## INDEX TO FINANCIAL STATEMENTS

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Management of Entergy Corporation and Subsidiaries, owner of Entergy Nuclear:

We have audited the accompanying combined balance sheets of Entergy Nuclear (non-utility nuclear businesses of Entergy Corporation and Subsidiaries as defined in Note 1) (the "Company") as of December 31, 2007 and 2006, and the related combined income statements, combined statements of shareholders' net investment and comprehensive income, and combined statements of cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of Entergy Nuclear as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP
New Orleans, Louisiana
May 8, 2008

## COMBINED INCOME STATEMENTS

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | | (In Thousands) | |
| **OPERATING REVENUES** | | | |
| Operating Revenues | $2,029,666 | $1,544,873 | $1,421,547 |
| **OPERATING EXPENSES** | | | |
| Operation and Maintenance: | | | |
| Fuel and fuel-related expenses | 168,860 | 141,026 | 132,796 |
| Nuclear refueling outage expenses | 105,885 | 91,457 | 88,688 |
| Other operation | 645,903 | 534,208 | 506,754 |
| Maintenance | 138,480 | 117,742 | 106,714 |
| Depreciation and amortization | 99,265 | 71,755 | 58,540 |
| Decommissioning expense | 78,607 | 35,537 | 33,202 |
| Taxes other than income taxes | 78,550 | 62,285 | 53,797 |
| **TOTAL** | 1,315,550 | 1,054,010 | 980,491 |
| **OPERATING INCOME** | 714,116 | 490,863 | 441,056 |
| **OTHER INCOME** | | | |
| Interest and dividend income | 102,842 | 83,161 | 66,840 |
| Miscellaneous - net | (715) | (427) | (1,504) |
| **TOTAL** | 102,127 | 82,734 | 65,336 |
| **INTEREST EXPENSE** | | | |
| Interest expense to associated companies | 103,450 | 90,958 | 72,230 |
| Interest expense - other | 14,722 | 17,530 | 18,476 |
| **TOTAL** | 118,172 | 108,488 | 90,706 |
| **INCOME BEFORE INCOME TAXES** | 698,071 | 465,109 | 415,686 |
| Income taxes | 212,023 | 188,318 | 160,328 |
| **NET INCOME** | $486,048 | $276,791 | $255,358 |

See Notes to Combined Financial Statements.

## COMBINED BALANCE SHEETS
## ASSETS

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| | (In Thousands) | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents: | | |
| Cash | $3,726 | $9,207 |
| Temporary cash investments - at cost, which approximates market | 425,133 | 374,602 |
| Total cash and cash equivalents | 428,859 | 383,809 |
| Accounts receivable - customer | 197,440 | 141,864 |
| Materials and supplies - at average cost | 234,527 | 193,849 |
| Deferred nuclear refueling outage costs | 127,523 | 80,770 |
| Prepayments and other | 39,663 | 16,733 |
| **TOTAL** | 1,028,012 | 817,025 |
| **OTHER PROPERTY AND INVESTMENTS** | | |
| Decommissioning trust funds | 1,937,601 | 1,583,847 |
| Other | 3,064 | 2,995 |
| **TOTAL** | 1,940,665 | 1,586,842 |
| **PROPERTY, PLANT, AND EQUIPMENT** | | |
| Electric plant | 2,971,825 | 1,937,449 |
| Construction work in progress | 189,574 | 173,897 |
| Nuclear fuel | 510,907 | 354,402 |
| **TOTAL PROPERTY, PLANT, AND EQUIPMENT** | 3,672,306 | 2,465,748 |
| Less - accumulated depreciation and amortization | 309,308 | 214,931 |
| **PROPERTY, PLANT, AND EQUIPMENT - NET** | 3,362,998 | 2,250,817 |
| **DEFERRED DEBITS AND OTHER ASSETS** | | |
| Decommissioning contract | 466,326 | 444,967 |
| Payments in lieu of property taxes | 202,971 | 219,776 |
| Other | 17,147 | 32,627 |
| **TOTAL** | 686,444 | 697,370 |
| **TOTAL ASSETS** | $7,018,119 | $5,352,054 |

See Notes to Combined Financial Statements.

## COMBINED BALANCE SHEETS
## LIABILITIES AND SHAREHOLDERS' EQUITY

| | December 31, 2007 | 2006 |
|---|---|---|
| | (In Thousauds) | |
| **CURRENT LIABILITIES** | | |
| Currently maturing long-term debt | $28,056 | $88,241 |
| Loans payable - associated companies | 1,256,627 | 868,815 |
| Accounts payable: | | |
| Associated companies | 125,093 | 69,101 |
| Other | 217,475 | 207,374 |
| Taxes accrued | - | 3,030 |
| Pension and other post-retirement liabilities | 3,613 | 2,904 |
| Fair value of derivative instruments | - | 162,639 |
| Palisades purchased power agreement | 76,223 | - |
| NYPA value sharing accrual | 72,000 | - |
| Other | 8,423 | 5,711 |
| **TOTAL** | 1,787,510 | 1,407,815 |
| **NON-CURRENT LIABILITIES** | | |
| Accumulated deferred income taxes and taxes accrued | 780,741 | 522,256 |
| Decommissioning | 1,141,552 | 773,348 |
| Pension and other postretirement liabilites | 313,581 | 284,726 |
| Payments in lieu of property taxes | 158,619 | 173,715 |
| Long-term debt | 210,732 | 237,553 |
| Palisades purchased power agreement | 293,060 | - |
| Other | 29,741 | 12,813 |
| **TOTAL** | 2,928,026 | 2,004,411 |
| Commitments and Contingencies | | |
| **SHAREHOLDERS' EQUITY** | | |
| Shareholders' net investment | 2,208,440 | 1,958,076 |
| Accumulated other comprehensive income (loss) | 94,143 | (18,248) |
| **TOTAL** | 2,302,583 | 1,939,828 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | $7,018,119 | $5,352,054 |

See Notes to Combined Financial Statements.

## COMBINED STATEMENTS OF CASH FLOWS

| | For the years ended December 31, 2007 | 2006 | 2005 |
|---|---|---|---|
| | (In Thousands) | | |
| **OPERATING ACTIVITIES:** | | | |
| Net income | $ 486,048 | $ 276,791 | $ 255,358 |
| Adjustments to reconcile combined net income to net cash flow provided by operating activities: | | | |
| Amortization of nuclear fuel | 133,117 | 107,929 | 100,828 |
| Amortization of Palisades purchased power agreement | (50,216) | - | - |
| Accretion of decommissioning contract | (21,359) | (20,380) | (19,447) |
| Depreciation, amortization, and decommissioning | 177,872 | 107,292 | 91,742 |
| Deferred income taxes and non-current taxes accrued | 258,485 | 298,457 | (160,183) |
| Changes in working capital: | | | |
| Accounts receivable | (55,576) | (7,588) | (4,441) |
| Accounts payable | 66,093 | 89,537 | 10,801 |
| Prepaid taxes and taxes accrued | (3,030) | 139,252 | 161,124 |
| Deferred nuclear refueling outage costs | (46,753) | 11,978 | (16,854) |
| Other working capital accounts | (60,896) | 42,214 | (18,106) |
| Other | (46,001) | (237,853) | 159,880 |
| **Net cash flow provided by operating activities** | 837,784 | 807,629 | 560,702 |
| **INVESTING ACTIVITIES:** | | | |
| Construction/capital expenditures | (259,977) | (302,865) | (161,149) |
| Palisades acquisition | (336,211) | - | - |
| Nuclear fuel purchases | (225,684) | (100,015) | (164,564) |
| Proceeds from nuclear decommissioning trust fund sales | 1,293,369 | 503,498 | 503,983 |
| Investment in nuclear decommissioning trust funds | (1,354,893) | (550,837) | (546,766) |
| **Net cash flow used in investing activities** | (883,396) | (450,219) | (368,496) |
| **FINANCING ACTIVITIES:** | | | |
| Loans from associated companies | 342,549 | 34,901 | 70,573 |
| Loan repayments to associated companies | (7,737) | (93,861) | (76,897) |
| Capital contributions from owners | 15,465 | 44,568 | 12,173 |
| Long-term debt repayments | (87,006) | (75,897) | (72,415) |
| Returns of capital and dividends | (172,609) | (95,653) | (53,366) |
| **Net cash flow provided by (used in) financing activities** | 90,662 | (185,942) | (119,932) |
| **Net increase in cash and cash equivalents** | 45,050 | 171,468 | 72,274 |
| **Cash and cash equivalents at beginning of period** | 383,809 | 212,341 | 140,067 |
| **Cash and cash equivalents at end of period** | $ 428,859 | $ 383,809 | $ 212,341 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:** | | | |
| Cash paid (received) during the period for: | | | |
| Interest - net of capitalized interest | $ 89,277 | $ 89,961 | $ 51,996 |
| Income taxes | $ 71,355 | $ (69,601) | $ 3,950 |
| Non-cash capital returns to owners | $ 76,640 | $ - | $ - |
| Non-cash debt incurred | $ - | $ 28,531 | $ - |

See Notes to Combined Financial Statements.

## COMBINED STATEMENTS OF SHAREHOLDERS' NET INVESTMENT AND COMPREHENSIVE INCOME

| | For the Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | | 2006 | | 2005 | |
| | (In Thousands) | | | | | |
| **SHAREHOLDERS' NET INVESTMENT** | | | | | | |
| Shareholders' Net Investment - Beginning of period | $1,958,076 | | $1,732,370 | | $1,518,205 | |
| Combined net income | 486,048 | $486,048 | 276,791 | $276,791 | 255,358 | $255,358 |
| Capital contributions from owners | 15,465 | | 44,568 | | 12,173 | |
| Capital returns and dividends to owners | (249,249) | | (95,653) | | (53,366) | |
| FIN 48 implementation | (1,900) | | - | | - | |
| Shareholders' Net Investment - End of period | $2,208,440 | | $1,958,076 | | $1,732,370 | |
| **ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)** | | | | | | |
| Balance at beginning of period: | | | | | | |
| Accumulated derivative instrument fair value changes | ($100,510) | | ($389,402) | | ($146,475) | |
| Pension and other postretirement liabilities | (22,290) | | (3,235) | | (773) | |
| Net unrealized investment gains | 104,552 | | 67,099 | | 51,201 | |
| Total | (18,248) | | (325,538) | | (96,047) | |
| Net derivative instrument fair value changes arising during the period (net of tax expense (benefit) of $57,120, $187,410 and ($151,917)) | 94,301 | 94,301 | 288,892 | 288,892 | (242,927) | (242,927) |
| Pension and other postretirement liabilities (net of tax expense (benefit) of $11,766, ($29,777), and ($1,691)) | 1,031 | 1,031 | (19,055) | 3,235 | (2,462) | (2,462) |
| Net unrealized investment gains (net of tax expense of $23,562, $28,428, and $10,573) | 17,059 | 17,059 | 37,453 | 37,453 | 15,898 | 15,898 |
| Balance at end of period: | | | | | | |
| Accumulated derivative instrument fair value changes | (6,209) | | (100,510) | | (389,402) | |
| Pension and other postretirement liabilities | (21,259) | | (22,290) | | (3,235) | |
| Net unrealized investment gains | 121,611 | | 104,552 | | 67,099 | |
| Total | $94,143 | | ($18,248) | | ($325,538) | |
| Comprehensive Income | | $598,439 | | ($606,371) | | $25,867 |

See Notes to Combined Financial Statements.

## NOTES TO COMBINED FINANCIAL STATEMENTS

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**

The combined financial statements of Entergy Nuclear (the Company) present the stand alone financial position, results of operations, and cash flows of Entergy's Non-Utility Nuclear segment and Entergy Nuclear Finance Holdings, a wholly-owned Entergy subsidiary that provides financing to Entergy's Non-Utility Nuclear business. The Company owns six operating nuclear power plants and is primarily focused on selling electric power produced by those plants to wholesale customers. The Company's power plants have nearly 5,000 megawatts of generating capacity, most of which is located in the northeastern United States. Entergy intends to distribute its ownership interest in the Company to Entergy's shareholders in a spin-off transaction.

The combined financial statements are comprised of companies included in Entergy's combined financial statements and accounting records, using their historical basis of assets and liabilities. Intercompany accounts and transactions have been eliminated in the combined financial statements.

**Use of Estimates in the Preparation of Financial Statements**

In conformity with generally accepted accounting principles, the preparation of the Company's combined financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. 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.

**Revenue Recognition**

The Company derives almost all of its revenue from sales of electric power generated by the six nuclear power plants that it owns. The Company recognizes revenue from electric power sales when it delivers power to its customers.

**Property, Plant, and Equipment**

Property, plant, and equipment is stated at cost. Depreciation is computed on the straight-line basis over the estimated remaining service lives of the plants, which as of December 31, 2007 was 24 years for Pilgrim, 26 years for FitzPatrick, 25 years for Indian Point 2, 27 years for Indian Point 3, 24 years for Vermont Yankee, and 23 years for Palisades, which assumes or takes into account renewal of the original operating licenses. Nuclear fuel is amortized using a units-of-production method. Normal maintenance, repairs, and minor replacement costs are charged to operating expenses.

**Capitalized Interest**

Capitalized interest represents the costs of funds used for capital construction projects. These costs are capitalized as part of the cost of the project and are expensed over the life of the asset through depreciation.

**Nuclear Refueling Outage Costs**

Nuclear refueling outage costs are deferred during the outage and amortized over the estimated period to the next outage because these refueling outage expenses are incurred to prepare the units to operate for the next operating cycle without having to be taken off line.

## Income Taxes

Entergy Corporation and the majority of its subsidiaries, including all of the Company's entities, file a consolidated federal income tax return. Federal income taxes have been provided by Nuclear Power Company on the basis of its separate company income and deductions in accordance with established practices of the consolidated tax group under Entergy's intercompany tax allocation agreement. In accordance with the intercompany tax allocation agreement, each company is responsible for its separate company tax. To the extent a company has a taxable loss that is utilized by other members of the consolidated return group, the loss company is reimbursed for the use of its loss.

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 in the period in which the tax or rate was enacted.

## Payments in Lieu of Property Taxes

The State of New York enacted property tax legislation during 2001 allowing taxing authorities to enter into long-term payments in lieu of tax (PILOT) agreements with nuclear plants. The Company subsequently entered into PILOT agreements with the local taxing jurisdictions in conformity with the property tax legislation. Under these agreements, the Company made long-term payments that have been recognized as prepayments. The Company is making specified fixed annual PILOT payments through 2014. The Company has recorded the net present value of the agreement obligations as non-current liabilities and has recorded a related deferred asset in order to properly recognize the expenses associated with these agreements.

## Stock-based Compensation Plans

The Company participates in Entergy's employee compensation plans. Entergy grants stock options to key employees of the Company, which is described more fully in Note 8 to the financial statements. Effective January 1, 2003, the Company prospectively adopted the fair value based method of accounting for stock options prescribed by SFAS 123, "Accounting for Stock-Based Compensation." Awards under Entergy's plans vest over three years.

## Cash and Cash Equivalents

The Company considers all unrestricted highly liquid debt instruments with an original or remaining maturity of three months or less at date of purchase to be cash equivalents.

## Investments

The Company 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, the Company records the decommissioning trust funds at their fair value on the balance sheet. Unrealized gains and losses recorded on the assets in these trust funds are recognized in the accumulated other comprehensive income component of shareholders' equity because these assets are classified as available for sale unless an unrealized loss is other than temporary and therefore recorded in earnings. The assessment of whether an investment has suffered an other than temporary impairment is based on a number of factors including, first, whether the Company has the ability and intent to hold the investment to recover its value and, then, whether it is expected that the investment will recover its value within a reasonable period of time. See Note 12 to the financial statements for details on the decommissioning trust funds.

## Decommissioning Liabilities

The Company records liabilities for all legal obligations associated with the retirement of long-lived assets that result from the normal operation of those assets. Substantially all of the Company's asset retirement obligations consist of its liability for decommissioning its nuclear power plants. These liabilities are recorded at their fair values (which are the present values of the estimated future cash outflows) in the period in which they are incurred, with an accompanying addition to the recorded cost of the long-lived asset. The asset retirement obligation is accreted each year through a charge to expense, to reflect the time value of money for this present value obligation. The accretion will continue through the completion of the asset retirement activity. The amounts added to the carrying amounts of the long-lived assets will be depreciated over the useful lives of the assets. See Note 5 to the financial statements for additional information regarding decommissioning liabilities.

## Decommissioning Contract

For the Indian Point 3 and FitzPatrick plants purchased in 2000 from the Power Authority of New York (NYPA), NYPA retained the decommissioning trusts and the decommissioning liability until 2017, at which time NYPA is expected to put its decommissioning liability to the Company in exchange for transferring a defined amount into the Company's decommissioning trust funds for those units. NYPA and Entergy executed decommissioning agreements, which specify their decommissioning obligations. These agreements are discussed further in Note 5 to the financial statements. The Company recorded an asset representing its estimate of the present value of the difference between the stipulated contract amount for decommissioning the plants less the decommissioning cost estimated in an independent decommissioning cost study. The asset is increased by monthly accretion based on the applicable discount rate necessary to ultimately provide for the estimated future value of the decommissioning contract. The monthly accretion is recorded as interest income.

## Derivative Financial Instruments and Commodity Derivatives

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

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

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

The Company has determined that contracts to purchase uranium do not meet the definition of a derivative under SFAS 133 because they do not provide for net settlement and the uranium markets are not sufficiently liquid to conclude that forward contracts are readily convertible to cash. If the uranium markets do become sufficiently liquid in the future and the Company begins to account for uranium purchase contracts as derivative instruments, the fair value of these contracts would be accounted for consistent with the Company's other derivative instruments.

## Fair Values

The estimated fair values of the Company's financial instruments and derivatives are determined using bid prices and market quotes. Considerable judgment is required in developing the estimates of fair value. Therefore, estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The Company considers the carrying amounts of most 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.

## Impairment of Long-Lived Assets

The Company 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 undiscounted net cash flow 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.

## Taxes Imposed on Revenue-Producing Transactions

Governmental authorities assess taxes that are both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer, including, but not limited to, sales, use, value added, and some excise taxes. The Company presents these taxes on a net basis, excluding them from revenues.

## New Acconnting Pronouncements

In September 2006 the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157), which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 generally does not require any new fair value measurements. However, in some cases, the application of SFAS 157 in the future may change the Company's practice for measuring and disclosing fair values under other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for the Company in the first quarter 2008 and will be applied prospectively. Application of SFAS 157 did not materially affect the Company's financial position, results of operations, or cash flows.

The FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159) during the first quarter 2007. SFAS 159 provides an option for companies to select certain financial assets and liabilities to be accounted for at fair value with changes in the fair value of those assets or liabilities being reported through earnings. The intent of the standard is to mitigate volatility in reported earnings caused by the application of the more complicated fair value hedging accounting rules. Under SFAS 159, companies can select existing assets or liabilities for this fair value option concurrent with the effective date of January 1, 2008 for companies with fiscal years ending December 31 or can select future assets or liabilities as they are acquired or entered into. Adoption of this standard did not have a material effect on the Company's financial position, results of operations, or cash flows.

The FASB issued Statement of Financial Accounting Standards No. 141(R), "Business Combinations" (SFAS 141(R)) during the fourth quarter 2007. The significant provisions of SFAS 141R are that: (i) assets, liabilities and non-controlling (minority) interests will be measured at fair value; (ii) costs associated with the acquisition such as transaction-related costs or restructuring costs will be separately recorded from the acquisition and expensed as incurred; (iii) any excess of fair value of the assets, liabilities and minority interests acquired over the fair value of the purchase price will be recognized as a bargain purchase and a gain recorded at the acquisition date; and (iv) contractual contingencies resulting in potential future assets or liabilities will be recorded at fair market value at the date of acquisition. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply SFAS 141(R) before that date.

The FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Combined Financial Statements" (SFAS 160) during the fourth quarter 2007. SFAS 160 enhances disclosures surrounding minority interests in the balance sheet, income statement and statement of comprehensive income. SFAS 160 will also require a parent to record a gain or loss when a subsidiary in which it retains a minority interest is deconsolidated from the parent company. SFAS 160 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply SFAS 160 before that date.

In April 2007 the FASB issued Staff Position No. 39-1, "Amendment of FASB Interpretation No. 39" (FSP FIN 39-1). FSP FIN 39-1 allows an entity to offset the fair value of a receivable or payable against the fair value of a derivative that is executed with the same counterparty under a master netting arrangement. This guidance becomes effective for fiscal years beginning after November 15, 2007. These provisions did not have a material effect on the Company's financial position.

## NOTE 2. INCOME TAXES

Income tax expenses from continuing operations for 2007, 2006, and 2005 for the Company consist of the following:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| | (In Thousands) | | |
| Current: | | | |
| Federal | ($92,482) | $634,921 | $64,752 |
| State | (45,149) | 32,480 | 14,313 |
| Total | (137,631) | 667,401 | 79,065 |
| Deferred - net: | | | |
| Federal | 322,626 | (518,082) | 69,522 |
| State | 27,044 | 38,999 | 11,741 |
| Total | 349,670 | (479,083) | 81,263 |
| Investment tax credit adjustments - net | (16) | - | - |
| Income tax expense | $212,023 | $188,318 | $160,328 |

Total income taxes from continuing operations for the Company differ from the amounts computed by applying the statutory income tax rate to income before taxes. The reasons for the differences for 2007, 2006, and 2005 are:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| | | (In Thousands) | |
| Combined net income | $486,048 | $276,791 | $255,358 |
| Income taxes | 212,023 | 188,318 | 160,328 |
| Pretax income | $698,071 | $465,109 | $415,686 |
| Computed at statutory rate (35%) | $244,325 | $162,788 | $145,490 |
| Increases (reductions) in tax resulting from: | | | |
| State income taxes net of federal income tax effect | (4,836) | 20,066 | 6,947 |
| Decommissioning trust fund basis | (35,684) | - | - |
| Permanent differences | (7,383) | 2,964 | (3,106) |
| Tax reserves | 10,900 | 2,000 | - |
| Other - net | 4,701 | 500 | 10,997 |
| Total income taxes | $212,023 | $188,318 | $160,328 |
| Effective Income Tax Rate | 30.4% | 40.5% | 38.6% |

Significant components of net deferred and noncurrent accrued tax liabilities for the Company and subsidiaries as of December 31, 2007 and 2006 are as follows:

| | 2007 | 2006 |
|---|---|---|
| | (In Thousands) | |
| Deferred and Noncurrent Accrued Tax Liabilities: | | |
| Plant-related basis differences | ($711,540) | ($953,568) |
| Power purchase agreements | (465,403) | (1,042,182) |
| Nuclear decommissioning trusts | (430,908) | (522,954) |
| Other | (106,973) | (59,178) |
| Total | (1,714,824) | (2,577,882) |
| Deferred Tax Assets: | | |
| Net operating loss carryforwards | 403,235 | 1,552,202 |
| Power purchase agreements | 133,810 | - |
| Deferred revenues | 4,226 | - |
| Pension-related items | 137,790 | 133,033 |
| Nuclear decommissioning liabilities | 240,590 | 313,522 |
| Other | 14,432 | 56,869 |
| Total | 934,083 | 2,055,626 |
| Net deferred and noncurrent accrued tax liability | ($780,741) | ($522,256) |

At December 31, 2007, the Company had estimated federal net operating loss carryforwards of $1,121 million primarily resulting from changes in tax accounting methods relating to a 2005 mark-to-market tax accounting election. The tax accounting method change produces temporary book tax differences, which will reverse in the future. If the federal net operating loss carryforwards are not utilized, they will expire in the years 2023 through 2027.

At December 31, 2007, the Company had estimated state net operating loss carryforwards of $558.4 million, primarily resulting from the 2005 mark-to-market tax accounting election. If the state net operating loss carryforwards are not utilized, they will expire in the years 2010 through 2017.

For 2007 and 2006, valuation allowances are provided against federal and state capital loss carryforwards, and certain state net operating loss carryforwards.

On March 13, 2007, the Vermont Department of Taxes issued *Technical Bulletin 35* explaining the Department of Taxes' interpretation of the treatment of net operating losses under Vermont's 2005, Act 207 (Act 207) which required unitary combined reporting effective January 1, 2006. On January 7, 2008, the Vermont Department of Taxes issued *Technical Bulletin 40* explaining the Department of Taxes' interpretation of the conversion of federal net operating losses to Vermont net operating losses under Act 207. The guidance in *Technical Bulletin 35* was utilized to determine that Entergy would have approximately $272 million of Vermont net operating loss available to offset future Vermont taxable income. The Company believes that its estimate determined under *Technical Bulletin 35* is materially accurate. After evaluating Technical Bulletin 40, the Company believes that *Technical Bulletin 40* has no effect on the amount recorded related to its Vermont net operating loss carryover.

**Income Tax Audits and Litigation**

Entergy and its subsidiaries file income tax returns in the federal and various state and foreign jurisdictions. With few exceptions, as discussed below, Entergy is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by taxing authorities for years before 2004.

Entergy entered into an agreement with the IRS Appeals Division in the second quarter 2007 to partially settle tax years 1999 - 2001. Entergy will litigate the following issue that affects the Company that it is not settling:

- The allowance of depreciation deductions and/or other deductions and basis that resulted from Entergy's purchase price allocations on its acquisitions of its nuclear power plants - the Company expects that the total tax to be included in IRS Notices of Deficiency already issued and to be issued in the future on this issue will be $34 million. The federal and state tax and interest associated with this issue total $40 million for all open tax years.

On February 21, 2008, the IRS issued the Statutory Notice of Deficiency relative to the above issues. As stated above, Entergy will pursue this issue in court.

The IRS completed its examination of the 2002 and 2003 tax returns and issued an Examination Report on June 29, 2007.

In the report for the 2002-2003 audit cycle, the IRS proposed adjustments related to the Company which Entergy did not agree to as follows: 1) deductions claimed for research and experimentation (R&E) expenditures; 2) income tax credits claimed for R&E; and 3) a 2003 deduction associated with the revisions to the emergency plans at the Indian Point Energy Center. Regarding all of these issues, Entergy disagrees with the IRS Examination Division position and filed a formal protest on July 30, 2007 with the IRS and will pursue administrative relief within the IRS Appeals Division.

The IRS commenced an examination of Entergy's 2004 and 2005 U.S. income tax returns in the fourth quarter 2007. As of December 31, 2007, the IRS has not proposed any adjustments to Entergy's computation of tax for those years, however, it is anticipated that to the extent that the issues in litigation and those raised in the prior audit cycles continue into 2004 and 2005, the IRS will propose similar adjustments.

The Company has $51 million in deposits on account with the IRS to cover its uncertain tax positions.

**FASB Interpretation No. 48**

FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) was issued in June 2006. FIN 48 establishes a "more-likely-than-not" recognition threshold that must be met before a tax benefit can be recognized in the financial statements. If a tax deduction is taken on a tax return, but does not meet the more-likely-than-not recognition threshold, an increase in income tax liability, above what is payable on the tax return, is required to be recorded. The Company adopted the provisions of FIN 48, on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized an increase in the liability for unrecognized tax benefits of approximately $2 million, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. A reconciliation of the Company's beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

| | |
|---|---|
| Balance at January 1, 2007 upon implementation | $803,903 |
| Additions based on tax positions related to the current year | 92,001 |
| Additions for tax positions of prior years | 165,751 |
| Reductions for tax positions of prior years | (276,203) |
| Settlements | (10,601) |
| Lapse of statute of limitations | (136) |
| Balance at December 31, 2007 | $774,715 |

Included in the above December 31, 2007 balance of unrecognized tax benefits are $0.7 billion of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the effect of deferred tax accounting, other than on interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective income tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. The Company's December 31, 2007 balance of unrecognized tax benefits includes $39 million which could affect the effective income tax rate. The Company accrues interest and penalties expenses related to unrecognized tax benefits in income tax expense. The Company's December 31, 2007 balance of unrecognized tax benefits includes approximately $8.5 million accrued for the possible payment of interest and penalties.

The Company does not expect that total unrecognized tax benefits will significantly change within the next twelve months; however, the results of audit settlements and pending litigation could result in changes to this total. The Company is unable to predict or quantify any changes at this time.

## NOTE 3. LOANS PAYABLE - ASSOCIATED COMPANIES AND LONG-TERM DEBT

Loans payable - associated companies and long-term debt for the Company as of December 31, 2007 and 2006 consisted of:

| | Amounts Outstanding | |
|---|---|---|
| | 2007 | 2006 |
| | (In Thousands) | |
| **Loans Payable - associated companies:** | | |
| $400 million available, expires March 2012 | $352,381 | $350,913 |
| $691.5 million available, expires September 2011 | 1,283 | 9,020 |
| $200 million available, expires February 2008 | 136,972 | 136,972 |
| $120 million available, expires December 2009 | 115,483 | 114,436 |
| $225 million available, expires October 2009 | 195,068 | 193,222 |
| Advance from Entergy Corporation, non-interest bearing | 72,440 | 64,252 |
| $32 million loan, due February 2008 | 32,000 | - |
| $21 million note, due July 2008, 8% interest rate | 21,000 | - |
| Entergy Corporation credit facility indebtedness | 330,000 | - |
| **Total Loans Payable - associated companies** | $1,256,627 | $868,815 |
| **Long-Term Debt:** | | |
| Payable to NYPA, non-interest bearing, 4.8% implicit rate | $217,751 | $297,290 |
| Other long-term debt, non-interest bearing, 7.0% implicit rate | 21,037 | 28,504 |
| **Total Long-Term Debt** | 238,788 | 325,794 |
| Less Amount Due Within One Year | 28,056 | 88,241 |
| **Long-Term Debt Excluding Amount Due Within One Year** | $210,732 | $237,553 |

The loans payable - associated companies are owed to Entergy or its subsidiaries and are due on demand. Except as noted above, the loans accrue interest at variable rates that are tied to the London Interbank Offering Rate (LIBOR). The average rate accrued for interest on these notes was 7.58% in 2007 and 7.20% in 2006. The carrying value of the Company's loans payable - associated companies is a reasonable estimate of its fair value because of the variable interest rates on those loans.

Entergy Corporation drew on its revolving credit facility in April 2007 and sent $330 million of the proceeds to the Company as part of the funding for the Palisades power plant acquisition. The Company reflects the proceeds received from Entergy Corporation as debt rather than as an equity contribution because the proceeds were used in the operations of the Company and proceeds of the Company debt that will be issued in connection with the spinoff of the Company are expected to be used to repay the Entergy Corporation revolver indebtedness. Interest is accrued at a variable rate tied to LIBOR, which rate averaged 7.58% in 2007.

In November 2000, the Company purchased the FitzPatrick and Indian Point 3 power plants in a seller-financed transaction. The Company 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, but have an implicit interest rate of 4.8%. In accordance with the purchase agreement with NYPA, the purchase of Indian Point 2 in 2001 resulted in the Company becoming liable to NYPA for an additional $10 million per year for 10 years, beginning in September 2003. This liability was recorded upon the purchase of Indian Point 2 in September 2001, and is included in the note payable to NYPA balance above. In July 2003, a payment of $102 million was made prior to maturity on the note payable to NYPA.

The annual maturities for long-term debt outstanding as of December 31, 2007, for the next five years are as follows:

| | Amount |
|---|---|
| | (In Thousands) |
| 2008 | $28,056 |
| 2009 | $29,480 |
| 2010 | $29,966 |
| 2011 | $30,961 |
| 2012 | $28,203 |

## NOTE 4. COMMITMENTS AND CONTINGENCIES

The Company is involved in a number of legal, regulatory, and tax proceedings before various courts and governmental agencies in the ordinary course of business. While management is unable to predict the outcome of such proceedings, management does not believe that the ultimate resolution of these matters will have a material adverse effect on the Company's results of operations, cash flows, or financial condition. The Company discusses tax proceedings in Note 2 to the financial statements.

### Nuclear Insurance

#### Third Party Liability Insurance

The Price-Anderson Act requires that reactor licensees purchase insurance and participate in a secondary insurance pool that provides insurance coverage for the public in the event of a nuclear power plant accident. The costs of this insurance are borne by the nuclear power industry. Congress amended and renewed the Price-Anderson Act in 2005 for a term through 2025. The Price-Anderson Act requires nuclear power plants to show evidence of financial protection in the event of a nuclear accident. This protection must consist of two levels:

1. The primary level is private insurance underwritten by American Nuclear Insurers and provides public liability insurance coverage of $300 million. If this amount is not sufficient to cover claims arising from an accident, the second level, Secondary Financial Protection, applies.
2. Within the Secondary Financial Protection level, each nuclear reactor has a contingent obligation to pay a retrospective premium, equal to its proportionate share of the loss in excess of the primary level, up to a maximum of $100.6 million per reactor per incident. This consists of a $95.8 million maximum retrospective premium plus a five percent surcharge that may be payable, if needed, at a rate that is presently set at $15 million per year per nuclear power reactor. There are no terrorism limitations.

Currently, 104 nuclear reactors are participating in the Secondary Financial Protection program. The product of the maximum retrospective premium assessment to the nuclear power industry and the number of nuclear power reactors provides approximately $10.4 billion in insurance coverage, in addition to the $300 million in primary coverage, to compensate the public in the event of a nuclear power reactor accident.

The Company owns and operates six nuclear power reactors and owns the shutdown Indian Point 1 reactor and the Big Rock Point fuel facility.

#### Property Insurance

The Company's nuclear owner/licensee companies are members of certain mutual insurance companies that provide property damage coverage, including decontamination and premature decommissioning expense, to the members' nuclear generating plants. These programs are underwritten by Nuclear Electric Insurance Limited (NEIL). As of December 31, 2007, the Company was insured against such losses per the following structures:

- Primary Layer (per plant) - $500 million per occurrence
- Excess Layer - $615 million per occurrence
- Total limit - $1.115 billion per occurrence
- Deductibles:
  - $2.5 million per occurrence - Turbine/generator damage
  - $2.5 million per occurrence - Other than turbine/generator damage

  Note: Indian Point 2 (including Indian Point 1) and Indian Point 3 share in the Primary and Excess Layers with one policy in common for that site because the policy is issued on a per site basis. The Big Rock Point fuel facility has its own Primary policy with no excess coverage.

In addition, the power plants are also covered under NEIL's Accidental Outage Coverage program. This coverage provides certain fixed indemnities in the event of an unplanned outage that results from a covered NEIL property damage loss, subject to a deductible. The following summarizes this coverage as of December 31, 2007:

Indian Point 2 & 3 and Palisades (Indian Point 2 & 3 share the limits)

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

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

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

Vermont Yankee

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

Under the property damage and accidental outage insurance programs, the Company's nuclear power plants could be subject to assessments should losses exceed the accumulated funds available from NEIL. As of December 31, 2007, the maximum amount of such possible assessments per occurrence was $86.8 million for the Company.

The Company maintains property insurance for its nuclear units in excess of the NRC's minimum requirement of $1.06 billion per site for nuclear power plant licensees. NRC regulations provide that the proceeds of this insurance must be used, first, to render the reactor safe and stable, and second, to complete decontamination operations. Only after proceeds are dedicated for such use and regulatory approval is secured would any remaining proceeds be made available for the benefit of plant owners or their creditors.

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

**NYPA Value Sharing Agreements**

The purchase of the FitzPatrick and Indian Point 3 plants from NYPA included value sharing agreements with NYPA. In October 2007, the Company and NYPA amended and restated the value sharing agreements to clarify and amend certain provisions of the original terms. Under the amended value sharing agreements the Company will make annual payments to NYPA based on the generation output of the Indian Point 3 and FitzPatrick plants from January 2007 through December 2014. The Company will pay NYPA $6.59 per MWh for power sold from Indian Point 3, up to an annual cap of $48 million, and $3.91 per MWh for power sold from FitzPatrick, up to an annual cap of $24 million. The annual payment for each year is due by January 15 of the following year, with the payment for year 2007 output due on January 15, 2008. If Entergy or an Entergy affiliate ceases to own the plants, then, after January 2009, the annual payment obligation terminates for generation after the date that Entergy ownership ceases. Therefore, after the spin-off transaction, the Company does not expect to make value sharing payments to NYPA, other than for 2008 generation, assuming the spin-off transaction is completed as expected in 2008.

The Company will record its liability for payments to NYPA as power is generated and sold by Indian Point 3 and FitzPatrick. The Company recorded a $72 million liability for generation through December 31, 2007. An amount equal to the liability was recorded to the plant asset account as contingent purchase price consideration for the plants. This amount will be depreciated over the expected remaining useful life of the plants.

The Company had previously calculated that $0 was owed to NYPA under the value sharing agreements for generation output in 2005 and 2006. In November 2006, NYPA filed a demand for arbitration claiming that $90.5 million was due to NYPA for 2005 under these agreements, and NYPA filed in April 2007 an amended demand for arbitration claiming that an additional $54 million was due to NYPA for 2006 under the value sharing agreements. As part of their agreement to amend the value sharing agreements, the Company and NYPA waived all present and future claims under the previous value sharing terms, including the claims for 2005 and 2006 pending before the arbitrator.

**Employment and Labor-related Proceedings**

The Company is responding to lawsuits in both state and federal courts and to other labor-related proceedings filed by current and former employees. These actions include, but are not limited to, allegations of wrongful employment actions; wage disputes and other claims under the Fair Labor Standards Act or its state counterparts; claims of race, gender and disability discrimination; disputes arising under collective bargaining agreements; unfair labor practice proceedings and other administrative proceedings before the National Labor Relations Board; claims of retaliation; and claims for or regarding benefits under various Entergy Corporation sponsored plans. Entergy and the Company are responding to these suits and proceedings and deny liability to the claimants.

## NOTE 5. ASSET RETIREMENT OBLIGATIONS

The cumulative decommissioning and retirement cost liabilities and expenses recorded in 2007 by the Company were as follows:

| Liabilities as of December 31, 2006 (a) | Accretion | Change in Cash Flow Estimate | Spending | Liabilities as of December 31, 2007 |
|---|---|---|---|---|
| | | (In Millions) | | |
| $993.0 | $78.6 | $100.4 | ($30.4) | $1,141.6 |

(a) The liability as of December 31, 2006 includes $219.7 million for the Palisades nuclear plant which was acquired in April 2007.

The Company periodically reviews and updates estimated decommissioning costs. The actual decommissioning costs may vary from the estimates because of regulatory requirements, changes in technology, and increased costs of labor, materials, and equipment. As described below, during 2007, 2006, and 2005 the Company updated decommissioning cost estimates for certain of its plants.

In the fourth quarter 2007, the Company recorded an increase of $100 million in decommissioning liabilities for certain of its plants as a result of revised decommissioning cost studies. The revised estimates resulted in the recognition of a $100 million asset retirement obligation asset that will be depreciated over the remaining life of the units.

In the third quarter 2006, the Company recorded a reduction of $27 million in decommissioning liability for a plant as a result of a revised decommissioning cost study and changes in assumptions regarding the timing of when decommissioning of the plant will begin. The revised estimate resulted in reduced expenses of $27 million ($16.6 million net-of-tax), reflecting the excess of the reduction in the liability over the amount of undepreciated asset retirement cost recorded at the time of adoption of SFAS 143 in 2003.

In the first quarter 2005, the Company recorded a reduction of $26.0 million in its decommissioning cost liability in conjunction with a new decommissioning cost study as a result of revised decommissioning costs and changes in assumptions regarding the timing of the decommissioning of a plant. The revised estimate resulted in reduced expenses of $26.0 million ($15.8 million net-of-tax), reflecting the excess of the reduction in the liability over the amount of undepreciated asset retirement cost recorded at the time of adoption of SFAS 143 in 2003.

For the Indian Point 3 and FitzPatrick plants purchased in 2000, NYPA retained the decommissioning trusts and the decommissioning liability. NYPA and Entergy executed decommissioning agreements, which specify their decommissioning obligations. Beginning in 2017, NYPA has the right to require the Company to assume the decommissioning liability provided that it assigns the corresponding decommissioning trust, up to a specified level, to the Company. If the decommissioning liability is retained by NYPA, the Company will perform the decommissioning of the plants at a price equal to the lesser of a pre-specified level or the amount in the decommissioning trusts. The Company believes that the amounts available to it under either scenario are sufficient to cover the future decommissioning costs without any additional contributions to the trusts. See Note 1 to the financial statements for a discussion of the accounting treatment of these contracts.

The Company maintains decommissioning trust funds that are committed to meeting the costs of decommissioning the nuclear power plants. The total fair value of the decommissioning trust funds of the Company as of December 31, 2007 is $1,937.6 million.

## NOTE 6. LEASES

### General

As of December 31, 2007, the Company had non-cancelable operating leases for equipment and buildings with minimum lease payments as follows:

| Year | Operating Leases |
|---|---|
| | (In Thousands) |
| 2008 | $4,968 |
| 2009 | 4,762 |
| 2010 | 3,703 |
| 2011 | 2,870 |
| 2012 | 2,432 |
| Years thereafter | 3,912 |
| Minimum lease payments | $22,647 |

Total rental expenses for all leases amounted to $14.5 million in 2007, $11.9 million in 2006, and $11.2 million in 2005.

## NOTE 7. RETIREMENT, OTHER POSTRETIREMENT BENEFITS, AND DEFINED CONTRIBUTION PLANS

### Qualified Pension Plans and Other Postretirement Benefit Plans

Eligible employees of the Company are provided pension and certain health care and life insurance benefits upon retirement. Substantially all employees may become eligible for these benefits if they reach retirement age while working for the Company.

Eligible employees of the Company participate in one of six qualified pension plans: Entergy Corporation Retirement Plan for Non-Bargaining Employees, Entergy Corporation Retirement Plan II for Non-Bargaining Employees," "Entergy Corporation Retirement Plan II for Bargaining Employees," "Entergy Corporation Retirement Plan III," "Entergy Corporation Retirement Plan IV for Non-Bargaining Employees," and "Entergy Corporation Retirement Plan IV for Bargaining Employees." Except for "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. Funding for these qualified pension costs are 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 qualified plans include common and preferred stocks, fixed-income securities, interest in a money market fund, and insurance contracts. 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.

In September 2006, FASB issued SFAS 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements Nos. 87, 88, 106 and 132(R)," which was effective December 31, 2006. SFAS 158 requires an employer to recognize in its balance sheet the funded status of its benefit plans. This is measured as the difference between plan assets at fair value and the benefit obligation. Employers are to record previously unrecognized gains and losses, prior service costs, and the remaining transition asset or obligation as a result of adopting SFAS 87 and SFAS 106 as accumulated other comprehensive income (OCI). SFAS 158 also requires that changes in the funded status be recorded in other comprehensive income in the period in which the changes occur. The Company uses a December 31 measurement date for its pension plans.

Total 2007 and 2006 qualified pension and other postretirement costs for the Company including capitalized amounts, included the following components:

| | Qualified Pension | | | Other Postretirement Benefits | | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| | | | (In Thousands) | | | |
| **Net periodic pension and other postretirement costs** | | | | | | |
| Service cost | $29,761 | $28,754 | $26,433 | $15,591 | $17,498 | $15,259 |
| Interest cost | 26,169 | 22,040 | 18,855 | 10,787 | 11,393 | 9,296 |
| Expected return on assets | (25,235) | (21,217) | (15,720) | (1,706) | (1,363) | (1,380) |
| Amortization of prior service cost | 887 | 887 | 279 | (11,212) | (6,399) | (5,918) |
| Recognized net loss | 1,963 | 3,394 | 3,051 | 2,598 | 4,413 | 3,197 |
| Curtailment loss | 2,336 | - | - | - | - | - |
| Special termination benefit loss | 928 | - | - | 111 | - | - |
| Net costs | $36,809 | $33,858 | $32,898 | $16,169 | $25,542 | $20,454 |
| **Other changes in plan assets and benefit obligations recognized as a OCI (before tax)** | | | | | | |
| Arising this period: | | | | | | |
| Prior services cost | $11,340 | | | ($3,520) | | |
| Net gain | (17,598) | | | (11,941) | | |
| Amounts reclassified from accumulated OCI to net periodic pension cost in the current year: | | | | | | |
| Amortization of prior service credit | (887) | | | 11,212 | | |
| Amortization of net gain | (1,963) | | | (2,598) | | |
| Total | (9,108) | | | ($6,847) | | |
| **Total recognized as net periodic pension cost, and/or OCI (before tax)** | $27,701 | | | $9,322 | | |
| **Estimated amortization amounts from accumulated OCI to net periodic cost in the following year** | | | | | | |
| Prior service cost | $1,946 | | | ($11,793) | | |
| Net loss | $906 | | | $1,594 | | |

| | Qualified Pension | | Other Postretirement Benefits | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | (In Thousands) | | | |
| **Change in Projected Benefit Obligation (PBO)/Accumulated Postretirement Obligation (APBO)** | | | | |
| Balance at beginning of year | $410,328 | $376,274 | $173,821 | $195,857 |
| Service cost | 29,761 | 28,754 | 15,591 | 17,498 |
| Interest cost | 26,169 | 22,040 | 10,787 | 11,393 |
| Acquisitions and amendments | 52,143 | - | 7,816 | (30,910) |
| Curtailments | 2,603 | - | - | - |
| Special termination benefits | 928 | - | 111 | - |
| Employee contributions | 971 | 1,002 | 4 | 239 |
| Actuarial gain | (21,599) | (12,084) | (12,337) | (16,690) |
| Benefits paid | (7,032) | (5,658) | (3,005) | (3,576) |
| Medicare Part D subsidy received | - | - | 58 | 10 |
| Balance at end of year | $494,272 | $410,328 | $192,846 | $173,821 |
| **Change in Plan Assets** | | | | |
| Fair value of assets at beginning of year | $287,908 | $203,722 | $20,419 | $19,579 |
| Actual return on plan assets | 21,235 | 29,810 | 1,310 | 2,408 |
| Employer contributions | 35,251 | 59,032 | 967 | 1,769 |
| Employee contributions | 971 | 1,002 | 4 | 239 |
| Acquisition | 21,731 | - | 5,114 | - |
| Benefits paid | (7,032) | (5,658) | (3,005) | (3,576) |
| Fair value of assets at end of year | $360,064 | $287,908 | $24,809 | $20,419 |
| **Funded status** | ($134,208) | ($122,420) | ($168,037) | ($153,402) |

| | Qualified Pension | | Other Postretirement Benefits | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| **Amounts recognized in the balance sheet (funded status under SFAS 158)** | | | | |
| Non-current asset | $5,783 | $- | $- | $- |
| Current liabilities | - | - | (3,344) | (2,720) |
| Non-current liabilities | (139,991) | (122,420) | (164,693) | (150,682) |
| Funded status | ($134,208) | ($122,420) | ($168,037) | ($153,402) |
| **Amounts recognized in OCI (before tax)** | | | | |
| Prior service cost | $7,815 | $8,704 | ($46,149) | ($53,842) |
| Net loss | 36,783 | 44,736 | 33,822 | 48,362 |
| | $44,598 | $53,440 | ($12,327) | $5,480 |

In 2007, 2006, and 2005, the affiliate billings to the Company, as described in Note 13, included qualified pension costs of $3.2 million, $2.1 million, and $1.4 million, respectively and other postretirement benefit costs of $1.7 million, $1.1 million, and $0.8 million, respectively.

## Qualified Pension and Other Postretirement Plans' Assets

### Qualified Pension and Other Postretirement Plans' Assets

The Company's qualified pension and postretirement plans' weighted-average asset allocations by asset category at December 31, 2007 and 2006 are as follows:

| | Qualified Pension | | Postretirement | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Domestic Equity Securities | 44% | 43% | 37% | 37% |
| International Equity Securities | 20% | 21% | 14% | 14% |
| Fixed-Income Securities | 34% | 34% | 49% | 49% |
| Other | 2% | 2% | -% | -% |

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

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

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

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

These allocation percentages combined with each asset class' expected investment return produced an aggregate return expectation for the five years following the study of 7.6% for pension assets, 5.4% for taxable postretirement assets, and 7.2% for non-taxable postretirement assets.

The expected long term rate of return of 8.50% for the qualified Retirement Plans assets is based on the expected long-term return of each asset class, weighted by the target allocation for each class as defined in the table above. The source for each asset class' expected long-term rate of return is the geometric mean of the respective asset class total return. The time period reflected in the total returns is a long dated period spanning several decades.

The expected long term rate of return of 8.50% for the non-taxable VEBA trust assets is based on the expected long-term return of each asset class, weighted by the target allocation for each class as defined in the table above. The source for each asset class' expected long-term rate of return is the geometric mean of the respective asset class total return. The time period reflected in the total returns is a long dated period spanning several decades.

For the taxable VEBA trust assets the allocation has a high percentage of tax-exempt fixed income securities. The tax-exempt fixed income long-term total return was estimated using total return data from the *2007 Economic Report of the President*. The time period reflected in the tax-exempt fixed income total return is 1929 to 2006. After reflecting the tax-exempt fixed income percentage and unrelated business income tax, the long-term rate of return for taxable VEBA trust assets is expected to be 6.0%.

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

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

**Accumulated Qualified Pension Benefit Obligation**

The accumulated qualified pension benefit obligation for the Company as of December 31, 2007 and 2006 was $379.7 million and $310.3 million, respectively.

**Estimated Future Benefit Payments**

Based upon the assumptions used to measure the Company's pension and postretirement benefit obligation at December 31, 2007, and including pension and postretirement benefits attributable to estimated future employee service, the Company expects that pension and other postretirement benefits to be paid over the next ten years are as follows (in thousands):

| | Estimated Future Benefit Payments | | | |
|---|---|---|---|---|
| Year(s) | Qualified Pension | Non-Qualified Pension | Other Postretirement (before Medicare Subsidy) | Estimated Future Medicare Subsidy Receipts |
| 2008 | $9,629 | $268 | $5,569 | $148 |
| 2009 | $11,501 | $268 | $6,475 | $204 |
| 2010 | $13,306 | $268 | $7,650 | $265 |
| 2011 | $15,367 | $268 | $9,046 | $350 |
| 2012 | $18,917 | $268 | $10,577 | $461 |
| 2013 - 2017 | $158,328 | $1,342 | $80,352 | $4,934 |

**Contributions**

In 2008, the Company expects to contribute $44 million (including $1 million in participant contributions) to the qualified pension plans and $3.4 million to the other postretirement plans.

**Actuarial Assumptions**

The assumed health care cost trend rate used in measuring the APBO of the Company was 9% for 2008, gradually decreasing each successive year until it reaches 4.75% in 2013 and beyond. The assumed health care cost trend rate used in measuring the Net Other Postretirement Benefit Cost of the Company was 10% for 2007, gradually decreasing each successive year until it reaches 4.5% in 2012 and beyond. A one percentage point change in the assumed health care cost trend rate for 2007 would have the following effects:

| 1 Percentage Point Increase | | 1 Percentage Point Decrease | |
|---|---|---|---|
| Impact on the APBO | Impact on the sum of service costs and interest cost | Impact on the APBO | Impact on the sum of service costs and interest cost |
| | Increase (Decrease) (In Thousands) | | |
| $27,526 | $4,703 | ($23,834) | ($3.918) |

The significant actuarial assumptions used in determining the pension PBO and the SFAS 106 APBO as of December 31, 2007, and 2006 were as follows:

| | 2007 | 2006 |
|---|---|---|
| Weighted-average discount rate: | | |
| Pension | 6.50% | 6.00% |
| Other postretirement | 6.50% | 6.00% |
| Weighted-average rate of increase in future compensation levels | 4.23% | 3.25% |

The significant actuarial assumptions used in determining the net periodic pension and other postretirement benefit costs for 2007, 2006, and 2005 were as follows:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Weighted-average discount rate: | | | |
| Pension | 6.00% | 5.90% | 6.00% |
| Other postretirement | 6.00% | 5.90% | 6.00% |
| Weighted-average rate of increase in future compensation levels | 3.25% | 3.25% | 3.25% |
| Expected long-term rate of return on plan assets: | | | |
| Taxable assets | 5.50% | 5.50% | 5.50% |
| Non-taxable assets | 8.50% | 8.50% | 8.50% |

**Medicare Prescription Drug, Improvement and Modernization Act of 2003**

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

The actuarially estimated effect of future Medicare subsidies reduced the Company's December 31, 2007 and 2006 Accumulated Postretirement Benefit Obligation by $26.7 million and $24.3 million, respectively, and reduced the 2007 and 2006 other postretirement benefit cost by $4.4 million and $4.7 million, respectively. In 2007, the Company received $58 thousand in Medicare subsidies for prescription drug claims through June 2007.

**Non-Qualified Pension Plans**

Entergy also sponsors non-qualified, non-contributory defined benefit pension plans that provide benefits to certain executives. The Company recognized net periodic pension cost of $1.4 million in 2007 and $1.3 million in 2006. The projected benefit obligation was $14.8 million and $11.8 million as of December 31, 2007 and 2006, respectively. The accumulated benefit obligation was $12.3 million and $10.8 million as of December 31, 2007 and 2006, respectively

The Company's non-qualified, non-current liability at December 31, 2007 and 2006, after application of SFAS 158, was $14.5 million and $11.7 million, respectively; and its current liability was $0.3 million and $0.2 million, respectively. The unamortized transition asset, prior service cost, and net loss recognized in accumulated other comprehensive income before taxes was $8.9 million at December 31, 2007 and $6.4 million at December 31, 2006.

In 2007, 2006, and 2005, the affiliate billings to the Company, as described in Note 13, included non-qualified pension costs of $2.1 million, $1.7 million, and $2.1 million, respectively.

**Defined Contribution Plans**

Employees of the Company are also eligible to participate in the Savings Plans of Entergy Corporation and Subsidiaries (Savings Plans). The Savings Plans are defined contribution plans covering eligible employees. The employing company makes matching contributions to the Savings Plans for all non-bargaining and certain bargaining employees to the System Savings Plans as defined in the Plan Documents. The Company's contributions to the Savings Plans were $10.0 million in 2007 and $8.7 million in 2006.

## NOTE 8. STOCK-BASED COMPENSATION

Certain employees of the Company participate in Entergy's stock-based compensation plans, including its stock option grants, long-term incentive awards, and restricted awards.

### Stock Options

Entergy Corporation has granted stock options to purchase its common stock to the Company employees at exercise prices equivalent to the closing market price of Entergy Corporation's common stock on the date of grant. Generally, stock options granted will become exercisable in equal amounts on each of the first three anniversaries of the date of grant. Unless they are forfeited previously under the terms of the grant, options expire ten years after the date of the grant if they are not exercised.

The following table includes financial information for stock options granted to the Company's employees for each of the years presented:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Compensation expense included in Net Income | $3.1 | $1.8 | $2.2 |
| Tax benefit recognized in Net Income | $1.4 | $0.8 | $1.0 |
| Compensation cost capitalized as part of fixed assets and inventory as of December 31, | $0.4 | $0.3 | $0.3 |

The fair value of the stock option grants made in 2007, 2006, and 2005 was determined by considering factors such as lack of marketability, stock retention requirements, and regulatory restrictions on exercisability. The fair value valuations comply with SFAS 123R, "Share-Based Payment," which was issued in December 2004 and became effective in the first quarter 2006. The stock option weighted-average assumptions used in determining the fair values are as follows:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Stock price volatility | 17.0% | 18.7% | 18.8% |
| Expected term in years | 4.57 | 3.8 | 3 |
| Risk-free interest rate | 4.9% | 4.4% | 4.0% |
| Dividend yield | 3.0% | 3.2% | 3.1% |
| Dividend payment | $2.16 | $2.16 | $2.16 |

Stock price volatility was calculated based upon the weekly public stock price volatility of Entergy Corporation common stock over the last four to five years. The expected term of the options was based upon historical option exercises and the weighted average life of options when exercised and the estimated weighted average life of all vested but unexercised options. Options held by certain management level employees include a restriction that requires 75% of the gains upon exercise of the option to be held in Entergy Corporation common stock until the earlier of five years or termination of employment. The reduction in fair value of the stock options because of this restriction is based upon an estimate of the call option value of the reinvested gain discounted to present value over the five year reinvestment period.

A summary of stock option activity for stock options granted to the Company employees for the years ended December 31, 2005, 2006, and 2007 and changes during the years are presented below:

| | 2007 | | 2006 | | 2005 | |
|---|---|---|---|---|---|---|
| | 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 | 1,742,778 | $55.24 | 1,664,402 | $50.80 | 1,719,502 | $44.94 |
| Options granted | 360,700 | $91.82 | 319,500 | $68.92 | 303,500 | $69.47 |
| Options exercised | (236,863) | $55.34 | (241,124) | $42.77 | (357,400) | $40.91 |
| Options forfeited/expired | (2,367) | $69.08 | - | - | (1,200) | $58.60 |
| End-of-year balance | 1,864,248 | $62.29 | 1,742,778 | $55.24 | 1,664,402 | $50.80 |
| Options exercisable at year-end | 1,190,780 | $51.54 | 1,111,793 | $48.37 | 1,027,875 | $44.30 |
| Weighted-average grant-date fair value of options granted during the year | $14.12 | | $9.17 | | $8.17 | |

The aggregate intrinsic value and weighted-average contractual life of options outstanding and options exercisable are as follows:

| | Number of Options | Aggregate Intrinsic Value | Weighted-Average Contractual Life |
|---|---|---|---|
| **2005:** | | | |
| Options outstanding | 1,664,402 | $69 million | 6.0 years |
| Options exercisable | 1,027,875 | $49 million | 5.3 years |
| **2006:** | | | |
| Options outstanding | 1,742,778 | $65 million | 6.7 years |
| Options exercisable | 1,111,793 | $49 million | 5.7 years |
| **2007:** | | | |
| Options outstanding | 1,864,248 | $107 million | 6.3 years |
| Options exercisable | 1,190,780 | $81 million | 5.1 years |

The total intrinsic value of stock options exercised was $11.9 million during 2007, $8.6 million during 2006, and $11.2 million during 2005. The intrinsic value, which has no effect on net income, of the stock options exercised is calculated by the difference in Entergy's Corporation common stock price on the date of exercise and the exercise price of the stock options granted. With the adoption of the fair value method of SFAS 123 and the application of SFAS 123R, the Company recognizes compensation cost over the vesting period of the options based on their grant-date fair value. The total fair value of options that vested was approximately $2.8 million during 2007, $2.5 million during 2006, and $2.7 million during 2005.

The following table summarizes information about stock options outstanding and stock options exercisable as of December 31, 2007:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | As of 12/31/2007 | Weighted-Avg. Remaining Contractual Life-Yrs. | Weighted-Avg. Exercise Price | Number Exercisable at 12/31/2007 | Weighted-Avg. Exercise Price |
| $23 - $36.99 | 10,399 | 2.9 | $23.00 | 10,399 | $23.00 |
| $37 - $50.99 | 653,185 | 4.1 | $42.20 | 653,185 | $42.20 |
| $51 - $64.99 | 262,412 | 5.7 | $57.82 | 262,412 | $57.82 |
| $65 - $78.99 | 577,552 | 7.4 | $69.30 | 264,784 | $69.48 |
| $79 - $91.82 | 360,700 | 9.1 | $91.82 | - | - |
| $23 - $91.82 | 1,864,248 | 6.3 | $62.29 | 1,190,780 | $51.54 |

Stock-based compensation expense related to non-vested stock options outstanding as of December 31, 2007 not yet recognized is approximately $3.9 million and is expected to be recognized on a weighted-average period of 1.8 years.

The following table summarizes information about stock options outstanding and stock options exercisable as of December 31, 2006:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | As of 12/31/2006 | Weighted-Avg. Remaining Contractual Life-Yrs. | Weighted-Avg. Exercise Price | Number Exercisable at 12/31/2006 | Weighted-Avg. Exercise Price |
| $23 - $33.99 | 11,599 | 3.9 | $23.00 | 11,599 | $23.00 |
| $34 - $44.99 | 694,836 | 5.3 | $41.97 | 694,836 | $41.97 |
| $45 - $55.99 | 86,789 | 3.1 | $49.01 | 86,789 | $49.01 |
| $56 - $66.99 | 300,128 | 7.2 | $58.60 | 191,027 | $58.60 |
| $67 - $86.20 | 649,426 | 8.4 | $69.30 | 127,542 | $69.82 |
| $23 - $86.20 | 1,742,778 | 6.7 | $55.24 | 1,111,793 | $48.37 |

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

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | As of 12/31/2005 | Weighted-Avg. Remaining Contractual Life-Yrs. | Weighted-Avg. Exercise Price | Number Exercisable at 12/31/2005 | Weighted-Avg. Exercise Price |
| $23 - $33.99 | 18,283 | 3.6 | $23.89 | 18,283 | $23.89 |
| $34 - $44.99 | 894,672 | 5.2 | $41.55 | 779,811 | $41.12 |
| $45 - $55.99 | 86,789 | 3.1 | $49.01 | 86,789 | $49.01 |
| $56 - $66.99 | 325,539 | 7.2 | $58.60 | 107,373 | $58.60 |
| $67 - $86.20 | 339,119 | 7.8 | $69.60 | 35,619 | $69.67 |
| $23 - $86.20 | 1,664,402 | 6.0 | $50.80 | 1,027,875 | $44.30 |

**Long-Term Incentive Awards**

Entergy grants long-term incentive awards earned under its stock benefit plans in the form of performance units, which are equal to the cash value of shares of Entergy Corporation common stock at the end of the performance period, which is the last trading day of the year. Performance units will pay out to the extent that the performance conditions are satisfied. In addition to the potential for equivalent share appreciation or depreciation, performance units will earn the cash equivalent of the dividends paid during the three-year performance period applicable to each plan. The costs of incentive awards are charged to income over the three-year period. The Company's financial statements include its allocated share of costs for long-term incentive awards. The following table includes the approximate costs for the long-term incentive awards for each of the years presented:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| | | (In Millions) | |
| Compensation expense included in Net Income for the year | $8.1 | $3.8 | $3.6 |
| Tax benefit recognized in Net Income for the year | $3.8 | $1.8 | $1.7 |
| Compensation cost capitalized as part of fixed assets and inventory as of December 31, | $1.1 | $0.6 | $0.5 |

**Restricted Awards**

Entergy grants restricted awards earned under its stock benefit plans in the form of stock units that are subject to time-based restrictions. The restricted units are equal to the cash value of shares of Entergy Corporation common stock at the time of vesting. The costs of restricted awards are charged to income over the restricted period, which varies from grant to grant. The average vesting period for restricted awards granted is 52 months. The Company's financial statements include its allocated share of costs for restricted awards. The following table includes the approximate costs for restricted awards for each of the years presented:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| | | (In Millions) | |
| Compensation expense included in Net Income for the year | $0.5 | $0.0 | $3.2 |
| Tax benefit recognized in Net Income for the year | $0.2 | $0.0 | $1.5 |
| Compensation cost capitalized as part of fixed assets and inventory as of December 31, | $0.1 | $0.0 | $0.5 |

**NOTE 9. BUSINESS SEGMENT INFORMATION**

The Company has one reportable segment, which is a business that owns and operates six nuclear power plants and is primarily focused on selling electric power produced by those plants to wholesale customers. This business is managed on an integrated basis.

For the years ended December 31, 2007, 2006, and 2005, the Company derived none of its revenue from outside of the United States. As of December 31, 2007 and 2006, the Company had no long-lived assets located outside of the United States.

## NOTE 10. ACQUISITIONS

**Palisades**

In April 2007, the Company purchased the 798 MW Palisades nuclear energy plant located near South Haven, Michigan from Consumers Energy Company for a net cash payment of $336 million. The Company received the plant, nuclear fuel, inventories, and other assets. The liability to decommission the plant, as well as related decommissioning trust funds, was also transferred to the Company. The Company executed a unit-contingent, 15-year purchased power agreement (PPA) with Consumers Energy for 100% of the plant's output, excluding any future uprates. Prices under the PPA range from $43.50/MWh in 2007 to $61.50/MWh in 2022, and the average price under the PPA is $51/MWh. In the first quarter 2007, the NRC renewed Palisades' operating license until 2031. As part of the transaction, the Company assumed responsibility for spent fuel at the decommissioned Big Rock Point nuclear plant, which is located near Charlevoix, Michigan. Palisades' financial results since April 2007 are included in the Company's financial statements. The following table summarizes the assets acquired and liabilities assumed at the date of acquisition.

| | Amount<br>(In Millions) |
|---|---|
| Plant (including nuclear fuel) | $727 |
| Decommissioning trust funds | 252 |
| Other assets | 41 |
| Total assets acquired | 1,020 |
| Purchased power agreement (below market) | 420 |
| Decommissioning liability | 220 |
| Other liabilities | 44 |
| Total liabilities assumed | 684 |
| Net assets acquired | $336 |

Subsequent to the closing, the Company received approximately $6 million from Consumers Energy Company as part of the Post-Closing Adjustment defined in the Asset Sale Agreement. The Post-Closing Adjustment amount resulted in an approximately $6 million reduction in plant and a corresponding reduction in other liabilities.

The Company will amortize the PPA liability to revenue over the life of the agreement. The amount that will be amortized each period is based upon the difference between the present value calculated at the date of acquisition of each year's difference between revenue under the agreement and revenue based on estimated market prices. In 2007, $50 million was amortized to revenue. The amounts to be amortized to revenue for the next five years will be $76 million for 2008, $53 million for 2009, $46 million for 2010, $43 million for 2011, and $17 million in 2012.

Supplemental information on an unaudited pro forma basis, as if the Palisades acquisition were consummated at the beginning of the years 2007 and 2006, is as follows (in millions):

| | 2007 | 2006 |
|---|---|---|
| Operating revenues | $2,099 | $1,823 |
| Net income | $ 494 | $ 311 |

The unaudited pro forma supplemental information is based on estimates and assumptions, which management believes are reasonable; it is not necessarily indicative of the combined results of operations in future periods or the results that actually would have been realized had the Palisades acquisition occurred at the beginning of the years 2007 and 2006.

## NOTE 11. RISK MANAGEMENT AND FAIR VALUES

### Market and Commodity Risks

In the normal course of business, the Company is exposed to market and commodity risks including power price risk, fuel price risk, foreign currency exchange rate risk, and equity price and interest rate risk on investments. Market risk is the potential loss that the Company may incur as a result of changes in the market or fair value of a particular financial instrument or commodity. All financial and commodity-related instruments, including derivatives, are subject to market risk.

The Company manages these risks through both contractual arrangements and derivatives. Contractual risk management tools include long-term power sales agreements and fuel purchase agreements, and capacity contracts. Commodity and financial derivative risk management tools can include electricity forwards, swaps, options, and foreign currency forwards. The Company enters into derivatives only to manage natural risks inherent in its physical or financial assets or liabilities.

The Company's exposure to market risk is determined by a number of factors, including the size, term, composition, and diversification of positions held, as well as market volatility and liquidity. For instruments such as options, the time period during which the option may be exercised and the relationship between the current market price of the underlying instrument and the option's contractual strike or exercise price also affects the level of market risk. A significant factor influencing the overall level of market risk to which the Company is exposed is its use of hedging techniques to mitigate such risk. The Company manages market risk by actively monitoring compliance with stated risk management policies as well as monitoring the effectiveness of its hedging policies and strategies. The Company'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 the Company's objectives.

### Hedging Derivatives

The Company classifies substantially all of its electricity futures, forwards, and options as cash flow hedges. Cash flow hedges with net unrealized gains of approximately $5.4 million (net-of-tax) at December 31, 2007 are scheduled to mature during 2008. Net losses totaling approximately $63 million were realized during 2007 on the maturity of cash flow hedges. Unrealized gains or losses result from hedging power output at the power stations. The related gains or losses from hedging power are included in revenues when realized. The realized gains or losses from foreign currency transactions are included in the cost of capitalized fuel because they relate to fuel acquisition. The maximum length of time over which the Company is currently hedging the variability in future cash flows for forecasted transactions at December 31, 2007 is approximately five years. The ineffective portion of the change in the value of the Company's cash flow hedges during 2007, 2006, and 2005 was insignificant.

### Fair Values

#### Financial Instruments

The estimated fair value of the Company's financial instruments is determined using forward mid curves. These independent market curves are periodically compared to NYMEX Clearport prices where available and have been found to be materially identical. Additional adjustments for unit contingent discounts and/or price differentials between liquid market locations and plant busbars are internally determined and applied depending on settlement terms of the financial instrument. In determining these adjustments, the Company uses a process that estimates the forward values based on recent observed history. Due largely to the potential for market or product illiquidity, forward estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The Company considers the carrying amounts of most of its financial instruments classified as current assets and liabilities to be a reasonable estimate of their fair value because of the short maturity of these instruments.

## NOTE 12. DECOMMISSIONING TRUST FUNDS

The Company holds debt and equity securities, classified as available-for-sale, in nuclear decommissioning trust accounts. The NRC requires the Company to maintain trusts to fund the costs of decommissioning Pilgrim, Indian Point 1 and 2, Vermont Yankee, and Palisades (NYPA currently retains the decommissioning trusts and liabilities for Indian Point 3 and FitzPatrick). The funds are invested primarily in equity securities; fixed-rate, fixed-income securities; and cash and cash equivalents. The securities held at December 31, 2007 and 2006 are summarized as follows:

| | Fair Value | Total Unrealized Gains | Total Unrealized Losses |
|---|---|---|---|
| | | (In Millions) | |
| **2007** | | | |
| Equity Securities | $1,169 | $218 | $8 |
| Debt Securities | 769 | 22 | 1 |
| **Total** | $1,938 | $240 | $9 |
| **2006** | | | |
| Equity Securities | $987 | $189 | $2 |
| Debt Securities | 597 | 8 | 4 |
| **Total** | $1,584 | $197 | $6 |

The debt securities have an average coupon rate of approximately 5.2%, an average duration of approximately 5.5 years, and an average maturity of approximately 8.9 years. The equity securities are generally held in funds that are designed to approximate or somewhat exceed the return of the Standard & Poor's 500 Index, and a relatively small percentage of the securities are held in a fund intended to replicate the return of the Wilshire 4500 Index.

The fair value and gross unrealized losses of available-for-sale equity and debt securities, summarized by investment type and length of time that the securities have been in a continuous loss position, are as follows at December 31, 2007:

| | Equity Securities | | Debt Securities | |
|---|---|---|---|---|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| | | (In Millions) | | |
| Less than 12 months | $153 | $8 | $69 | $1 |
| More than 12 months | - | - | 2 | - |
| **Total** | $153 | $8 | $71 | $1 |

The Company evaluates these unrealized losses at the end of each period to determine whether an other than temporary impairment has occurred. The assessment of whether an investment has suffered an other than temporary impairment is based on a number of factors including, first, whether the Company has the ability and intent to hold the investment to recover its value, the duration and severity of any losses, and, then, whether it is expected that the investment will recover its value within a reasonable period of time. The Company's trusts are managed by third parties who operate in accordance with agreements that define investment guidelines and place restrictions on the purchases and sales of investments. The Company did not record any significant impairments in 2007 or 2006 on these assets.

The fair value of debt securities, summarized by contractual maturities, at December 31, 2007 and 2006 are as follows:

| | 2007 | 2006 |
|---|---|---|
| | (In Millions) | |
| less than 1 year | $36 | $38 |
| 1 year - 5 years | 229 | 175 |
| 5 years - 10 years | 255 | 213 |
| 10 years - 15 years | 77 | 53 |
| 15 years - 20 years | 50 | 44 |
| 20 years+ | 122 | 74 |
| **Total** | $769 | $597 |

During the years ended December 31, 2007, 2006, and 2005, proceeds from the dispositions of securities amounted to $1,293 million, $504 million, and $504 million, respectively. During the years ended December 31, 2007, 2006, and 2005, gross gains of $3.5 million, $3.1 million, and $3.2 million, respectively, and gross losses of $2.9 million, $7.7 million, and $4 million, respectively, were reclassified out of other comprehensive income into earnings.

## NOTE 13. TRANSACTIONS WITH AFFILIATES

See Note 3 to the financial statements for a description of loans payable by the Company to associated companies.

The Company receives management, administrative, accounting, legal, engineering, and other services from Entergy Services, Inc., indirectly through Entergy Enterprises, Inc., which are both wholly-owned subsidiaries of Entergy. The Company's expenses for such services were $89.0 million in 2007, $52.3 million in 2006, and $41.9 million in 2005. These costs are allocated to the Company based on the actual costs incurred by Entergy Services and the extent that the activities related to or benefited the Company, whether directly or indirectly. Management believes that the cost allocations are reasonable for the services provided, and also believes that the cost allocations are consistent with the approximate amount of costs for these services that would have been incurred on a stand-alone basis.

Entergy Corporation or its wholly-owned subsidiaries have issued guarantees with stated amounts totalling approximately $1.9 billion for the performance or obligations of the Company's business. Guarantees are provided primarily to satisfy the Company's obligations to provide the following: collateral to secure its obligations under some of its power sale agreements; security for its obligations for retrospective premiums under the Price-Anderson Act; collateral for a letter of credit that supports its note payable to NYPA; and security for certain of its decommissioning obligations. Fees charged to the Company by Entergy Corporation for these guarantees are included in "Interest expense to associated companies" on the income statement and totaled $24.0 million in 2007, $30.4 million in 2006, and $22.7 million in 2005.

## NOTE 14. QUARTERLY FINANCIAL DATA (UNAUDITED)

Operating results for the four quarters of 2007 and 2006 for the Company were:

| | Operating Revenues | Operating Income | Net Income |
|---|---|---|---|
| | | (In Thousands) | |
| 2007: | | | |
| First Quarter | $458,251 | $201,569 | $120,295 |
| Second Quarter | $471,521 | $156,742 | $96,862 |
| Third Quarter | $554,128 | $211,658 | $149,022 |
| Fourth Quarter | $545,766 | $144,147 | $119,869 |
| 2006: | | | |
| First Quarter | $388,010 | $130,320 | $74,964 |
| Second Quarter | $362,362 | $103,094 | $56,655 |
| Third Quarter | $409,431 | $129,239 | $98,733 |
| Fourth Quarter | $385,070 | $128,210 | $46,439 |

Earnings were negatively affected in the fourth quarter 2007 by expenses of $29.9 million ($18.4 million net-of-tax) recorded in connection with a nuclear operations fleet alignment. This process was undertaken with the goals of eliminating redundancies, capturing economies of scale, and clearly establishing organizational governance. Most of the expenses related to the voluntary severance program offered to employees. Approximately 200 employees accepted the voluntary severance program offers.