, which can be utilized against future United States taxes on foreign source income. If these carryforwards are not utilized, they will expire between 2001 and 2004.

At December 31, 2000, unremitted earnings of foreign subsidiaries were approximately $58.7 million. Since it is Entergy's intention to indefinitely reinvest these earnings, no U.S. taxes have been provided. Upon distribution of these earnings in the form of dividends or otherwise, Entergy could be subject to U.S. income taxes (subject to foreign tax credits) and withholding taxes payable to various foreign countries.

4. LINES OF CREDIT AND RELATED SHORT-TERM BORROWINGS

The short-term borrowings of the domestic utility companies and System Energy are limited to amounts authorized by the SEC. The current limits authorized are effective through November 30, 2001. In addition to borrowing from commercial banks, Entergy companies are authorized to borrow from the Entergy System Money Pool (money pool). The money pool is an inter-company borrowing arrangement designed to reduce the domestic utility companies' dependence on external short-term borrowings. Borrowings from the money pool and external borrowings combined may not exceed the SEC-authorized limits. The following are the SEC-authorized limits and borrowings from the money pool for the domestic utility companies and System Energy as of December 31, 2000 (there were no borrowings outstanding from external sources):

In millions	AUTHORIZED	OUTSTANDING BORROWINGS
Entergy Arkansas	$ 235	$30.7
Entergy Gulf States	340	—
Entergy Louisiana	225	—
Entergy Mississippi	103	33.3
Entergy New Orleans	35	5.7
System Energy	140	—
Total	$1,078	$69.7

Other Entergy companies have SEC authorization to borrow from Entergy Corporation through the money pool and from external sources in an aggregate principal amount up to $265 million. These Entergy companies had $153.2 million outstanding as of December 31, 2000, borrowed from the money pool. Some of these borrowings are restricted as to use and are collateralized by certain assets.

In May 2000, Entergy Corporation amended its 364-day bank credit facility, increasing the capacity from $250 million to $500 million, of which $387 million was outstanding as of December 31, 2000. The weighted-average interest rate on Entergy's outstanding borrowings as of December 31, 2000 and 1999, was 7.43% and 7.48%, respectively. The commitment fee for this facility is currently 0.15% of the line 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. There is further discussion of commitments for long-term financing arrangements in Note 7 to the consolidated financial statements.

Entergy Arkansas, Entergy Louisiana, and Entergy Mississippi each obtained 364-day credit facilities in 2001, and the lines have been fully drawn. Entergy Arkansas will primarily use the proceeds to pay for costs incurred in the December 2000 ice storms. Entergy Louisiana and Entergy Mississippi will use the proceeds for general corporate purposes and working capital needs. The facilities have variable interest rates, and the average commitment fee is 0.13%. The amounts and dates obtained for the facilities follow:

COMPANY	AMOUNT OF FACILITY	DATE OBTAINED
Entergy Arkansas	$ 63 million	January 31, 2001
Entergy Louisiana	$ 30 million	January 31, 2001
Entergy Mississippi	$ 25 million	February 2, 2001

In 2001, Entergy, Entergy Mississippi, and Entergy New Orleans requested an increase from the SEC in their current authorized short-term borrowing limits, which includes borrowings through the money pool. The increases requested are as follows:

COMPANY	CURRENT LIMIT	REQUESTED LIMIT
Entergy Mississippi	$103 million	$160 million
Entergy New Orleans	$ 35 million	$100 million
Other Entergy subsidiaries	$265 million	$420 million

The request will increase the current SEC-authorized short-term borrowing limits for the domestic utility companies and System Energy, which are effective through November 30, 2001, from $1.078 billion to $1.2 billion.

5. PREFERRED, PREFERENCE, AND COMMON STOCK

The number of shares authorized and outstanding, and dollar value of preferred and preference stock for Entergy as of December 31, 2000 and 1999, were:

	SHARES AUTHORIZED AND OUTSTANDING		TOTAL DOLLAR VALUE		CALL PRICE PER SHARE AS OF DECEMBER 31,
Dollars in thousands, as of December 31,	2000	1999	2000	1999	2000
PREFERENCE STOCK					
Cumulative, without par value:					
7.00% Series[(a)(b)]	—	6,000,000	—	$150,000	—
PREFERRED STOCK					
Without sinking fund:					
Cumulative, $100 par value:					
4.16%–5.56% Series	1,201,714	1,201,715	$120,172	$120,172	$102.50–$108.00
6.08%–8.56% Series	1,625,158	1,662,829	162,516	166,283	$100.00–$103.78
Cumulative, $25 par value:					
8.00%–9.68% Series	1,480,000	1,480,000	37,000	37,000	$25.00
Cumulative, $0.01 par value:					
$1.96 Series[(a)]	600,000	600,000	15,000	15,000	$25.00
Total without sinking fund	4,906,872	4,944,544	$334,688	$338,455	
With sinking fund:					
Cumulative, $100 par value:					
8.00% Series[(d)]	350,000	350,000	$35,000	$35,000	—
Adjustable Rate–A, 7.02%[(c)]	132,024	144,000	13,202	14,400	$100.00
Adjustable Rate–B, 7.03%[(c)]	175,562	202,500	17,556	20,250	$100.00
Total with sinking fund	657,586	696,500	$65,758	$69,650	
Fair Value of Preference Stock and Preferred Stock with sinking fund[(e)]			$63,775	$218,721	

(a) The total dollar value represents the liquidation value of $25 per share.

(b) These series became mandatorily redeemable on July 15, 2000.

(c) Represents weighted-average annualized rates for 2000.

(d) This series is not redeemable as of December 31, 2000, but becomes mandatorily redeemable on November 1, 2001.

(e) 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.

Changes in the preferred stock, with and without sinking fund, and preference stock of the domestic utility companies during the last three years were:

	NUMBER OF SHARES		
	2000	1999	1998
Preference stock retirements	(6,000,000)		
Preferred stock retirements			
$100 par value	(76,585)	(958,471)	(134,812)
$ 25 par value	—	(81,085)	(160,000)

Cash sinking fund requirements and mandatory redemptions for the next five years for preferred stock outstanding as of December 31, 2000, are (in millions): 2001 - $38.5, 2002 - $3.5, 2003 - $3.5, 2004 - $3.5, and 2005 - $3.5. Entergy Gulf States has the annual non-cumulative option to redeem, at par, additional amounts of certain series of its outstanding preferred stock.

Under the terms of the Merger Agreement, Entergy will use its commercially reasonable efforts to purchase in open market transactions $430 million of its common stock prior to the close of the Merger. As of December 31, 2000, Entergy has repurchased 4.2 million shares for an aggregate amount of $145.6 million after the signing of the Merger Agreement. Prior to the date of the Merger Agreement, Entergy had been repurchasing shares under two Board authorizations. In October 1998, the Board approved a plan for the repurchase of Entergy common stock through December 31, 2001, to fulfill the requirements of various compensation and benefit plans. This stock repurchase plan provided for open market purchases of up to 5 million shares for an aggregate consideration of up to $250 million. In July 1999, the Board approved the commitment of up to an additional $750 million for the repurchase of Entergy common stock through December 31, 2001. Shares were repurchased on a discretionary basis. Prior to the date of the Merger Agreement, Entergy had repurchased 25.3 million shares for an aggregate amount of $652.5 million under these two Board authorizations.

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), and certain other stock benefit plans. The Directors' Plan awards to nonemployee directors a portion of their compensation in the form of a fixed number of shares of Entergy Corporation previously repurchased common stock. Shares awarded under the Directors' Plan were 5,650 during 2000; 11,400 during 1999; and 5,100 during 1998.

During 2000, Entergy Corporation issued 89,425 shares of its previously repurchased common stock to satisfy stock options exercised and stock purchases under the Equity Ownership Plan. In addition, Entergy Corporation received proceeds of $2.0 million from the issuance of 89,894 shares of common stock under its dividend reinvestment and stock purchase plan during 2000.

The Equity Ownership Plan grants stock options, equity awards, and incentive awards to key employees of the domestic utility companies. The costs of equity and incentive awards are charged to income over the period of the grant or restricted period, as appropriate. In 2000, $14 million was charged to compensation expense. Stock options are granted at exercise prices not less than market value on the date of grant. The options granted prior to 1999 were generally exercisable six months from the date of grant, with the exception of 40,000 options granted on December 1, 1998, which became exercisable on January 1, 2000. The majority of options granted in 2000 and 1999 will become exercisable in equal amounts on each of the first three anniversaries of the date of grant. Options are not exercisable beyond ten years from the date of the grant.

In April 2000, the Board authorized the establishment of the Equity Awards Plan in substantially the same form as the Equity Ownership Plan. Equity awards and incentive awards earned under this plan will be 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. Performance units will earn the cash equivalent of the dividends paid during the performance period applicable to each plan. Beginning January 2001, most stock options will be granted under the Equity Awards Plan. Stock options under this plan will be granted on the same general terms as stock options granted under the Equity Ownership Plan.

Entergy does not recognize compensation expense for stock options issued with exercise prices at market value on the date of grant. The impact on Entergy's net income for each of the years 2000, 1999, and 1998 would have been $19.0 million, $15.5 million, and $278,000, respectively, had compensation cost for the stock options been recognized based on the fair value of options at the grant date for awards under the option plan. The impact on earnings per share for each of the years 2000 and 1999 would have been a reduction of $.08 and $.06, respectively. The impact on earnings per share for 1998 would have been less than $.01 per share.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following stock option weighted-average assumptions:

	2000	1999	1998
Stock price volatility	24.4%	20.3%	20.9%
Expected term in years	5	5	5
Risk-free interest rate	6.6%	4.7%	5.1%
Dividend yield	5.2%	4.0%	5.4%
Dividend payment	$1.20	$1.20	$1.58

To meet the requirements of the Employee Stock Investment Plan (ESIP), the SEC had authorized Entergy Corporation to issue or acquire, through March 31, 2000, up to 2,000,000 shares of its common stock to be held as treasury shares. The ESIP was authorized through the 1999 plan year ending March 31, 2000, and was not renewed for the 2000 plan year. Entergy Corporation could issue either treasury shares or previously authorized but unissued shares to satisfy ESIP requirements. Under the terms of the ESIP, employees could choose each year to have up to 10% of their regular annual salary (not to exceed $25,000) withheld to purchase Entergy's common stock at a purchase price equal to 85% of the lower of the market value on the first or last business day of the plan year ending March 31. Under the plan, the number of subscribed shares was 382,878 in 2000; 285,505 in 1999; and 294,108 in 1998.

The fair value of ESIP shares granted was estimated on the date of the grant using the Black-Scholes option-pricing model with expected ESIP weighted-average assumptions:

	2000	1999	1998
Stock price volatility	35.6%	20.9%	24.1%
Expected term in years	1	1	1
Risk-free interest rate	5.9%	4.6%	5.1%
Dividend yield	5.9%	4.3%	6.1%
Dividend payment	$1.20	$1.20	$1.80

The weighted-average fair value of those purchase rights granted was $3.39, $5.90, and $6.32 in 2000, 1999, and 1998 respectively. The impact on, or (benefit) to Entergy's net income would have been $1 million, ($3,086), and ($256,000) in 2000, 1999, and 1998, respectively, had compensation cost for the ESIP been determined based on the fair value at the grant date for awards under the ESIP. The impact on earnings per share for each of the years would have been less than $.01 per share.

Entergy sponsors the Savings Plan of Entergy Corporation and Subsidiaries (Savings Plan). The Savings Plan is a defined contribution plan covering eligible employees of Entergy and its subsidiaries who have completed certain service requirements. The Savings Plan provides that the employing Entergy subsidiary may make matching contributions to the plan in an amount equal to 50% of the participant's basic contribution, up to 6% of their salary, in shares of Entergy Corporation common stock. Entergy's subsidiaries' contributions to the Savings Plan, and any income thereon, are invested in shares of Entergy Corporation common stock. Effective January 1, 2001, participants in the Savings Plan may direct their matching contributions from the employing Entergy subsidiary in an amount equal to 50% of the employee's contribution to other investment funds. Employees who continue to direct their company-matching contributions to the purchase of shares of Entergy Corporation common stock will receive matching contributions in the amount of 75% of their basic contribution, which is limited to 6% of their salary. Entergy's subsidiaries contributed $16.1 million in 2000, $14.5 million in 1999, and $13.6 million in 1998 to the Savings Plan.

Stock option transactions are summarized as follows:

	2000		1999		1998	
	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Beginning-of-year balance	5,493,882	$29.48	901,639	$26.21	1,176,308	$25.12
Options granted	7,219,134	22.98	5,228,189	29.88	125,000	29.46
Options exercised	(920,077)	28.26	(213,084)	23.69	(350,169)	23.37
Options forfeited	(324,623)	28.29	(422,862)	30.38	(49,500)	28.56
End-of-year balance	11,468,316	$25.52	5,493,882	$29.48	901,639	$26.21
Options exercisable at year-end	1,641,062		601,307		861,639	
Weighted average fair value of options on date of grant	$4.30		$4.72		$4.11	

The following table summarizes information about stock options outstanding as of December 31, 2000:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	AS OF 12-31-00	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE-YEARS	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12-31-00	WEIGHTED-AVERAGE EXERCISE PRICE
$18 – $30	11,032,956	9.1	$25.28	1,466,774	$29.00
$30 – $40	435,360	7.5	$31.57	174,288	$32.58
$18 – $40	11,468,316	9.1	$25.52	1,641,062	$29.38

Near the end of January 2001, an additional 3,274,774 options became exercisable with a weighted-average exercise price of $25.32.

6. COMPANY-OBLIGATED REDEEMABLE PREFERRED SECURITIES

Entergy Arkansas Capital I, Entergy Louisiana Capital I, and Entergy Gulf States Capital I (Trusts) were established as financing subsidiaries of Entergy Arkansas, Entergy Louisiana, and Entergy Gulf States, respectively, for the purpose of issuing common and preferred securities. The Trusts issue Cumulative Quarterly Income Preferred Securities (Preferred Securities) to the public and issue common securities to their parent companies. Proceeds from such issues are used to purchase junior subordinated deferrable interest debentures (Debentures) from the parent company. The Debentures held by each Trust are its only assets. Each Trust uses interest payments received on the Debentures owned by it to make cash distributions on the Preferred Securities.

TRUSTS	DATE OF ISSUE	PREFERRED SECURITIES ISSUED	COMMON SECURITIES ISSUED	INTEREST RATE SECURITIES/ DEBENTURES	TRUST'S INVESTMENT IN DEBENTURES	FAIR MARKET VALUE OF PREFERRED SECURITIES AT 12-31-00
		(In millions)			(In millions)	
Arkansas Capital I	8-14-96	$60.0	$1.9	8.50%	$61.9	$57.6
Louisiana Capital I	7-16-96	$70.0	$2.2	9.00%	$72.2	$70.0
Gulf States Capital I	1-28-97	$85.0	$2.6	8.75%	$87.6	$83.3

The Preferred Securities of the Trusts mature in the years 2045 and 2046. The Preferred Securities are redeemable at 100% of their principal amount at the option of Entergy Arkansas, Entergy Louisiana, and Entergy Gulf States beginning in 2001 and 2002, or earlier under certain limited circumstances, including the loss of the tax deduction arising out of the interest paid on the Debentures. Entergy Arkansas, Entergy Louisiana, and Entergy Gulf States have, pursuant to certain agreements, fully and unconditionally guaranteed payment of distributions on the Preferred Securities issued by their respective trusts. Entergy Arkansas, Entergy Louisiana, and Entergy Gulf States are the owners of all of the common securities of their individual Trusts, which constitute 3% of each Trust's total capital.

7. LONG-TERM DEBT

The long-term debt of Entergy Corporation's subsidiaries as of December 31, 2000 and 1999, was (in thousands):

MATURITIES		INTEREST RATES			
FROM	TO	FROM	TO	2000	1999
MORTGAGE BONDS					
2000	2005	5.800%	8.500%	$2,455,109	$1,855,109
2006	2010	6.450%	8.000%	365,000	325,000
2011	2026	7.000%	8.940%	954,950	994,950
GOVERNMENTAL OBLIGATIONS[a]					
2000	2010	5.450%	8.250%	—	22,315
2011	2020	5.450%	9.000%	591,635	569,535
2021	2030	4.850%	8.000%	1,051,750	1,051,750
DEBENTURES					
2000	2000	7.380%	7.800%	—	75,000
Saltend Project Credit Facilities, average rate 6.70% due 2014				581,938	578,681
Damhead Creek Project Credit Facilities, average rate 6.55% due 2016				507,194	342,929
Note Payable to NYPA, non-interest bearing, due 2001–2015				744,405	—
Long-Term DOE Obligation (Note 9)				144,316	136,088
Waterford 3 Lease Obligation 7.45% (Note 10)				330,306	330,306
Grand Gulf Lease Obligation 7.02% (Note 10)				462,534	465,480
EP Edegel, Inc. Note Payable, 7.7%, due 2000				—	67,000
Other Long-Term Debt				23,596	10,391
Unamortized Premium and Discount—Net				(16,425)	(17,396)
Total Long-Term Debt				8,196,308	6,807,138
Less Amount Due Within One Year				464,215	194,555
Long-Term Debt Excluding Amount Due Within One Year				$7,732,093	$6,612,583
Fair Value of Long-Term Debt[b]				$7,342,810	$5,815,189

(a) Consists of pollution control bonds, certain series of which are secured by non-interest bearing first mortgage bonds.

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

For the years 2001, 2002, 2003, 2004, and 2005 Entergy Corporation's subsidiaries have long-term debt maturities (excluding lease obligations) and annual cash sinking fund requirements for debt outstanding as of December 31, 2000, totaling (in millions) $431, $667, $1,086, $584, and $365, respectively. In addition, other sinking fund requirements will be satisfied by cash or by certification of property additions at the rate of 167% of such requirements. The amounts associated with this provision total approximately $40.9 million for each of the years 2001-2005.

On January 31, 2001, Entergy Mississippi issued $70 million of 6.25% Series First Mortgage Bonds due February 1, 2003, and on February 23, 2001, Entergy New Orleans issued $30 million of 6.65% Series First Mortgage Bonds due March 1, 2004. Proceeds of these issuances will be used for general corporate purposes, including the retirement of short-term indebtedness incurred from money pool borrowings for capital expenditures and working capital needs.

Entergy Power Development Corporation (EPDC) maintains a credit facility of BPS45 million ($67.2 million) to finance the acquisition of the Damhead Creek project, to assist in the financing of the Saltend project, and for general corporate purposes in connection with the acquisition and development of power generation, distribution or transmission facilities. No cash advances were outstanding under this facility at December 31, 2000 and 1999. The interest rate on the facility was 6.55% and 5.88% as of December 31, 2000 and 1999, respectively. The commitment fee is 0.17% of the undrawn amount. As of December 31, 2000, EPDC had BPS40.3 million ($60.2 million) of letters of credit outstanding under the credit facility to support project commitments on the Saltend and Damhead Creek projects and for other development purposes. In February 2001, after the Damhead Creek project reached commercial operation, EPDC paid its equity commitment of BPS36.1 million ($53.9 million) on the project and cancelled the letter of credit securing that commitment. The amount of letters of credit outstanding under this facility was therefore reduced to BPS4.2 million ($6.3 million).

Saltend Cogeneration Company Limited (SCCL), an indirect wholly owned subsidiary of EPDC, maintains a BPS402.8 million ($601.4 million) non-recourse senior credit facility. This facility provides term loan facilities, cost overrun and working capital facilities, and contingent letter of credit and guarantee facilities to finance the construction and operation of the Saltend power plant. Borrowings under the senior credit facility are repayable over a 15-year period that began December 31, 2000. In addition, SCCL maintains a BPS68.2 million ($101.8 million) subordinated credit facility, which was drawn August 31, 2000. SCCL used the proceeds from the subordinated credit facility to repay a portion of the senior credit facility. The subordinated credit facility is repayable over a 10-year period that began December 31, 2000. All of the assets of SCCL are pledged as collateral under these two credit facilities. Under the facilities, SCCL's ability to make distributions of dividends, loans, or advances to EPDC is restricted by, among other things, the requirement to pay permitted project costs, make debt repayments, and maintain cash reserves.

In February 1998, SCCL entered into 15-year interest rate swap agreements for 85% of the debt outstanding under the bridge and term loan portion of its senior credit facility on an average fixed-rate basis of 6.44%. At December 31, 2000, SCCL had outstanding interest rate swap agreements totalling a notional amount of BPS296.9 million ($443.3 million). The mark-to-market valuation of the interest rate swap agreements at December 31, 2000, was a net liability of BPS11.1 million ($16.6 million).

Damhead Finance LDC (DFLDC), an indirect wholly owned subsidiary of EPDC, maintains a BPS463.4 million ($691.9 million) non-recourse senior credit facility. The facility provides bridge and term loan facilities, cost overrun and working capital facilities, and contingent letters of credit and guarantee facilities to finance the construction and operation of the Damhead Creek power plant. Borrowings under the senior credit facility are repayable over a 15-year period beginning December 31, 2001. DFLDC also maintains a BPS36.1 million ($53.9 million) subordinated credit facility, which was drawn in February 2001. DFLDC used the proceeds from the subordinated credit facility to repay a portion of the senior credit facility. The subordinated credit facility is payable over a ten-year period beginning December 31, 2001. After EPDC paid its equity commitment in February 2001, an equity bridge facility of BPS35.8 million ($53.5 million) under the senior credit facility was repaid. All of the assets of DFLDC are pledged as collateral under the senior credit facility and the subordinated credit facility. DFLDC's ability to make distributions of dividends, loans, or advances to EPDC is restricted by, among other things, the requirement to pay permitted project costs, make debt repayments, and maintain cash reserves.

In 2000, a subsidiary of DFLDC entered into 10-year interest rate swap agreements with an average fixed rate of 6.52% for approximately 80.9% of the debt outstanding under the senior term loan portion of the senior credit facility. At December 31, 2000, the interest rate swap agreements outstanding totalled a notional amount of BPS277.6 million ($414.5 million). The mark-to-market valuation of the interest rate swap agreements at December 31, 2000, was a net liability of BPS12.3 million ($18.4 million).

In November 2000, Entergy's domestic non-utility nuclear business purchased the FitzPatrick and Indian Point 3 power plants in a seller-financed transaction. Entergy issued notes to 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.

8. 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. Additionally, PUHCA prohibits Entergy Corporation's subsidiaries from making loans or advances to Entergy Corporation. As of December 31, 2000, Entergy Arkansas and Entergy Mississippi had restricted retained earnings unavailable for distribution to Entergy Corporation of $199.3 million and $15.8 million, respectively. In 2000, Entergy Corporation received dividend payments and returns of capital totaling $918.3 million from subsidiaries.

Under the Merger Agreement, Entergy can continue to pay dividends at existing levels with increases permitted up to 5% over the amount of the previous 12-month period. In October 2000 and January 2001, the Board declared quarterly dividends of $0.315 per share on Entergy's common stock. This dividend level is an increase of 5% over the dividend level for the 12-month period prior to the Merger Agreement.

9. COMMITMENTS AND CONTINGENCIES

CAPITAL REQUIREMENTS AND FINANCING

For the years 2001 through 2003, Entergy plans to spend $8.2 billion in a capital investment plan focused on improving service at the domestic utility companies and growing the global power development and domestic non-utility nuclear businesses. It is estimated that $2.6 billion will be spent by the domestic utility companies, $3.6 billion by the global power development business, and $2.0 billion by the domestic non-utility nuclear business. The capital investment plan is subject to modification based on the ongoing effects of transition to competition planning, the ability to recover regulated utility costs in rates, and the proposed business combination with FPL Group. Additionally, the plan is contingent upon the ability to access the capital necessary to finance the planned expenditures, and significant borrowings may be necessary to implement these capital spending plans. Capital expenditures (including nuclear fuel but excluding AFUDC) for Entergy are estimated at $3.2 billion in 2001, $2.5 billion in 2002, and $2.6 billion in 2003. Included in these totals are estimated construction expenditures for the domestic utility companies and System Energy as follows:

In millions	2001	2002	2003	TOTAL
Entergy Arkansas	$297	$200	$205	$702
Entergy Gulf States	$293	$216	$220	$729
Entergy Louisiana	$222	$175	$168	$565
Entergy Mississippi	$147	$128	$113	$388
Entergy New Orleans	$ 53	$ 46	$ 48	$147
System Energy	$ 41	$ 14	$ 12	$ 67

The domestic utility companies will mainly focus their planned spending on distribution and transmission projects that will support continued reliability improvements and transitioning to a more competitive environment.

The global power development business will mainly focus its planned spending on several merchant power plant projects either under construction or in the planning stages in the U.S. and Europe, including the purchase of gas turbines scheduled for delivery in 2001 through 2004 under an option to purchase obtained from GE Power Systems.

The domestic non-utility nuclear business will mainly focus its planned spending on the acquisition of U.S. nuclear power plants from other utilities, including the anticipated purchase in 2001, pending regulatory approvals, of the 957 MW Indian Point 2 nuclear power plant located in Westchester County, New York.

Entergy will also require $2.4 billion during the period 2001-2003 to meet long-term debt and preferred stock maturities and cash sinking fund requirements. Entergy plans to meet these requirements primarily with internally generated funds and cash on hand, supplemented by proceeds from the issuance of debt, outstanding credit facilities, and project financing. Certain domestic utility companies and System Energy may also continue the reacquisition or refinancing of all or a portion of certain outstanding series of preferred stock and long-term debt. See "Management's Financial Discussion and Analysis – Liquidity and Capital Resources" for additional discussion of Entergy's capital spending plans.

SALES WARRANTIES AND INDEMNITIES

In the Entergy London and CitiPower sales transactions, Entergy or its subsidiaries made certain warranties to the purchasers. These warranties include representations regarding litigation, accuracy of financial accounts, and the adequacy of existing tax provisions. Notice of a claim on the CitiPower warranties must have been given by December 2000, and Entergy's potential liability is limited to A$100 million ($56 million). Notice of a claim on the Entergy London warranties had to be given for certain items by December 1999, and for the tax warranties, must be given by June 30, 2001. Entergy's liability is limited to BPS1.4 billion ($2.1 billion) on certain tax warranties and BPS140 million ($209 million) on the remaining warranties relating to the Entergy London sale. No such notices have been received. Entergy has also agreed to maintain the net asset value of the subsidiary that sold Entergy London at $700 million through June 30, 2001. Management periodically reviews reserve levels for these warranties and believes it has adequately provided for the ultimate resolution of such matters as of December 31, 2000.

FUEL PURCHASE AGREEMENTS

Entergy Arkansas has long-term contracts for the supply of low-sulfur coal to White Bluff and Independence (which is also 25% owned by Entergy Mississippi). These contracts, which expire in 2002 and 2011, respectively, provide for approximately 85% of Entergy Arkansas' expected annual coal requirements. Additional requirements are satisfied by spot market purchases.

Entergy Gulf States has a contract for a supply of low-sulfur coal for Nelson Unit 6, which should be sufficient to satisfy the fuel requirements at Nelson Unit 6 through 2010. Effective April 1, 2000, Louisiana Generating LLC assumed ownership of Cajun's interest in the Big Cajun generating facilities. The management of Louisiana Generating LLC has advised Entergy Gulf States that it has executed coal supply and transportation contracts that should provide an adequate supply of coal for the operation of Big Cajun 2, Unit 3 for the foreseeable future.

In June 1992, Entergy Louisiana agreed to a 20-year natural gas supply contract. Entergy Louisiana agreed to purchase natural gas in annual amounts equal to approximately one-third of its projected annual fuel requirements for certain generating units. Annual demand charges associated with this contract are estimated to be $7.2 million. Such charges aggregate $87 million for the years 2001 through 2012.

Entergy's global power development business has entered into gas supply contracts at the project level to supply up to 100% of the gas requirements for the Saltend and Damhead Creek power plants located in the UK. Both contracts have 15-year terms and include a take-or-pay obligation for approximately 75% of the gas requirement for each plant.

SALES AGREEMENTS/POWER PURCHASES

In 1988, Entergy Gulf States entered into a joint venture with a primary term of 20 years with Conoco, Inc., Citgo Petroleum Corporation, and Vista Chemical Company (collectively the Industrial Participants). Under this joint venture, Entergy Gulf States' Nelson Units 1 and 2 were sold to Nelson Industrial Steam Company, a partnership consisting of the Industrial Participants and Entergy Gulf States. The Industrial Participants supply the fuel for the units, while Entergy Gulf States operates the units at the discretion of the Industrial Participants and purchases the electricity produced by the units. Entergy Gulf States purchased electricity from the joint venture totaling $62.8 million in 2000, $51.4 million in 1999, and $57.5 million in 1998.

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 $58.6 million in 2000, $70.3 million in 1999, and $77.8 million in 1998. If the maximum percentage (94%) of the energy is made available to Entergy Louisiana, current production projections would require estimated payments of approximately $88.8 million in 2001, and a total of $3.4 billion for the years 2002 through 2031. Entergy Louisiana currently recovers the costs of the purchased energy through its fuel adjustment clause.

In the purchase transaction with Boston Edison, Entergy entered into firm power purchase agreements with Boston Edison and other utilities that expire at the end of 2004. One hundred percent of Pilgrim's output is committed to those parties through 2001, and that commitment decreases to 50% by 2003. In the purchase transaction with NYPA, Entergy entered into firm power purchase agreements with NYPA that expire at the end of 2004. The Indian Point 3 power purchase agreement is for 100% of the plant's output. The FitzPatrick power purchase agreement is for 100% of the plant's output through 2003 and approximately 45% of the plant's output in 2004.

NUCLEAR INSURANCE

The Price-Anderson Act limits public liability of a nuclear plant owner for a single nuclear incident to approximately $9.5 billion. Protection for this liability is provided through a combination of private insurance (currently $200 million each for Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, System Energy, and Entergy's domestic non-utility nuclear business) and an industry assessment program. Under the assessment program, the maximum payment requirement for each nuclear incident would be $88.1 million per reactor, payable at a rate of $10 million per licensed reactor per incident per year. Entergy has eight licensed reactors, including Pilgrim, Indian Point 3, and FitzPatrick. As a co-licensee of Grand Gulf 1 with System Energy, South Mississippi Electric Power Agency (SMEPA), which owns the remaining 10% interest in Grand Gulf 1, would share 10% of this obligation. In addition, each owner/licensee of Entergy's eight nuclear units participates in a private insurance program that provides coverage for worker tort claims filed for bodily injury caused by radiation exposure. The program provides for a maximum assessment of approximately $24.8 million for the eight nuclear units in the event that losses exceed accumulated reserve funds.

Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, System Energy, and Entergy's domestic non-utility nuclear business are also members of certain insurance programs that provide coverage for property damage, including decontamination and premature decommissioning expense, to members' nuclear generating plants. As of December 31, 2000, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy were each insured against such losses up to $2.3 billion. Entergy's domestic non-utility nuclear business is insured for $1.115 billion in property damages under these insurance programs. In addition, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and Entergy's domestic non-utility nuclear business are members of an insurance program that covers certain replacement power and business interruption costs incurred due to prolonged nuclear unit outages. Under the property damage and replacement power/business interruption insurance programs, these Entergy subsidiaries could be subject to assessments if losses exceed the accumulated funds available to the insurers. As of December 31, 2000, the maximum amounts of such possible assessments were: Entergy Arkansas - $12.0 million; Entergy Gulf States - $9.4 million; Entergy Louisiana - $10.7 million; Entergy Mississippi - $0.7 million; Entergy New Orleans - $0.3 million; System Energy - $9.6 million, and Entergy's domestic non-utility nuclear business - $25.3 million. Under its agreement with System Energy, SMEPA would share in System Energy's obligation.

Entergy maintains property insurance for each of its nuclear units in excess of the NRC's minimum requirement for nuclear power plant licensees of $1.06 billion per site. NRC regulations provide that the proceeds of this insurance must be used, first, to 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.

SPENT NUCLEAR FUEL AND DECOMMISSIONING COSTS

Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, System Energy, and Entergy's domestic non-utility nuclear business provide for estimated future disposal costs for spent nuclear fuel in accordance with the Nuclear Waste Policy Act of 1982. The affected Entergy companies entered into contracts with the United States Department of Energy (DOE), whereby the DOE will furnish disposal service at a cost of one mill per net KWH generated and sold after April 7, 1983, plus a one-time fee for generation prior to that date. Entergy Arkansas is the only Entergy company that generated electricity with nuclear fuel prior to that date and has recorded a liability as of December 31, 2000, of approximately $144 million for the one-time fee. The fees payable to the DOE may be adjusted in the future to assure full recovery. Entergy's domestic non-utility nuclear business has accepted assignment of the Pilgrim, FitzPatrick, and Indian Point 3 spent fuel disposal contracts with the DOE previously held by Boston Edison and NYPA. Boston Edison and NYPA have paid or retained liability for the fees for all generation prior to the purchase dates of those plants. Entergy considers all costs incurred for the disposal of spent nuclear fuel, except accrued interest, to be proper components of nuclear fuel expense. Provisions to recover such costs have been or will be made by the domestic utility companies in applications to regulatory authorities.

Delays have occurred in the DOE's program for the acceptance and disposal of spent nuclear fuel at a permanent repository. Considerable uncertainty exists regarding the time frame under which the DOE will begin to accept spent fuel from Entergy facilities for storage or disposal.

Pending DOE acceptance and disposal of spent nuclear fuel, the owners of nuclear plants are responsible for their own spent fuel storage. Current on-site spent fuel storage capacity at Grand Gulf 1 and River Bend is estimated to be sufficient until approximately 2005 and 2003, respectively. The spent fuel pool at Waterford 3 was recently expanded through the replacement of the existing storage racks with higher density storage racks. This expansion should provide sufficient storage for Waterford 3 until after 2010. An ANO storage facility using dry casks began operation in 1996 and was expanded in 2000. Current on-site spent fuel storage capacity at ANO, including the current expansion, is estimated to be sufficient until approximately 2002. This facility will be further expanded as required. The spent fuel storage facility at Pilgrim is licensed to provide enough storage capacity until approximately 2012. FitzPatrick has sufficient spent fuel storage capacity until 2002, and additional dry cask storage capacity is being constructed that will provide sufficient storage capacity through 2004. FitzPatrick will begin accepting dry casks this year. Indian Point 3 currently has sufficient spent fuel storage capacity until approximately 2010.

During 2000, a contract was signed with a spent fuel storage provider to develop on-site dry cask storage capacity for ANO, River Bend, and potentially Grand Gulf. This additional capacity will meet the spent fuel storage requirements for those plants through at least 2005. In addition, a contract is in place to provide dry cask storage capacity for FitzPatrick through at least 2003, with further extensions possible.

Total approved decommissioning costs for rate recovery purposes as of December 31, 2000, for the domestic utility companies' nuclear power plants, excluding the co-owner share of Grand Gulf 1, are as follows:

In millions	TOTAL ESTIMATED APPROVED DECOMMISSIONING COSTS
ANO 1 and ANO 2	
(based on a 1998 cost study reflecting 1997 dollars)	$ 813.1
River Bend — Louisiana	
(based on a 1996 cost study reflecting 1996 dollars)	419.0
River Bend — Texas	
(based on a 1996 cost study reflecting 1996 dollars)	385.2
Waterford 3	
(based on a 1994 updated study in 1993 dollars)	320.1
Grand Gulf 1	
(based on a 1994 cost study using 1993 dollars)	365.9
Total	$2,303.3

Entergy Arkansas filed a request with the NRC for a 20-year life extension for ANO 1 in February 2000. In October 2000, the APSC ordered Entergy Arkansas to reflect 20-year license extensions in its determination of the ANO 1 and ANO 2 decommissioning revenue requirements for rates to be effective January 1, 2001. Entergy Arkansas will not recover decommissioning costs in 2001 for ANO 1 and 2 based on the assumption that the licenses will be extended and that the existing decommissioning trust funds, together with their expected future earnings, will meet the estimated decommissioning costs.

Entergy Louisiana prepared a decommissioning cost update for Waterford 3 in 1999 and produced a revised decommissioning cost update of $481.5 million. This cost update was filed with the LPSC in the third quarter of 2000.

In the Texas retail jurisdiction in a case filed with the PUCT in March 2000, Entergy Gulf States included River Bend decommissioning costs of $481.5 million based on a 1999 cost update amount of $525.8 million. PUCT substantive rules for rate requests for decommissioning limit the allowance for contingencies to 10%, although the actual estimate employs greater contingency amounts. In LPSC rate reviews filed in May 1999 and 2000, Entergy Gulf States included decommissioning costs based on a 1998 update of $562.7 million and a 1999 update of $525.8 million, respectively. The decommissioning liability for the 30% share of River Bend formerly owned by Cajun was funded by a transfer of $132 million to the River Bend Decommissioning Trust at the completion of Cajun's bankruptcy proceedings.

System Energy was previously recovering amounts through rates sufficient to fund $198 million (in 1989 dollars) of its Grand Gulf 1 decommissioning costs. System Energy included updated decommissioning costs (based on the 1994 study) in its pending rate increase filing with FERC. Rates requested in this proceeding were placed into effect in December 1995, subject to refund. In July 2000, FERC issued an order approving a lower decommissioning cost than what was requested by System Energy. System Energy filed a motion for rehearing, which has been granted, and System Energy continues to collect decommissioning revenue at the requested level. A 1999 decommissioning cost update of $540.8 million for Grand Gulf has not yet been filed with FERC.

As part of the Pilgrim purchase, Boston Edison funded a $471.3 million decommissioning trust fund, which was transferred to Entergy's domestic non-utility nuclear business. After a favorable tax determination regarding the trust fund, Entergy returned $43 million of the trust fund to Boston Edison. Based on cost estimates provided by an outside consultant, Entergy believes that Pilgrim's decommissioning fund will be adequate to cover future decommissioning costs for the Pilgrim plant without any additional deposits to the trust.

For the Indian Point 3 and FitzPatrick plants purchased in 2000, NYPA retains the decommissioning trusts and the decommissioning liability. NYPA and Entergy executed decommissioning agreements, which specify their respective obligations with respect to decommissioning. NYPA has the right, but not the obligation, to require Entergy to assume the decommissioning liability provided the corresponding decommissioning trust, up to a specified level, is assigned 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 respective trusts. Entergy believes that amounts available to it under either scenario are sufficient to cover the future decommissioning costs without any additional contributions to the trusts.

Entergy periodically reviews and updates estimated decommissioning costs. Although Entergy is presently under-recovering for Grand Gulf, Waterford 3, and River Bend based on the above estimates, applications have been and will continue to be made to the appropriate regulatory authorities to reflect projected decommissioning costs in rates.

Entergy amounts recovered in rates are deposited in trust funds and reported at market value based upon market quotes or as determined by widely used pricing services. These trust fund assets largely offset the accumulated decommissioning liability that is recorded as accumulated depreciation for Entergy Arkansas, Entergy Gulf States, and Entergy Louisiana, and are recorded as deferred credits for System Energy and Entergy's domestic non-utility nuclear business. The liability associated with the trust funds received from Cajun with the transfer of Cajun's 30% share of River Bend is also recorded as a deferred credit by Entergy Gulf States.

The cumulative liabilities and actual decommissioning expenses recorded in 2000 by Entergy were as follows:

In millions	CUMULATIVE LIABILITIES AS OF DEC. 31, 1999	2000 TRUST EARNINGS	2000 DECOMMISSIONING EXPENSES	CUMULATIVE LIABILITIES AS OF DEC. 31, 2000
ANO 1 and ANO 2	$ 271.7	$ 7.8	$ 3.8	$ 283.3
River Bend	203.5	5.8	6.2	215.5
Waterford 3	83.0	4.5	10.4	97.9
Grand Gulf 1	129.4	4.7	18.9	153.0
Pilgrim	434.8	—(a)	19.2	454.0
	$1,122.4	$22.8	$58.5	$1,203.7

(a) Trust earnings on the decommissioning trust fund for Pilgrim are recorded as income and, therefore, are not included in the decommissioning liability.

In 1999 and 1998, ANO's decommissioning expense was $10.7 million and $15.6 million, respectively; River Bend's decommissioning expense was $7.6 million and $3.4 million, respectively; Waterford 3's decommissioning expense was $8.8 million in both years; and Grand Gulf 1's decommissioning expense was $18.9 million in both years. Pilgrim's decommissioning expense was $6.8 million for 1999. The actual decommissioning costs may vary from the estimates because of regulatory requirements, changes in technology, and increased costs of labor, materials, and equipment.

The Energy Policy Act contains a provision that assesses domestic nuclear utilities with fees for the decontamination and decommissioning of the DOE's past uranium enrichment operations. The decontamination and decommissioning assessments are being used to set up a fund into which contributions from utilities and the federal government will be placed. Annual assessments (in 2000 dollars), which will be adjusted annually for inflation, are for 15 years and are approximately $4.0 million for Entergy Arkansas, $1.0 million for Entergy Gulf States, $1.5 million for Entergy Louisiana, and $1.7 million for System Energy. At December 31, 2000, six years of assessments were remaining. DOE fees are included in other current liabilities and other non-current liabilities and, as of December 31, 2000, recorded liabilities were $23.9 million for Entergy Arkansas, $4.2 million for Entergy Gulf States, $9.1 million for Entergy Louisiana, and $8.8 million for System Energy. Regulatory assets in the consolidated financial statements offset these liabilities. FERC requires that utilities treat these assessments as costs of fuel as they are amortized and recover these costs through rates in the same manner as other fuel costs.

ENVIRONMENTAL ISSUES

Entergy Arkansas has received notices from the United States Environmental Protection Agency (EPA) and the Arkansas Department of Environmental Quality (ADEQ) alleging that Entergy Arkansas, along with others, may be a potentially responsible party (PRP) for cleanup costs associated with a site in Arkansas. As of December 31, 2000, a remaining recorded liability of approximately $5.0 million existed related to the cleanup of that site.

Entergy Gulf States has been designated as a PRP for the cleanup of certain hazardous waste disposal sites. Entergy Gulf States is currently negotiating with the EPA and state authorities regarding the cleanup of these sites. Several class action and other suits have been filed in state and federal courts seeking relief from Entergy Gulf States and others for damages caused by the disposal of hazardous waste and for asbestos-related disease allegedly resulting from exposure on Entergy Gulf States' premises. While the amounts at issue in the cleanup efforts and suits may be substantial, Entergy Gulf States believes that its results of operations and financial condition will not be materially adversely affected by the outcome of the suits. As of December 31, 2000, a remaining provision of $16.8 million existed relating to the cleanup of the remaining sites at which the EPA has designated Entergy Gulf States as a PRP.

During 1993, the Louisiana Department of Environmental Quality (LDEQ) issued new rules for solid waste regulation, including regulation of wastewater impoundments. Entergy Louisiana and Entergy New Orleans have determined that certain of their power plant wastewater impoundments were affected by these regulations and have chosen to upgrade or close them. As a result, a remaining recorded liability in the amount of $5.8 million for Entergy Louisiana and $0.5 million for Entergy New Orleans existed at December 31, 2000, for wastewater upgrades and closures. Completion of this work is pending LDEQ approval.

EMPLOYMENT LITIGATION

Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and Entergy New Orleans 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, and/or sex. Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and Entergy New Orleans are vigorously defending these suits and deny any liability to the plaintiffs. However, no assurance can be given as to the outcome of these cases.

GRAND GULF 1-RELATED AGREEMENTS

Capital Funds Agreement

Entergy Corporation has agreed to supply System Energy with sufficient capital to (i) maintain System Energy's equity capital at an amount equal to a minimum of 35% of its total capitalization (excluding short-term debt), and (ii) permit the continued commercial operation of Grand Gulf 1 and pay in full all indebtedness for borrowed money of System Energy when due. In addition, under supplements to the Capital Funds Agreement assigning System Energy's rights as security for specific debt of System Energy, Entergy Corporation has agreed to make cash capital contributions to enable System Energy to make payments on such debt when due.

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

LITIGATION

In addition to those discussed above, Entergy and the domestic utility companies are involved in a number of legal proceedings and claims in the ordinary course of their business. While management is unable to predict the outcome of such litigation, it is not expected that the ultimate resolution of these matters will have a material adverse effect on results of operations, cash flows, or financial condition of these entities.

10. LEASES

General

As of December 31, 2000, Entergy had capital leases and non-cancelable operating leases for equipment, buildings, vehicles, and fuel storage facilities (excluding nuclear fuel leases and the sale and leaseback transactions) with minimum lease payments as follows (in thousands):

YEAR	CAPITAL LEASES	OPERATING LEASES
2001	$ 23,677	$ 86,573
2002	19,415	72,408
2003	19,415	58,730
2004	19,415	53,977
2005	10,380	44,170
Years thereafter	15,519	82,430
Minimum lease payments	$107,821	$398,288
Less:		
Amount representing interest	29,664	
Present value of net minimum lease payments	$ 78,157	

Rental expense for Entergy's leases (excluding nuclear fuel leases and the Grand Gulf 1 and Waterford 3 sale and leaseback transactions) amounted to approximately $53.3 million, $65.2 million, and $69.4 million, in 2000, 1999, and 1998, respectively. In addition to the above rental expense, Entergy Arkansas and Entergy Gulf States railcar operating lease payments, which are recorded in fuel expense, amounted to approximately $13.7 million and $2.7 million, respectively, for each of the years 2000, 1999, and 1998. The railcar lease payments are recorded as fuel expense in accordance with regulatory treatment.

NUCLEAR FUEL LEASES

As of December 31, 2000, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy each had arrangements to lease nuclear fuel in an aggregate amount up to $135 million, $115 million, $90 million, and $100 million, respectively. As of December 31, 2000, the unrecovered cost base of Entergy Arkansas', Entergy Gulf States', Entergy Louisiana's, and System Energy's nuclear fuel leases amounted to approximately $107.0 million, $57.5 million, $63.9 million, and $49.3 million, respectively. 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 have termination dates of November 2003, November 2003, January 2002, and November 2003, respectively. Such 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 March 15, 2002. 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.

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 in 2000, 1999, and 1998 were $158.7 million (including interest of $19.9 million), $137.8 million (including interest of $14.5 million), and $158.8 million (including interest of $16.6 million), respectively.

SALE AND LEASEBACK TRANSACTIONS

In 1988 and 1989, System Energy and Entergy Louisiana, respectively, sold and leased back portions of their ownership interests in Grand Gulf 1 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 March 20, 2003.

Entergy Louisiana did not exercise its option to repurchase the undivided interests in Waterford 3 in September 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 principal 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. The lease payments have been reduced to reflect the lower interest costs.

As of December 31, 2000, System Energy and Entergy Louisiana had future minimum lease payments, recorded as long-term debt (reflecting an overall implicit rate of 7.02% and 7.45%, respectively) as follows (in thousands):

YEAR	SYSTEM ENERGY	ENTERGY LOUISIANA
2001	$ 46,803	$ 40,909
2002	53,827	39,246
2003	48,524	59,709
2004	36,133	31,739
2005	52,253	14,554
Years thereafter	522,529	426,136
Total	760,069	612,293
Less: Amount representing interest	297,535	281,987
Present value of net minimum lease payments	$462,534	$330,306

11. RETIREMENT AND OTHER POSTRETIREMENT BENEFITS

PENSION PLANS

Entergy has five postretirement benefit plans, "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," and "Entergy Corporation Retirement Plan III" covering substantially all of its domestic 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.

Total 2000, 1999, and 1998 pension cost of Entergy, including amounts capitalized, included the following components (in thousands):

	2000	1999	1998
Service cost – benefits earned during the period	$ 37,130	$ 39,327	$ 45,470
Interest cost on projected benefit obligation	108,782	104,591	192,132
Expected return on plan assets	(145,717)	(130,535)	(233,058)
Amortization of transition asset	(9,740)	(9,740)	(9,740)
Amortization of prior service cost	12,953	11,362	11,459
Recognized net gain	(8,576)	—	—
Net pension cost (income)	$ (5,168)	$ 15,005	$ 6,263

The funded status of Entergy's various pension plans as of December 31, 2000 and 1999 was (in thousands):

	2000	1999
CHANGE IN PROJECTED BENEFIT OBLIGATION (PBO)		
Balance at beginning of year	$1,499,601	$1,553,251
Service cost	37,130	39,327
Interest cost	108,782	104,591
Amendment	18,376	—
Actuarial gain	(32,916)	(126,715)
Benefits paid	(85,185)	(80,580)
Acquisitions	56,884	9,727
Balance at end of year	$1,602,672	$1,499,601
CHANGE IN PLAN ASSETS		
Fair value of assets at beginning of year	$1,965,178	$1,791,192
Actual return on plan assets	(40,047)	241,460
Employer contributions	3,083	13,106
Employee contributions	86	—
Benefits paid	(85,185)	(80,580)
Fair value of assets at end of year	$1,843,115	$1,965,178
Funded status	$ 240,443	$ 465,577
Unrecognized transition asset	(10,094)	(17,446)
Unrecognized prior service cost	44,223	30,092
Unrecognized net gain	(328,642)	(483,741)
Accrued pension cost	$ (54,070)	$ (5,518)

OTHER POSTRETIREMENT BENEFITS

Entergy also 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.

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 and $128 million for Entergy (other than Entergy Gulf States) and for Entergy Gulf States, respectively. Such obligations are being amortized over a 20-year period which began in 1993.

Entergy Arkansas, the portion of Entergy Gulf States regulated by the PUCT, Entergy Mississippi, and Entergy New Orleans have received regulatory approval to recover SFAS 106 costs through rates. Entergy Arkansas began recovery in 1998, pursuant to an APSC order. This order also allowed Entergy Arkansas to amortize a regulatory asset (representing the difference between SFAS 106 costs and cash expenditures for other postretirement benefits incurred for a five-year period that began January 1, 1993) over a period of 15 years beginning in January 1998.

The LPSC ordered the portion of Entergy Gulf States regulated by the LPSC and Entergy Louisiana to continue the use of the pay-as-you-go method for ratemaking purposes for postretirement benefits other than pensions. However, the LPSC retains the flexibility to examine individual companies' accounting for postretirement benefits to determine if special exceptions to this order are warranted.

Pursuant to regulatory directives, Entergy Arkansas, Entergy Mississippi, Entergy New Orleans, the portion of Entergy Gulf States regulated by the PUCT, and System Energy fund postretirement benefit obligations collected in rates. System Energy is funding on behalf of Entergy Operations postretirement benefits associated with Grand Gulf 1. Entergy Louisiana and Entergy Gulf States continue to recover a portion of these benefits regulated by the LPSC and FERC on a pay-as-you-go basis. The assets of the various postretirement benefit plans other than pensions include common stocks, fixed-income securities, and a money market fund.

Total 2000, 1999, and 1998 postretirement benefit costs of Entergy Corporation and its subsidiaries, including amounts capitalized and deferred, included the following components (in thousands):

	2000	1999	1998
Service cost – benefits earned during the period	$ 18,252	$16,950	$13,878
Interest cost on APBO	34,022	29,467	28,443
Expected return on assets	(10,566)	(8,208)	(5,260)
Amortization of transition obligation	17,874	17,874	17,874
Amortization of prior service cost	520	44	44
Recognized net gain	(3,070)	(1,452)	(3,501)
Net postretirement benefit cost	$ 57,032	$54,675	$51,478

The funded status of Entergy's postretirement plans as of December 31, 2000 and 1999, was (in thousands):

	2000	1999
CHANGE IN APBO		
Balance at beginning of year	$ 429,772	$ 444,509
Service cost	18,252	16,950
Interest cost	34,022	29,467
Amendment	5,691	—
Actuarial (gain)/loss	34,759	(40,202)
Benefits paid	(33,238)	(25,881)
Acquisitions	18,498	4,929
Balance at end of year	$ 507,756	$ 429,772
CHANGE IN PLAN ASSETS		
Fair value of assets at beginning of year	$ 120,208	$ 89,579
Actual return on plan assets	3,719	7,134
Employer contributions	52,339	43,576
Benefits paid	(33,238)	(25,881)
Acquisitions	10	5,800
Fair value of assets at end of year	$ 143,038	$ 120,208
Funded status	$(364,718)	$(309,564)
Unrecognized transition obligation	137,669	149,141
Unrecognized prior service cost	5,506	335
Unrecognized net (gain)/loss	18,900	(19,374)
Accrued postretirement benefit liability	$(202,643)	$(179,462)

The assumed health care cost trend rate used in measuring the APBO of Entergy was 7.5% for 2001, gradually decreasing each successive year until it reaches 5.0% in 2006 and beyond. A one percentage point increase in the assumed health care cost trend for 2000 would have increased the APBO and the sum of the service cost and interest cost of Entergy as of December 31, 2000, by approximately $42.4 million and $7.0 million, respectively. A one percentage point decrease in the assumed health care cost trend rate for 2000 would have decreased the APBO and the sum of the service cost and interest cost of Entergy as of December 31, 2000, by approximately $35.8 million and $5.7 million, respectively.

The significant actuarial assumptions used in determining the pension PBO and the SFAS 106 APBO for 2000, 1999, and 1998 were as follows:

	2000	1999	1998
Weighted-average discount rate	7.50%	7.50%	6.75%
Weighted-average rate of increase in future compensation levels	4.60%	4.60%	4.60%
Expected long-term rate of return on plan assets:			
Taxable assets	5.50%	5.50%	5.50%
Non-taxable assets	9.00%	9.00%	9.00%

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

12. ACQUISITIONS AND DISPOSITIONS

ASSET ACQUISITIONS

Indian Point 3 and FitzPatrick

On November 21, 2000, Entergy's domestic non-utility nuclear business acquired from NYPA the 825 MW James A. FitzPatrick nuclear power plant near Oswego, New York, and the 980 MW Indian Point 3 nuclear power plant located in Westchester County, New York, in exchange for $50 million at closing and notes to NYPA with payments totaling $906 million. Entergy will also be required to make certain additional payments to NYPA in the event that the plants' license lives are extended, or in the event that the acquisition of Indian Point 2 is ultimately consummated.

The acquisition encompassed the nuclear plants, materials and supplies, and nuclear fuel, as well as the assumption of $123.7 million in liabilities. The purchase agreement provides that NYPA will retain the decommissioning obligations and related trust funds through the original license expiration date (approximately 2015). At that time, NYPA is required either to transfer the decommissioning liability to Entergy along with a specified amount in the decommissioning trust funds, or to retain Entergy to perform decommissioning services for a specified price that may be limited by the amount in the trust. The purchase agreement also provides that NYPA will purchase a substantial majority of the output of the units at specified prices through 2004.

The acquisition was accounted for using the purchase method. The results of operations of Indian Point 3 and FitzPatrick subsequent to November 21, 2000, have been included in Entergy's consolidated statements of income. The purchase price has been allocated to the acquired assets, including identifiable intangible assets, and liabilities assumed based on their estimated fair values on the purchase date. Intangible assets are being amortized straight-line over the remaining lives of the plants.

Pilgrim Nuclear Station

On July 13, 1999, Entergy's domestic non-utility nuclear business acquired the 670 MW Pilgrim Nuclear Station located in Plymouth, Massachusetts, from Boston Edison. The acquisition included the plant, real estate, materials and supplies, and nuclear fuel, for a total purchase price of $81 million. The purchase price was funded with a portion of the proceeds from the sales of non-regulated businesses. As part of the Pilgrim purchase, Boston Edison funded a $471 million decommissioning trust fund, which was transferred to an Entergy subsidiary. Based on a favorable tax determination regarding the trust fund, Entergy returned $43 million of the trust fund to Boston Edison.

BUSINESS DISPOSITIONS

As part of the new strategic plan adopted by Entergy in August 1998, Entergy sold several businesses during 1998, including the following (in millions):

BUSINESS	PRE-TAX GAIN (LOSS) ON SALE
London Electricity	$327
CitiPower[a]	38
Efficient Solutions, Inc.	(69)

(a) The gain on the CitiPower sale reflects a $7.6 million favorable adjustment to the final sale price in January 1999.

In keeping with this plan, in January 1999, Entergy disposed of its security monitoring subsidiary, Entergy Security, Inc., at a minimal gain. Several telecommunication businesses were sold in June 1999, also at small gains.

The results of operations of these businesses are included in Entergy's consolidated statements of income through their respective dates of sale. Gains and losses arising from sales of businesses are included in "Other Income: Gain (loss) on sale of assets - net" in that statement.

13. BUSINESS SEGMENT INFORMATION

Entergy's reportable segments as of December 31, 2000, are domestic utility and power marketing and trading. Entergy's operating segments below the quantitative threshold for separate disclosure principally include global power development and the domestic non-utility nuclear businesses. They are reported in the "All Other" column along with the parent, Entergy Corporation, and other business activities, which are principally the gains or losses on the sales of businesses. Entergy's international electric distribution businesses, Entergy London and CitiPower, were sold in December 1998. These businesses would have been a reportable segment had they been held as of December 31, 1998, and financial information regarding them is also provided below for 1998.

Domestic utility provides retail electric service in portions of Arkansas, Louisiana, Mississippi, and Texas, and provides natural gas utility service in portions of Louisiana. Entergy's power marketing and trading segment markets wholesale electricity, gas, other generating fuels, and electric capacity, and markets financial instruments to third parties. Entergy's operating segments are strategic business units managed separately due to their different operating and regulatory environments.

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

	DOMESTIC UTILITY AND SYSTEM ENERGY	POWER MARKETING AND TRADING*	ENTERGY LONDON*	CITIPOWER*	ALL OTHER*	ELIMINATIONS	CONSOLIDATED
2000							
Operating revenues	$ 7,401,598	$2,131,342	$—	$—	$ 547,066	$ (63,858)	$10,016,148
Deprec., amort. & decomm.	770,144	6,286	—	—	9,179	—	785,609
Amort. of rate deferrals	30,392	—	—	—	—	—	30,392
Interest income	57,795	10,071	—	—	103,691	(8,507)	163,050
Interest charges	515,156	6,073	—	—	45,518	(9,317)	557,430
Income taxes	435,667	26,385	—	—	16,869	—	478,921
Net income	618,263	19,642	—	—	73,010	—	710,915
Total assets	20,680,764	728,406	—	—	4,709,553	(553,496)	25,565,227
1999							
Operating revenues	$ 6,414,623	$2,249,274	$—	$—	$ 143,146	$ (33,815)	$ 8,773,228
Deprec., amort. & decomm.	732,182	5,212	—	—	7,475	—	744,869
Amort. of rate deferrals	115,627	—	—	—	—	—	115,627
Interest income	49,556	4,408	—	—	93,177	(3,540)	143,601
Interest charges	536,543	2,006	—	—	20,592	(3,540)	555,601
Income taxes	351,448	(3,228)	—	—	8,447	—	356,667
Net income (loss)	553,525	(491)	—	—	41,992	—	595,026
Total assets	18,941,603	460,063	—	—	3,762,115	(193,841)	22,969,940
1998							
Operating revenues	$ 6,310,543	$2,854,980	$1,911,875	$303,245	$ 150,297	$ (36,168)	$11,494,772
Deprec., amort. & decomm.	763,818	5,058	126,586	28,444	61,023	—	984,929
Amort. of rate deferrals	237,302	—	—	—	—	—	237,302
Interest income	49,271	7,689	9,033	—	35,417	(822)	100,588
Interest charges	548,299	122	182,479	80,586	21,851	(822)	832,515
Income taxes	331,931	(8,216)	4,589	—	(61,569)	—	266,735
Net income (loss)	528,498	(15,540)	117,749	3,103	151,819	—	785,629
Total assets	19,727,666	359,626	—	—	2,783,732	(34,330)	22,836,694

Businesses marked with * are referred to as the "competitive businesses," with the exception of the parent company, Entergy Corporation, which is also included in the "All Other" column. Eliminations are primarily intersegment activity.

Geographic Areas

For the years ended December 31, 2000, 1999, and 1998, Entergy did not derive material revenues from outside of the United States, other than from Entergy London and CitiPower, which are noted above.

Long-lived assets as of December 31 were as follows (in thousands):

	2000	1999	1998
Domestic	$15,476,794	$14,751,166	$14,863,488
Foreign	1,019,831	749,590	465,094
Consolidated	$16,496,625	$15,500,756	$15,328,582

14. RISK MANAGEMENT AND FAIR VALUES

COMMODITY DERIVATIVES

Entergy uses a variety of commodity derivatives, including natural gas and electricity futures, forwards, and options, as a part of its overall risk management strategy.

The power marketing and trading business engages in the trading of commodity instruments and, therefore, experiences net open positions. The business manages open positions with policies that limit its exposure to market risk and require daily reporting to management of potential financial exposure. These policies include statistical risk tolerance limits using historical price movements to calculate a value at risk measurement. The weighted-average life of the business' commodity risk portfolio was less than 18 months at December 31, 2000, and less than 12 months at December 31, 1999.

At December 31, 2000 and 1999, the power marketing and trading business had outstanding absolute notional contract quantities as follows (power volumes in thousands of megawatt hours, natural gas volumes in thousands of British thermal units):

	2000	1999
ENERGY COMMODITIES:		
Power	116,513	23,015
Natural gas	657,463	1,075,660

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's exposure to market risk is determined by a number of factors, including the size, duration, 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 affect the level of market risk. The most 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.

The New York Mercantile Exchange (Exchange) guarantees futures and option contracts traded on the Exchange, which assures nominal credit risk. On all other transactions described above, Entergy is exposed to credit risk in the event of nonperformance by the counterparties. For each counterparty, Entergy analyzes the financial condition prior to entering into an agreement, establishes credit limits, and monitors the appropriateness of these limits on an ongoing basis. In some circumstances, Entergy requires letters of credit or parental guarantees. Entergy also uses netting arrangements whenever possible to mitigate Entergy's exposure to counterparty risk. Netting arrangements enable Entergy to net certain assets and liabilities by counterparty.

The change in market value of Exchange-traded futures and options contracts requires daily cash settlement in margin accounts with brokers. Swap contracts and most other over-the-counter instruments are generally settled at the expiration of the contract term and may be subject to margin requirements with the counterparty.

Entergy's principal markets for power and natural gas marketing services are utilities and industrial end-users located throughout the United States and the UK. The power marketing and trading business has a concentration of receivables due from those customers. These industry concentrations may affect the power marketing and trading business' overall credit risk, either positively or negatively, in that changes in economic, industry, regulatory, or other conditions may similarly affect certain customers. Trade receivables are generally not collateralized. However, Entergy analyzes customers' credit positions prior to extending credit, establishes credit limits, and monitors the appropriateness of these limits on an ongoing basis.

FAIR VALUES

Commodity Instruments

Fair value estimates of the power marketing and trading business' commodity instruments are made at discrete points in time based on relevant market information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment; therefore, actual results may differ from these estimates. At December 31, 2000 and 1999, the fair values of the power marketing and trading business' energy-related commodity contracts used for trading purposes were as follows:

	2000		1999	
In thousands	ASSETS	LIABILITIES	ASSETS	LIABILITIES
COMMODITY INSTRUMENTS:				
Natural Gas	$362,221	$343,726	$ 44,675	$ 39,361
Electricity	$260,969	$219,721	$190,850	$130,209

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 of the applicable interest rates. Considerable judgment is required in developing 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 accrue to the benefit or detriment of stockholders.

Entergy considers the carrying amounts of financial instruments classified as current assets and liabilities to be a reasonable estimate of their fair value because of the short maturity of these instruments. In addition, Entergy does not expect that performance of its obligations will be required in connection with certain off-balance sheet commitments and guarantees considered financial instruments. For these reasons, and because of the related-party nature of these commitments and guarantees, determination of fair value is not considered practicable. Additional information regarding financial instruments and their fair values is included in Notes 4, 5, 6, and 7 to the consolidated financial statements.

15. ENTERGY-FPL GROUP MERGER

On July 30, 2000, Entergy Corporation and FPL Group entered into a Merger Agreement providing for a business combination that will result in the creation of a new company. For accounting purposes, the Merger will be recorded under the purchase method of accounting as an acquisition of Entergy by FPL Group. Each outstanding share of FPL Group common stock will be converted into one share of the new company's common stock, and each outstanding share of Entergy Corporation common stock will be converted into 0.585 of a share of the new company's common stock. It is expected that FPL Group's shareholders will own approximately 57% of the common equity of the new company and Entergy's shareholders will own approximately 43%. The Merger Agreement generally allows Entergy to continue business in the ordinary course consistent with past practice and contains certain restrictions on Entergy's capital activities, including restrictions on the issuance of securities, capital expenditures, dispositions, incurrence or guarantee of indebtedness, and trading or marketing of energy. Entergy generally will be permitted to take actions pursuant to restructuring legislation in the domestic utility companies' jurisdictions of operation and to reorganize its transmission business. Under certain circumstances, if the Merger Agreement is terminated, a termination fee of $215 million may be payable by one of the parties. The Merger Agreement may be terminated if the Merger is not consummated by April 30, 2002, unless automatically extended until October 30, 2002 under certain circumstances. Both the FPL Group and Entergy Boards of Directors unanimously approved the Merger, and the shareholders of Entergy Corporation and FPL Group have approved the Merger. The Merger is conditioned upon, among other things, the receipt of required regulatory approvals of various local, state, and federal regulatory agencies and commissions, including the SEC and FERC. Entergy has filed for approval of the Merger in all of its state and local regulatory jurisdictions (Arkansas, Louisiana, Mississippi, Texas, and New Orleans), and at FERC, the SEC and the NRC. In their filing with the SEC, Entergy and FPL Group requested to remain in existence as intermediate holding companies after the Merger is consummated. The objective of Entergy and FPL Group is to consummate the Merger by late 2001.

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

The business of the domestic utility companies and System Energy is subject to seasonal fluctuations with the peak periods occurring during the third quarter. Operating results for the four quarters of 2000 and 1999 were:

In thousands	OPERATING REVENUE	OPERATING INCOME	NET INCOME
2000:			
First Quarter	$1,811,492	$286,604	$108,410
Second Quarter	$2,137,788	$433,538	$245,773
Third Quarter	$3,431,555	$593,837	$306,689
Fourth Quarter	$2,635,313	$231,602	$ 50,043
1999:			
First Quarter	$1,639,922	$203,435	$ 72,906
Second Quarter	$2,316,404	$363,951	$209,758
Third Quarter	$3,064,535	$597,595	$296,158
Fourth Quarter	$1,752,367	$ 86,673	$ 16,204

EARNINGS PER AVERAGE COMMON SHARE

	2000		1999
	BASIC	DILUTED	BASIC AND DILUTED
First Quarter	$0.42	$0.42	$0.25
Second Quarter	$1.04	$1.04	$0.81
Third Quarter	$1.35	$1.34	$1.16
Fourth Quarter	$0.19	$0.17	$0.03

DIRECTORS AND OFFICERS

DIRECTORS

The business and affairs of Entergy Corporation are managed under the direction of the Board of Directors, acting either as a body or through its committees. In 2000, the Board met 11 times. The Board committees are as follows (number of meetings in 2000 indicated in parentheses): Audit (8), Director Affairs (5), Executive (4), Finance (8), Nuclear (9), Personnel (6), Public Affairs (2).

Maureen S. Bateman
Executive Vice President and General Counsel, State Street Corporation, Boston, Massachusetts. Joined the Entergy Board in 2000. Age, 57

W. Frank Blount
Chairman and Chief Executive Officer, Cypress Communications, Inc., Atlanta, Georgia. An Entergy director since 1987. Age, 62

VADM. George W. Davis
U.S. Navy (ret.); Retired Director, President and Chief Operating Officer of Boston Edison Company, Columbia, South Carolina. An Entergy director since 1998. Age, 67

Norman C. Francis
President, Xavier University of Louisiana, New Orleans, Louisiana. An Entergy director since 1994. Age, 70

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, 50

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, 65

Thomas F. "Mack" McLarty, III*
Chairman of the Board of the McLarty Companies, Little Rock, Arkansas. Vice Chairman of Kissinger McLarty Associates, Washington, D.C. Joined the Entergy Board in 1999. Age, 54

Kathleen A. Murphy
Senior Vice President and Chief Financial Officer, Connell Limited Partnership, Boston, Massachusetts. Joined the Entergy Board in 2000. Age, 50

Paul W. Murrill
Professional Engineer, Baton Rouge, Louisiana. An Entergy director since 1993. Age, 66

James R. Nichols
Partner, Nichols & Pratt (family trustees), Attorney and Chartered Financial Analyst, Boston, Massachusetts. An Entergy director since 1986. Age, 62

William A. Percy
President and Chief Executive Officer of Greenville Compress Company, Greenville, Mississippi. Joined the Entergy Board in January 2000. Age, 61

Dennis H. Reilley
President and Chief Executive Officer of PRAXAIR, Inc., Danbury, Connecticut. Joined the Entergy Board in 1999. Age, 48

Wm. Clifford Smith
President of T. Baker Smith & Son, Inc., Houma, Louisiana. An Entergy director since 1983. Age, 65

Bismark A. Steinhagen
Chairman of the Board of Steinhagen Oil Company, Inc., Beaumont, Texas. An Entergy director since 1993. Age, 66

OFFICERS

J. Wayne Leonard
Chief Executive Officer. Joined Entergy in 1998 as President and Chief Operating Officer; appointed CEO on January 1, 1999. Formerly an executive at Cinergy. Age, 50

Donald C. Hintz
President. Joined Entergy in 1989 and was Group President and Chief Nuclear Operating Officer before being appointed President on January 1, 1999. In charge of nuclear power for another utility before joining Entergy. Age, 58

Jerry D. Jackson
Executive Vice President. Joined Entergy in 1987 after private legal practice and service on Arkansas Public Service Commission. Age, 56

C. John Wilder
Executive Vice President and Chief Financial Officer. Joined Entergy in 1998. Formerly a finance executive for Royal Dutch/Shell with experience in executing acquisitions and ventures in the global energy industry and in dealing with financial markets. Age, 42

Frank F. Gallaher
Senior Vice President. Served as implementation manager for GSU merger in 1994. Joined Entergy in 1969. Age, 55

Horace S. Webb
Senior Vice President, External Affairs. Joined Entergy in 1999. Formerly Senior Vice President, Public Affairs for Consolidated Edison Company. Age, 60

Michael G. Thompson
Senior Vice President, General Counsel, and Secretary. Joined Entergy in 1992 after private legal practice. Age, 60

Richard J. Smith
Senior Vice President. Joined Entergy in 2000. Formerly President of Cinergy Resources, Inc. Age, 49

Nathan E. Langston
Vice President and Chief Accounting Officer. Joined Entergy in 1971 and advanced through various accounting and finance positions at Entergy Arkansas and Entergy before being promoted to VP & CAO in 1998. Age, 52

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, 44

Joseph T. Henderson
Vice President and General Tax Counsel. Joined Entergy in 1999. Formerly Associate General Tax Counsel for Shell Oil. Age, 43

**Resigned March 12, 2001*

The 2001 Annual Meeting of Shareholders will be held on Friday, May 11, at the Hilton Hotel, 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 April, July, and October, and in February. Dividend information will be updated according to the declaration schedule.

This and other information may be accessed electronically by selecting the Entergy home page on the Internet's World Wide Web at www.entergy.com.

For copies of Entergy's 10-K and 10-Q reports filed with the Securities and Exchange Commission and for other investor information, call 1-800-292-9960 or write to:

Entergy Corporation
Investor Relations
P.O. Box 61000
New Orleans, LA 70161

Securities analysts and representatives of financial institutions may contact Nancy Morovich at 1-504-576-5506 or nmorovi@entergy.com regarding Entergy's financial and operating performance.

SHAREHOLDERS 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
85 Challenger Road
Ridgefield Park, NJ 07660
Telephone: 1-800-333-4368
For the hearing impaired: 1-800-231-5469 (TDD)
Foreign holders: 1-201-329-8660
Foreign hearing impaired: 1-201-329-8354
For Internet access: www.mellon-investor.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.

At year-end 2000 there were 219,604,583 shares of Entergy common stock outstanding. Shareholders of record totaled 68,420, and approximately 90,000 investors held Entergy stock in "street name" through a broker.

DIVIDEND PAYMENTS

The entire amount of dividends paid during 2000 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 2001 are:

DECLARATION DATE	RECORD DATE	PAYMENT DATE
January 26	February 13	March 1
March 28	May 15	June 1
July 27	August 14	September 1
October 26	November 13	December 1

Quarterly dividend payment in cents-per-share

QUARTER	2001	2000	1999	1998	1997
1	31½	30	30	45	45
2		30	30	45	45
3		30	30	30	45
4		31½	30	30	45

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 2000 and 1999 were as follows:

In dollars	2000		1999	
QUARTER	HIGH	LOW	HIGH	LOW
1	26¾	15 15/16	31⅛	27½
2	31¼	19 15/16	33⅛	27¾
3	38⅛	26 15/16	31 9/16	28 3/16
4	43⅞	33½	30	27⅞

Entergy: The Power of People.

IN A YEAR OF LEAPS AND BOUNDS, ENTERGY'S PEOPLE ARE THE FORCE THAT PROPELLED OUR PROGRESS. WE SALUTE THE NEARLY 14,000 ENTERGY EMPLOYEES BY HIGHLIGHTING A FEW WHO EARNED SPECIAL RECOGNITION IN 2000.

In 2000, Entergy honored Hero Award winners whose immediate, unselfish response saved others from death or serious injury. Independence plant Operator Technicians **Bubba Ashcraft, Cameron Peyton,** and **Richard Ward** applied their knowledge of confined-space rescue to free an explorer from Blowing Cave near Batesville, Arkansas, after she suffered injuries in a fall. Baker Engineering Supervisor **Mack Jamison** saved the lives of four children injured in a car crash near Kosciusko, Mississippi, that claimed the life of the driver. New Caney Network Lineman **Frank Shannon** used a burn gel blanket from his truck to assist a grease burn victim in a Dayton, Texas, convenience store until emergency crews arrived. He was credited for the victim's ability to return home for recuperation and to avoid a lengthy hospital stay.

Hero Award winners Morgan Giuliano, James Brazil, and Marlin Fletcher, and Humanitarian Award winner Michael Dougall were honored not for saving a life, but for making lots of lives better. Waste Control Technician **Morgan Giuliano** is involved in the Plymouth (Massachusetts) Area Coalition for the Homeless. She launched a one-woman campaign to save the sea gulls at the Pilgrim nuclear plant and is well known for adopting unwanted or injured animals. Supply Chain Senior Lead **Michael Dougall** typically spends 30 weekends a year camping with the Boy Scouts or volunteering at the Camp Salmen Scout Reservation in Mississippi. Michael also uses three weeks of vacation to help with camps and to support Scout service organizations. Senior Lead Engineer **James Brazil** has more than a quarter century of involvement with the Kiwanis Club of North Little Rock where he regularly participates in the annual Reading Is Fundamental project. He also volunteers for the North Little Rock Gideons' Bible distribution program. Senior Technical Instructor **Marlin Fletcher** dedicates his free time to support public schools and emergency service organizations in Pope County, Arkansas. Marlin serves as Fire Chief for the Crow Mountain Volunteer Fire Department and trains other municipal and rural fire departments.

These individuals represent the thousands of people throughout Entergy whose willingness to go above and beyond the call of duty is powering record performance. These nine employees personify the qualities that propelled Entergy to a year of leaps and bounds.

From Left: *Bubba Ashcraft, Mack Jamison, Frank Shannon, Cameron Peyton, and Richard Ward.*

From Left: *Morgan Giuliano, Michael Dougall, James Brazil, and Marlin Fletcher.*

Entergy

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