

NRG ENERGY INC  
Form 10-Q/A  
November 03, 2004

**Table of Contents**

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q/A**

**Amendment No. 1**

**x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the Quarter Ended: June 30, 2004**

**Commission File Number: 001-15891**

**NRG Energy, Inc.**

(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**41-1724239**

(I.R.S. Employer  
Identification No.)

**901 Marquette Avenue,  
Suite 2300**

**Minneapolis, Minnesota**  
(Address of principal executive  
offices)

**55402**

(Zip Code)

(612) 373-5300

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

**Yes x No o**

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12 b-2 of the Exchange Act).

**Yes x No o**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15 (d) of the Securities and Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

**Yes x No o**

As of October 29, 2004, there were 100,008,053 shares of common stock outstanding.

---

---

---

## TABLE OF CONTENTS

### Index

	<u>Page No.</u>
<b>Part I FINANCIAL INFORMATION</b>	
Item 1 Consolidated Financial Statements and Notes	
Notes to Consolidated Financial Statements	3-55
<b>Part II OTHER INFORMATION</b>	
Item 6 Exhibits and Reports on Form 8-K	56
<b><u>SIGNATURES</u></b>	57
<b><u>EXHIBIT INDEX</u></b>	58
<u>Certification of CEO Pursuant to Section 302</u>	
<u>Certification of CFO Pursuant to Section 302</u>	
<u>Certification of VP and Controller Pursuant to Section 302</u>	
<u>Certification of CEO, CFO and Controller Pursuant to Section 906</u>	
<u>Financial Statements of Louisiana Generating LLC</u>	
<u>Financial Statements of NRG Northeast Generating LLC</u>	
<u>Financial Statements of Indian River Power LLC</u>	
<u>Financial Statements of NRG MidAtlantic Generating LLC</u>	
<u>Financial Statements of NRG South Central Generating LLC</u>	
<u>Financial Statements of NRG Eastern LLC</u>	
<u>Financial Statements of Northeast Generation Holding LLC</u>	
<u>Financial Statements of NRG International LLC</u>	

### EXPLANATORY NOTE

In connection with the registration of our 8% Second Priority Senior Notes due December 15, 2013 issued on December 17, 2003 and January 28, 2004, we are reissuing our quarterly report for the quarter ended June 30, 2004 as amendment No. 1 on Form 10-Q/A. The updated information includes consolidating financial statements as required by Rule 3-10 of Regulation S-X as described in Note 22. In addition, we have attached to this Form 10-Q/A as exhibits 99.1 through 99.8 the unaudited quarterly financial statements of eight significant guarantor subsidiaries as required by Rule 3-16 of Regulation S-X.

Table of Contents**NRG ENERGY, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

	<b>Reorganized NRG</b>	<b>Predecessor Company</b>	<b>Reorganized NRG</b>	<b>Predecessor Company</b>
	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2004</b>	<b>June 30, 2003</b>	<b>June 30, 2004</b>	<b>June 30, 2003</b>

(In thousands, except for per share amounts)

**Operating Revenues**

Revenues from majority-owned operations	<b>\$573,674</b>	\$ 441,599	<b>\$1,173,992</b>	\$ 936,609
---	------------------	------------	--------------------	------------

**Operating Costs and Expenses**

Cost of majority-owned operations	<b>353,750</b>	381,845	<b>735,801</b>	759,432
Depreciation and amortization	<b>53,168</b>	63,768	<b>108,174</b>	122,906
General, administrative and development	<b>45,837</b>	39,147	<b>82,329</b>	87,663
Corporate relocation charges	<b>5,645</b>		<b>6,761</b>	
Reorganization items	<b>(2,661)</b>	6,334	<b>3,589</b>	6,334
Restructuring and impairment charges	<b>1,676</b>	269,631	<b>1,676</b>	291,767

Total operating costs and expenses	<b>457,415</b>	760,725	<b>938,330</b>	1,268,102
------------------------------------	----------------	---------	----------------	-----------

<b>Operating Income/(Loss)</b>	<b>116,259</b>	(319,126)	<b>235,662</b>	(331,493)
--------------------------------	----------------	-----------	----------------	-----------

**Other Income (Expense)**

Minority interest in earnings of consolidated subsidiaries	<b>(201)</b>		<b>(709)</b>	
Equity in earnings of unconsolidated affiliates	<b>46,101</b>	46,857	<b>63,814</b>	92,486
Write downs and gains/(losses) on sales of equity method investments	<b>1,205</b>	(132,436)	<b>(533)</b>	(149,027)
Other income, net	<b>8,052</b>	(7,953)	<b>11,708</b>	3,542
Interest expense	<b>(66,225)</b>	(92,087)	<b>(159,371)</b>	(260,761)

Total other expense	<b>(11,068)</b>	(185,619)	<b>(85,091)</b>	(313,760)
---------------------	-----------------	-----------	-----------------	-----------

<b>Income/(Loss) From Continuing Operations Before Income Taxes</b>	<b>105,191</b>	<b>(504,745)</b>	<b>150,571</b>	<b>(645,253)</b>
Income Tax Expense	<u>36,322</u>	<u>4,305</u>	<u>50,602</u>	<u>37,342</u>
<b>Income/(Loss) From Continuing Operations</b>	<b>68,869</b>	<b>(509,050)</b>	<b>99,969</b>	<b>(682,595)</b>
<b>Income/(Loss) on Discontinued Operations, net of Income Taxes</b>	<b>14,155</b>	<b>(99,351)</b>	<b>13,290</b>	<b>61,562</b>
<b>Net Income/(Loss)</b>	<b>\$ 83,024</b>	<b>\$(608,401)</b>	<b>\$ 113,259</b>	<b>\$ (621,033)</b>
<b>Weighted Average Number of Common Shares Outstanding Basic</b>	<b>100,080</b>		<b>100,051</b>	
<b>Income From Continuing Operations per Weighted Average Common Share Basic</b>	<b>\$ 0.69</b>		<b>\$ 1.00</b>	
<b>Income From Discontinued Operations per Weighted Average Common Share Basic</b>	<b>0.14</b>		<b>0.13</b>	
<b>Net Income per Weighted Average Common Share Basic</b>	<b>\$ 0.83</b>		<b>\$ 1.13</b>	
<b>Weighted Average Number of Common Shares Outstanding Diluted</b>	<b>100,478</b>		<b>100,214</b>	
<b>Income From Continuing Operations per Weighted Average Common Share Diluted</b>	<b>\$ 0.69</b>		<b>\$ 1.00</b>	
<b>Income From Discontinued Operations per Weighted Average Common Share Diluted</b>	<b>0.14</b>		<b>0.13</b>	
<b>Net Income per Weighted Average Common Share Diluted</b>	<b>\$ 0.83</b>		<b>\$ 1.13</b>	

See notes to consolidated financial statements.

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (REORGANIZED COMPANY)****(Unaudited)**

	<b>June 30, 2004</b>	<b>December 31, 2003</b>
	<b>(In thousands)</b>	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 820,876	\$ 551,223
Restricted cash	151,673	116,067
Accounts receivable trade, less allowance for doubtful accounts of \$322 and \$0	313,649	201,921
Xcel Energy settlement receivable		640,000
Current portion of notes receivable affiliates	1,917	200
Current portion of notes receivable	123,060	65,141
Taxes receivable	14,824	
Inventory	203,672	194,926
Derivative instruments valuation	11,670	772
Prepayments and other current assets	229,961	222,178
Current deferred income taxes	961	1,850
Current assets discontinued operations	56,955	119,561
	<hr/>	<hr/>
Total current assets	1,929,218	2,113,839
	<hr/>	<hr/>
<b>Property, Plant and Equipment</b>		
In service	3,935,915	3,885,465
Under construction	104,794	139,171
	<hr/>	<hr/>
Total property, plant and equipment	4,040,709	4,024,636
Less accumulated depreciation	(119,487)	(11,800)
	<hr/>	<hr/>
Net property, plant and equipment	3,921,222	4,012,836
	<hr/>	<hr/>
<b>Other Assets</b>		
Equity investments in affiliates	677,684	737,998
Notes receivable, less current portion affiliates	122,539	130,152
Notes receivable, less current portion	612,118	691,444
Intangible assets, net of accumulated amortization of \$34,404 and \$5,212	356,068	432,361
Debt issuance costs, net of accumulated amortization of \$4,992 and \$454	63,038	74,337

Edgar Filing: NRG ENERGY INC - Form 10-Q/A

Derivative instruments valuation	53,474	59,907
Funded letter of credit	250,000	250,000
Other assets	116,129	123,145
Non-current assets discontinued operations	451,785	618,968
	<hr/>	<hr/>
Total other assets	2,702,835	3,118,312
	<hr/>	<hr/>
<b>Total Assets</b>	<b>\$8,553,275</b>	<b>\$9,244,987</b>
	<hr/>	<hr/>

See notes to consolidated financial statements.

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (REORGANIZED COMPANY)  
(Unaudited)**

	<b>June 30, 2004</b>	<b>December 31, 2003</b>
	<b>(In thousands)</b>	
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt and capital leases	\$ 96,385	\$ 801,229
Short-term debt	17,826	19,019
Accounts payable trade	137,033	158,683
Accounts payable affiliates	6,372	7,053
Accrued taxes		16,095
Accrued property, sales and other taxes	16,136	22,322
Accrued salaries, benefits and related costs	33,072	19,331
Accrued interest	20,038	8,982
Derivative instruments valuation	20,979	429
Creditor pool obligation	25,000	540,000
Other bankruptcy settlement	221,283	220,000
Other current liabilities	113,773	102,861
Current liabilities discontinued operations	23,121	110,177
	<hr/>	<hr/>
Total current liabilities	731,018	2,026,181
	<hr/>	<hr/>
<b>Other Liabilities</b>		
Long-term debt and capital leases	3,922,417	3,327,782
Deferred income taxes	144,522	149,493
Postretirement and other benefit obligations	110,842	105,946
Derivative instruments valuation	159,567	153,503
Other long-term obligations	473,247	480,938
Non-current liabilities discontinued operations	469,911	558,884
	<hr/>	<hr/>
Total non-current liabilities	5,280,506	4,776,546
	<hr/>	<hr/>
<b>Total Liabilities</b>	<b>6,011,524</b>	<b>6,802,727</b>
	<hr/>	<hr/>
<b>Minority Interest</b>	5,673	5,004
<b>Commitments and Contingencies</b>		
<b>Stockholders Equity</b>		



Edgar Filing: NRG ENERGY INC - Form 10-Q/A

Serial Preferred Stock; 10,000,000 shares authorized, none issued and outstanding at June 30, 2004 and December 31, 2003

Common stock; \$.01 par value; 500,000,000 shares authorized; 100,006,798 shares at June 30, 2004 and 100,000,000 shares at December 31, 2003 issued and outstanding

	1,000	1,000
Additional paid-in capital	2,410,751	2,403,429
Retained earnings	124,284	11,025
Accumulated other comprehensive income	43	21,802
	<u>          </u>	<u>          </u>
Total stockholders' equity	<u>2,536,078</u>	<u>2,437,256</u>
<b>Total Liabilities and Stockholders' Equity</b>	<b><u>\$8,553,275</u></b>	<b><u>\$9,244,987</u></b>

See notes to consolidated financial statements.

Table of Contents

## NRG ENERGY, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY/(DEFICIT)

Three Months Ended June 30, 2004 and June 30, 2003  
(Unaudited)

(In thousands)	Common		Additional	Retained Earnings/ (Accumulated Deficit)	Accumulated Other	Total Stockholders Equity/(Deficit)
	Stock	Shares	Paid-in Capital		Comprehensive Income/(Loss)	
<b>Balances at March 31, 2003 (Predecessor Company)</b>	\$		\$2,227,692	\$ (2,841,565)	\$ (139,004)	\$ (752,877)
Net loss				(608,401)		(608,401)
Foreign currency translation adjustments and other					77,777	77,777
Deferred unrealized gain on derivatives, net					5,155	5,155
Comprehensive loss for the three months ended June 30, 2003						(525,469)
<b>Balances at June 30, 2003 (Predecessor Company)</b>	\$		\$2,227,692	\$ (3,449,966)	\$ (56,072)	\$ (1,278,346)
<b>Balances at March 31, 2004 (Reorganized NRG)</b>	\$1,000	100,000	\$2,406,771	\$ 41,260	\$ (3,176)	\$ 2,445,855
Net income				83,024		83,024
Foreign currency translation adjustments and other					(33,520)	(33,520)
Deferred unrealized gain on derivatives, net					36,739	36,739

<b>Comprehensive income for the three months ended June 30, 2004</b>						<b>86,243</b>
<b>Equity based compensation</b>	<u>7</u>	<u>3,980</u>				<u>3,980</u>
<b>Balances at June 30, 2004 (Reorganized NRG)</b>	<u>\$1,000</u>	<u>100,007</u>	<u>\$2,410,751</u>	<u>\$ 124,284</u>	<u>\$ 43</u>	<u>\$ 2,536,078</u>

See notes to consolidated financial statements.

Table of Contents

## NRG ENERGY, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY/(DEFICIT)**  
**Six Months Ended June 30, 2004 and June 30, 2003**  
(Unaudited)

(In thousands)	Common		Additional	Retained Earnings/ (Accumulated Deficit)	Accumulated Other	Total Stockholders Equity/(Deficit)
	Stock	Shares	Paid-in Capital		Comprehensive Income/(Loss)	
<b>Balances at December 31, 2002 (Predecessor Company)</b>	\$		\$2,227,692	\$(2,828,933)	\$(94,958)	\$ (696,199)
Net loss				(621,033)		(621,033)
Foreign currency translation adjustments and other					90,867	90,867
Deferred unrealized loss on derivatives, net					(51,981)	(51,981)
Comprehensive loss for the six months ended June 30, 2003						(582,147)
<b>Balances at June 30, 2003 (Predecessor Company)</b>	\$		\$2,227,692	\$(3,449,966)	\$(56,072)	\$(1,278,346)
<b>Balances at December 31, 2003 (Reorganized NRG)</b>	\$1,000	100,000	\$2,403,429	\$ 11,025	\$ 21,802	\$ 2,437,256
Net income				113,259		113,259
Foreign currency translation adjustments and other					(35,933)	(35,933)
Deferred unrealized gain on derivatives, net					14,174	14,174

<b>Comprehensive income for the six months ended June 30, 2004</b>						<b>91,500</b>
<b>Equity based compensation</b>	<u>          </u>	<u>      7</u>	<u>   7,322</u>	<u>          </u>	<u>          </u>	<u>   7,322</u>
<b>Balances at June 30, 2004 (Reorganized NRG)</b>	<b><u>\$1,000</u></b>	<b><u>100,007</u></b>	<b><u>\$2,410,751</u></b>	<b><u>\$ 124,284</u></b>	<b><u>\$ 43</u></b>	<b><u>\$ 2,536,078</u></b>

See notes to consolidated financial statements.

Table of Contents**NRG ENERGY, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

<b>(In thousands)</b>	<b>Reorganized NRG</b>	<b>Predecessor Company</b>
	<b>Six Months Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>
<b>Cash Flows from Operating Activities</b>		
Net income/(loss)	\$ 113,259	\$(621,033)
Adjustments to reconcile net income/(loss) to net cash provided (used) by operating activities		
Distributions in excess of (less than) equity in earnings of unconsolidated affiliates	4,751	(23,943)
Depreciation and amortization	113,499	145,221
Amortization of debt issuance costs	20,060	11,090
Amortization of debt discount	11,795	
Deferred income taxes	49,384	36,525
Minority interest	2,089	466
Unrealized (gains)/losses on derivatives	(21,458)	17,796
Asset impairment	1,676	347,913
Write downs and losses on sales of equity method investments	533	148,841
Gain on sale of discontinued operations	(13,012)	(218,536)
Amortization of power contracts and emission credits	34,517	
Cash provided (used) by changes in certain working capital items, net of acquisition affects		
Accounts receivable	(111,054)	(43,608)
Xcel Energy settlement receivable	640,000	
Accrued taxes	(29,285)	(18,603)
Inventory	(8,439)	13,550
Prepayments and other current assets	(2,065)	(74,262)
Accounts payable	(27,626)	264,106
Accounts payable affiliates	213	4,788
Accrued property, sales and other taxes	(7,065)	5,398
Accrued salaries, benefits and related costs	20,192	(3,769)
Accrued interest	14,883	126,578
Other current liabilities	(506,368)	(117,355)
Cash used by changes in other assets and liabilities	16,878	22,869
<b>Net Cash Provided by Operating Activities</b>	<b>317,357</b>	<b>24,032</b>

<b>Cash Flows from Investing Activities</b>		
Proceeds on sale of equity method investments	29,693	89,223
Proceeds on sale of discontinued operations	59,190	
Investments in equity method investments and projects	(566)	(369)
Decrease in notes receivable, net	15,208	9,405
Capital expenditures	(64,676)	(56,605)
Increase in restricted cash and trust funds	(37,291)	(14,137)
	<u>          </u>	<u>          </u>
<b>Net Cash Provided by Investing Activities</b>	<b>1,558</b>	<b>27,517</b>
	<u>          </u>	<u>          </u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from issuance of long-term debt, net	490,631	5,342
Deferred debt issuance costs	(8,497)	(7,474)
Principal payments on short and long-term debt	(567,806)	(31,390)
	<u>          </u>	<u>          </u>
<b>Net Cash Used by Financing Activities</b>	<b>(85,672)</b>	<b>(33,522)</b>
	<u>          </u>	<u>          </u>
<b>Change in Cash from Discontinued Operations</b>	<b>10,822</b>	<b>24,062</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>25,588</b>	<b>(93,163)</b>
	<u>          </u>	<u>          </u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>269,653</b>	<b>(51,074)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>551,223</b>	<b>360,860</b>
	<u>          </u>	<u>          </u>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 820,876</b>	<b>\$ 309,786</b>
	<u>          </u>	<u>          </u>

See notes to consolidated financial statements.

**Table of Contents**

**NRG ENERGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1 Organization**

**General**

NRG Energy, Inc., or NRG Energy, the Company, we, our, or us, is a wholesale power generation company, primarily engaged in the ownership and operation of power generation facilities and the sale of energy, capacity and related products in the United States and internationally. We have a diverse portfolio of electric generation facilities in terms of geography, fuel type, and dispatch levels. We seek to maximize operating income through the efficient procurement and management of fuel supplies and maintenance services, and the sale of energy, capacity and ancillary services into attractive spot, intermediate and long-term markets.

On May 14, 2003, we and 25 of our direct and indirect wholly owned subsidiaries commenced voluntary petitions under chapter 11 of the bankruptcy code in the United States Bankruptcy Court for the Southern District of New York. On November 24, 2003, the bankruptcy court entered an order confirming a plan of reorganization, for NRG Energy and four of our subsidiaries, and the plan became effective on December 5, 2003. On November 25, 2003, the bankruptcy court entered an order confirming the plan of reorganization for 21 of our subsidiaries, and the plan became effective on December 23, 2003. As of June 30, 2004, three entities remain in bankruptcy.

As part of the NRG plan of reorganization, Xcel Energy, Inc., or Xcel Energy, relinquished its ownership interest in us and we became an independent public company upon our emergence from bankruptcy on December 5, 2003. We no longer have any material affiliation or relationship with Xcel Energy. As part of that reorganization, we eliminated approximately \$5.2 billion of corporate level bank and bond debt and approximately \$1.3 billion of additional claims and disputes by distributing a combination of equity and up to \$1.04 billion in cash among our unsecured creditors. In addition to the debt reduction associated with the restructuring, we used a substantial portion of the proceeds of a recent note offering and borrowings under a new credit facility to retire approximately \$1.7 billion of project-level debt on December 23, 2003. In January 2004, we used proceeds of an additional note offering to repay \$503.5 million of the outstanding borrowings under our new credit facility.

As of June 30, 2004, we owned interests in 55 power projects in five countries having an aggregate net generation capacity of approximately 18,000 MW. Approximately 7,900 MW of our capacity consists of merchant power plants in the Northeast region of the United States. Certain of these assets are located in transmission constrained areas, including approximately 1,400 MW of in-city New York City generation capacity and approximately 750 MW of southwest Connecticut generation capacity. We also own approximately 2,500 MW of capacity in the South Central region of the United States, with approximately 1,700 MW of that capacity supported by long-term power purchase agreements. Our assets in the West Coast region of the United States consist of approximately 1,300 MW of capacity with the majority of such capacity owned via our 50% interest in West Coast Power LLC. Our assets in the west coast region are supported by a power purchase agreement with the California Department of Water Resources that runs through December 2004. One-year term reliability must-run contracts with the California Independent System Operator for approximately 600 MW in the San Diego area are expected to be renewed for 2005.

Our principal domestic generation assets consisted of a diversified mix of natural gas-, coal- and oil-fired facilities, representing approximately 48%, 26% and 26% of our total domestic generation capacity, respectively. In addition,



45% of our generating facilities have some capability to combust dual fuels. We also own interests in plants having a net generation capacity of approximately 2,100 MW in various international markets, including Australia, Europe and Brazil.

We perform our own power marketing through our energy marketing subsidiary, NRG Power Marketing, Inc., or PMI, which, is focused on maximizing the value of our North American assets by providing management services, and through the efficient procurement and management of fuel and the sale of energy and related products in the spot, intermediate and long-term markets. West Coast Power has arranged for power marketing and fuel management with affiliates of our other partner, Dynegy, Inc. We operate substantially all of our generating assets, including the West Coast Power plants.

We were incorporated as a Delaware corporation on May 29, 1992. Our headquarters and principal executive offices are located at 901 Marquette Avenue, Suite 2300, Minneapolis, Minnesota, 55402. Our telephone number is (612) 373-5300. Our Internet website is <http://www.nrgenergy.com>. Our recent annual reports, quarterly reports, current reports and other periodic filings are available free of charge through our Internet website.

**Table of Contents**

**Note 2 Summary of Significant Accounting Policies**

***Basis of Presentation***

As used in this Quarterly Report, Predecessor Company refers to the Company prior to its emergence from bankruptcy. Reorganized NRG refers to the Company after its emergence from bankruptcy.

Between May 14, 2003 and December 5, 2003, we operated as a debtor in possession under the supervision of the Bankruptcy Court. Our financial statements for reporting periods within that timeframe were prepared in accordance with the provisions of AICPA Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*, or SOP 90-7.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the Securities and Exchange Commission's regulations for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The accounting policies we follow are set forth in Note 2 to the Company's financial statements in our Annual Report on Form 10-K for the year ended December 31, 2003. The following notes should be read in conjunction with such policies and other disclosures in the Form 10-K. Interim results are not necessarily indicative of results for a full year.

In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all material adjustments (consisting of normal, recurring accruals) necessary to present fairly our consolidated financial position as of June 30, 2004, the results of our operations and stockholders' equity/(deficit) for the three and six months ended June 30, 2004 and 2003, and our cash flows for the six months ended June 30, 2004 and 2003. Certain prior-year amounts have been reclassified for comparative purposes.

In connection with our emergence from bankruptcy, we adopted Fresh Start Reporting on December 5, 2003, in accordance with the requirements of SOP 90-7. The application of SOP 90-7 resulted in the creation of a new reporting entity. Under Fresh Start, our reorganization value was allocated to our assets and liabilities on a basis substantially consistent with purchase accounting in accordance with Statement of Financial Accounting Standards, or SFAS No. 141, *Business Combinations*.

***Comparability of Financial Information***

Due to the adoption of Fresh Start as of December 5, 2003, the Reorganized NRG Energy balance sheet, statement of operations and statement of cash flows have not been prepared on a consistent basis with the Predecessor Company's financial statements and are not comparable in certain respects to the financial statements prior to the application of Fresh Start. A black line has been drawn on the accompanying Consolidated Financial Statements to separate and distinguish between Reorganized NRG Energy and the Predecessor Company.

**Note 3 Discontinued Operations**

SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* requires that discontinued operations be valued on an asset-by-asset basis at the lower of carrying amount or fair value less costs to sell. In applying those provisions, our management considered cash flow analyses and offers related to the assets and businesses. This amount is included in income/(loss) on discontinued operations, net of income taxes in the accompanying consolidated statements of operations. In accordance with SFAS No. 144, assets held for sale will not be depreciated commencing with their classification as such.

We have classified certain business operations, and gains/(losses) recognized on sale, as discontinued operations for projects that were sold or have met the required criteria for such classification. The financial results for all of these businesses have been accounted for as discontinued operations. Accordingly, current period operating results and prior periods have been restated to report the operations as discontinued. For the three and six months ended June 30, 2004, discontinued operations included our NRG McClain LLC; Penobscot Energy Recovery Company, or PERC; Compania Boliviana De Energia Electrica S.A. Bolivian Power Company Limited, or Cobee; Hsin Yu and LSP Energy projects. For the three and six months ended June 30, 2003, discontinued operations included our NRG McClain, PERC, Cobee, Killingholme, NEO Landfill Gas, Inc., or NLGI; three NEO Corporation projects (NEO Fort Smith LLC, NEO Woodville LLC, NEO Phoenix LLC), Timber Energy Resources, Inc., or TERI; Cahua and Energia Pacasmayo, Hsin Yu and LSP Energy projects. Summarized results of operations of discontinued operations were as follows:

**Table of Contents**

	<b>Reorganized NRG</b>	<b>Predecessor Company</b>	<b>Reorganized NRG</b>	<b>Predecessor Company</b>
	<b>Three Months Ended June 30, 2004</b>	<b>Three Months Ended June 30, 2003</b>	<b>Six Months Ended June 30, 2004</b>	<b>Six Months Ended June 30, 2003</b>
	<b>(In thousands)</b>			
Operating revenues	<b>\$ 43,257</b>	\$ 60,590	<b>\$ 102,080</b>	\$ 136,377
Operating and other expenses	<b>40,996</b>	156,608	<b>99,702</b>	261,756
Pretax income/(loss) from operations of discontinued components	<b>2,261</b>	(96,018)	<b>2,378</b>	(125,379)
Income tax expense	<b>4</b>	1,267	<b>986</b>	1,787
Income/(loss) from operations of discontinued components	<b>2,257</b>	(97,285)	<b>1,392</b>	(127,166)
Disposal of discontinued components pre-tax gain/(loss), net	<b>13,307</b>	(2,066)	<b>13,307</b>	188,728
Income tax expense	<b>1,409</b>	—	<b>1,409</b>	—
Disposal of discontinued components gain/(loss), net	<b>11,898</b>	(2,066)	<b>11,898</b>	188,728
Income/(loss) on discontinued operations, net of income taxes	<b>\$ 14,155</b>	\$ (99,351)	<b>\$ 13,290</b>	\$ 61,562

The assets and liabilities of the discontinued operations are reported in the balance sheets as of June 30, 2004 and December 31, 2003 as discontinued operations. The major classes of assets and liabilities are presented by geographic area in the following table. As of June 30, 2004, within our Power Generation Segment, the NRG McClain and LSP Energy projects are included in the Other North America classification; all other projects have been sold as of June 30, 2004. As of December 31, 2003, within our Power Generation segment, the PERC, NRG McClain and LSP Energy projects are included in the Other North America classification and the Cobee and Hsin Yu projects are included in the Other International classification.

<b>June 30, 2004</b>	<b>Power Generation Other North America</b>
----------------------	---

	<b>(In thousands)</b>
Cash	\$ 1,736
Restricted cash	40,255
Receivables, net	8,181
Inventory	5,366
Prepays and other current assets	1,417
	<hr/>
<b>Current assets discontinued operations</b>	<b>\$ 56,955</b>
	<hr/>
PP&E, net	\$ 439,017
Other non-current assets	12,768
	<hr/>
<b>Non-current assets discontinued operations</b>	<b>\$ 451,785</b>
	<hr/>
Current portion of long-term debt	\$ 5,448
Accounts payable trade	2,284
Accrued liabilities	15,239
Other current liabilities	150
	<hr/>
<b>Current liabilities discontinued operations</b>	<b>\$ 23,121</b>
	<hr/>
Long-term debt	\$ 287,279
Other non-current liabilities	182,632
	<hr/>
<b>Non-current liabilities discontinued operations</b>	<b>\$ 469,911</b>
	<hr/>

Table of Contents

December 31, 2003	Power Generation		
	Other North America	Other International	Total
		(In thousands)	
Cash	\$ 4,294	\$ 8,264	\$ 12,558
Restricted cash	60,292		60,292
Receivables, net	12,675	11,272	23,947
Inventory	8,722	3,537	12,259
Prepays and other current assets	3,732	6,786	10,518
<b>Current assets discontinued operations</b>	<b>\$ 89,715</b>	<b>\$ 29,859</b>	<b>\$ 119,574</b>
PP&E, net	\$487,752	\$ 75,251	\$563,003
Non-current deferred tax asset		31,469	31,469
Other non-current assets	14,765	9,731	24,496
<b>Non-current assets discontinued operations</b>	<b>\$502,517</b>	<b>\$116,451</b>	<b>\$618,968</b>
Current portion of long-term debt	\$ 6,206	\$ 49,743	\$ 55,949
Accounts payable trade	3,056	23,050	26,106
Accrued liabilities	15,292	3,981	19,273
Other current liabilities	6,139	2,723	8,862
<b>Current liabilities discontinued operations</b>	<b>\$ 30,693</b>	<b>\$ 79,497</b>	<b>\$ 110,190</b>
Long-term debt	\$313,739	\$ 19,779	\$333,518
Minority interest	31,879	406	32,285
Other non-current liabilities	184,970	8,111	193,081
<b>Non-current liabilities discontinued operations</b>	<b>\$530,588</b>	<b>\$ 28,296</b>	<b>\$558,884</b>

*NRG McClain* On July 9, 2004, NRG McClain completed the sale of its 77% interest in the McClain Generating Station to Oklahoma Gas & Electric Company. The Oklahoma Municipal Power Authority will continue to own the remaining 23% interest in the facility. The proceeds of \$160.2 million from the sale will be used to repay outstanding project debt under the secured term loan and working capital facility. A loss of \$3.2 million was recognized as of June 30, 2004 based upon the final terms of the sale.

*PERC* During the first quarter of 2004, we received board authorization to proceed with the sale of our interest in PERC to SET PERC Investment LLC that reached financial closing in April 2004. Upon completion of the transaction, we received net proceeds of \$18.4 million, resulting in a gain of \$2.0 million, net of tax.

*Cobee* During the first quarter of 2004, we entered into an agreement for the sale of our interest in our Cobee project to Globeleq Holdings Limited, which reached financial closing in April 2004. Upon completion of the transaction, we received net proceeds of approximately \$50.0 million, resulting in a gain of \$2.8 million.

*LSP Energy* In May 2004 we reached an agreement to sell our 100 percent interest in an 837-megawatt generating plant in Batesville, Mississippi to Complete Energy Partners LLC. We expect to realize cash proceeds of \$26.5 million, subject to certain purchase price adjustments and transaction costs. A gain of approximately \$16.0 million is expected upon completion of the sale.

*Hsin Yu* During the second quarter of 2004, we entered into an agreement for the sale of our interest in our Hsin Yu project to a minority interest shareholder, Asia Pacific Energy Development Company Ltd., which reached financial closing in May 2004. Upon completion of the transaction, we received net proceeds of \$1.0 million, resulting in a gain of approximately \$10.3 million, resulting from our negative equity in the project. In addition, although we have no continuing involvement in the project, we retained the prospect of receiving an additional \$1.0 million in additional proceeds upon final closing of Phase II of the project.

*Killingholme* During third quarter 2002, we recorded an impairment charge of \$477.9 million. In January 2003, we completed the sale of our interest in the Killingholme project to our lenders for a nominal value and forgiveness of outstanding debt with a carrying value of approximately \$360.1 million at December 31, 2002. The sale of our interest in the Killingholme project and the release of debt obligations resulted in a gain on sale in the first quarter of 2003 of approximately \$191.2 million. The gain results from the write-down of the project's assets in the third quarter of 2002 below the carrying value of the related debt.

*NLGI* During 2002, we recorded an impairment charge of \$12.4 million related to subsidiaries of NLGI, an indirect wholly owned subsidiary of NRG Energy. The charge was related largely to asset impairments based on a revised project outlook. During the quarter ended March 31, 2003, we recorded impairment charges of \$23.6 million related to subsidiaries of NLGI and a charge of \$14.5

**Table of Contents**

million to write off our 50% investment in Minnesota Methane LLC. Through April 30, 2003, NRG Energy and NLGI failed to make certain payments causing a default under NLGI's term loan agreements. In May 2003, the project lenders to the wholly owned subsidiaries of NLGI and Minnesota Methane foreclosed on our membership interest in the NLGI subsidiaries and our equity interest in Minnesota Methane. Together with a \$2.2 million gain recorded upon completion of the foreclosures of the related equity investees (see Note 4), there was no material net gain or loss recognized as a result of these foreclosures.

**Note 4 Write Downs and Gains/(Losses) on Sales of Equity Method Investments**

Write downs and gains/(losses) on sales of equity method investments recorded in the consolidated statement of operations include the following:

	<b>Reorganized NRG</b>	<b>Predecessor Company</b>	<b>Reorganized NRG</b>	<b>Predecessor Company</b>
	<b>Three Months Ended June 30, 2004</b>	<b>Three Months Ended June 30, 2003</b>	<b>Six Months Ended June 30, 2004</b>	<b>Six Months Ended June 30, 2003</b>
	(In thousands)			
Calpine Cogeneration	\$ 500	\$	\$ 735	\$
Loy Yang	705	(139,972)	(1,268)	(139,972)
NEO Corporation Minnesota Methane		2,196		(12,257)
Kondapalli		1,812		519
ECKG		3,714		2,869
Other		(186)		(186)
	<b>\$1,205</b>	<b>\$(132,436)</b>	<b>\$ (533)</b>	<b>\$(149,027)</b>

*Calpine Cogeneration* In January 2004, we executed an agreement to sell our 20% interest in Calpine Cogeneration Corporation to Calpine Power Company. The transaction closed in March 2004 and resulted in net cash proceeds of \$2.5 million and a net gain of \$0.2 million. During the second quarter of 2004, we received additional consideration on the sale of \$0.5 million, resulting in an adjusted net gain of \$0.7 million.

*Loy Yang* We recorded an impairment charge of \$111.4 million during 2002 and an additional impairment charge of \$140.0 million during the second quarter of 2003 based on a third party market evaluation and bids received in response to marketing Loy Yang for possible sale. During the first quarter of 2004, we wrote down our investment in Loy Yang by \$2.0 million due to recent estimates of the expected sales proceeds. In April 2004, we completed the sale of our 25.4% interest in Loy Yang to Great Energy Alliance Corporation, which resulted in net cash proceeds of \$26.7 million and a gain of \$0.7 million. This resulted in an adjusted loss of \$1.3 million for the six months ended June 30, 2004.



*NEO Corporation Minnesota Methane* We recorded an impairment charge of \$12.3 million during 2002 to write-down our 50% investment in Minnesota Methane. We recorded an additional impairment charge of \$14.5 million during the first quarter of 2003. These charges were related to a revised project outlook and management's belief that the decline in fair value was other than temporary. In May 2003, the project lenders to the wholly owned subsidiaries of NEO Landfill Gas, Inc. and Minnesota Methane foreclosed on our membership interest in the NEO Landfill Gas, Inc. subsidiaries and our equity interest in Minnesota Methane. Upon completion of the foreclosure, we recorded a gain of \$2.2 million on the related equity investments. This gain resulted from the legal release of certain obligations.

*Lanco Kondapalli Power Pvt Ltd, or Kondapalli* In the fourth quarter of 2002, we wrote down our investment in Kondapalli by \$12.7 million due to recent estimates of sales value, which indicated an impairment of our book value that was considered to be other than temporary. On January 30, 2003, we signed a sales agreement with the Genting Group of Malaysia to sell our 30% interest in Kondapalli and a 74% interest in Eastern Generation Services (India) Pvt Ltd. Kondapalli is based in Hyderabad, Andhra Pradesh, India, and is the owner of a 368 MW natural gas fired combined cycle gas turbine. In the first quarter of 2003, we wrote down our investment in Kondapalli by \$1.3 million based on the final sales agreement. The sale closed on May 30, 2003 resulting in net cash proceeds of approximately \$24 million and a gain of approximately \$1.8 million, resulting in a net gain of \$0.5 million. The gain resulted from incurring lower selling costs than estimated as part of the first quarter impairment.

*ECKG* In September 2002, we announced that we had reached agreement to sell our 44.5% interest in the ECKG power station in connection with our Csepel power generating facilities, and our interest in Entrade, an electricity trading business, to Atel, an independent energy group headquartered in Switzerland. The transaction closed in January 2003 and resulted in cash proceeds of \$65.3 million and a net gain of \$2.9 million.

**Table of Contents****Note 5 Reorganization Items and Restructuring and Impairment Charges**

Reorganization items and restructuring and impairment charges included in operating expenses in the consolidated statements of operations include the following:

	<b>Reorganized NRG</b>	<b>Predecessor Company</b>	<b>Reorganized NRG</b>	<b>Predecessor Company</b>
	<b>Three Months Ended June 30, 2004</b>	<b>Three Months Ended June 30, 2003</b>	<b>Six Months Ended June 30, 2004</b>	<b>Six Months Ended June 30, 2003</b>
	(In thousands)			
Reorganization items	\$(2,661)	\$ 6,334	\$ 3,589	\$ 6,334
Restructuring charges		46,691		68,161
Impairment charges	<u>1,676</u>	<u>222,940</u>	<u>1,676</u>	<u>223,606</u>
Total	<u>\$ (985)</u>	<u>\$ 275,965</u>	<u>\$ 5,265</u>	<u>\$ 298,101</u>

*Reorganization items* - We recorded a net credit of \$2.7 million related to reorganization items for the three months ended June 30, 2004. These items relate primarily to the settlement of obligations recorded under Fresh Start. We incurred total reorganization items of approximately \$3.6 million for the six months ended June 30, 2004. We incurred total reorganization items of approximately \$6.3 million for the three and six months ended June 30, 2003, respectively. All reorganization costs have been incurred since we filed for bankruptcy in May 2003. These costs consist of bankruptcy related charges primarily related to professional fees.

*Restructuring charges* - We incurred total restructuring charges of approximately \$46.7 million and \$68.2 million for the three and six months ended June 30, 2003, respectively. These costs consist of employee separation costs and advisor fees.

*Impairment charges* - We reviewed the recoverability of our long-lived assets in accordance with the guidelines of SFAS No. 144. As a result of this review, we recorded \$1.7 million in impairment charges for the three and six months ended June 30, 2004 and \$222.9 million and \$223.6 million for the three and six months ended June 30, 2003, respectively which included the following:

		<b>Reorganized NRG</b>	<b>Predecessor Company</b>	<b>Reorganized NRG</b>	<b>Predecessor Company</b>	
		<b>Three Months Ended June 30,</b>	<b>Three Months Ended June 30, 2003</b>	<b>Six Months Ended June 30,</b>	<b>Six Months Ended June 30,2003</b>	<b>Fair Value Basis</b>
<b>Project Name</b>	<b>Project Status</b>					

		2004			2004		
		(In thousands)					
New Roads Holding LLC	Non-operating asset	\$ 1,676	\$	\$ 1,676	\$	Projected cash flows	
Devon Power LLC	Operating at a loss		64,198		64,198	Projected cash flows	
Middletown Power LLC	Operating at a loss		157,323		157,323	Projected cash flows	
Other	Terminated		1,419		2,085		
Total impairment charges		<u>\$ 1,676</u>	<u>\$ 222,940</u>	<u>\$ 1,676</u>	<u>\$ 223,606</u>		

### Note 6 Asset Retirement Obligation

Effective January 1, 2003, we adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 requires an entity to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred. Upon initial recognition of a liability for an asset retirement obligation, an entity shall capitalize an asset retirement cost by increasing the carrying amount of the related long-lived asset by the same amount as the liability. Over time, the liability is accreted to its present value, and the capitalized cost is depreciated over the useful life of the related asset. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which a legal obligation exists under enacted laws, statutes or written or oral contracts, including obligations arising under the doctrine of promissory estoppel.

We identified certain retirement obligations within our power generation segments related to our North America projects in the South Central region, the Northeast region, Australia, and our non-generation operations. These asset retirement obligations are related primarily to the future dismantlement of equipment on leased property and environmental obligations related to ash disposal site closures. We also identified other asset retirement obligations that could not be calculated because the assets associated with the retirement obligations were determined to have an indeterminate life.

The following represents the balances of the asset retirement obligation as of December 31, 2003 and the additions and accretion

**Table of Contents**

of the asset retirement obligation for the six months ended June 30, 2004, which is included in other long-term obligations in the consolidated balance sheet.

Description	Beginning Balance December 31, 2003	Accretion for the Six Months Ended June 30, 2004	Ending Balance June 30, 2004
		(In thousands)	
South Central Region	\$ 2,638	\$ 91	\$ 2,729
Northeast Region	11,750	400	12,150
Australia	9,438	526	9,964
Non-Generation	1,334	45	1,379
Alternative Energy	834	29	863
Total	\$25,994	\$ 1,091	\$27,085

**Note 7 Inventory**

Inventory, which is stated at the lower of weighted average cost or market, consisted of:

	June 30, 2004	December 31, 2003
	(In thousands)	
Fuel oil	\$ 84,861	\$ 75,272
Coal	58,179	59,555
Natural gas	1,200	856
Other fuels	88	75
Spare parts	54,532	54,522
Emission credits	4,478	4,478
Other	334	168
Total inventory	\$203,672	\$194,926

**Note 8 Property, Plant and Equipment**

The major classes of property, plant and equipment were as follows:

	<b>June 30, 2004</b>	<b>December 31, 2003</b>
	<b>(In thousands)</b>	
Facilities and equipment	\$3,784,274	\$3,732,391
Land and improvements	133,684	134,888
Office furnishings and equipment	17,957	18,186
Construction in progress	104,794	139,171
	<hr/>	<hr/>
Total property, plant and equipment	4,040,709	4,024,636
Accumulated depreciation	(119,487)	(11,800)
	<hr/>	<hr/>
Net property, plant and equipment	<b>\$3,921,222</b>	<b>\$4,012,836</b>
	<hr/>	<hr/>

**Note 9 Summarized Financial Information of Affiliates**

We have a 50% interest in one company, West Coast Power, which was considered significant, as defined by applicable SEC regulations, which is accounted for as an equity method investment.

**West Coast Power LLC Summarized Financial Information**

For the three and six months ended June 30, 2004, we recorded equity earnings of \$21.9 million and \$27.9 million, respectively, for West Coast Power after adjustments for the reversal of \$5.6 million and \$7.6 million, respectively, of project level depreciation expense, offset by a decrease in earnings related to \$30.6 million and \$61.6 million, respectively, of amortization of the intangible asset for the California Department of Water Resources, or CDWR contract. As a result of pushing down the impact of Fresh Start to

**Table of Contents**

the project's balance sheet, we established a contract-based intangible asset with a one-year remaining life, consisting of the value of West Coast Power's CDWR energy sales contract. In accordance with SOP 90-7, the carrying value of this intangible asset was reduced by \$6.9 million as a result of allocating the reduction of our tax valuation allowance to our intangible assets (see Notes 10 and 16). The following table summarizes financial information for West Coast Power, including interests owned by us and other parties for the periods shown below:

**Results of Operations**

(In millions)	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Operating revenues	\$314	\$ 267	\$598	\$ 526
Operating income	\$ 94	\$ 77	\$164	\$ 137
Net income (pre-tax)	\$ 94	\$ 72	\$164	\$ 131

**Financial Position**

(In millions)	June 30, 2004	December 31, 2003
Current assets	\$332	\$ 257
Other assets	437	454
Total assets	\$769	\$ 711
Current liabilities	\$ 69	\$ 55
Other liabilities	8	8
Equity	692	648
Total liabilities and equity	\$769	\$ 711

For several years, the Federal Energy Regulatory Commission, or FERC, has been engaged in investigations regarding potential manipulation of electrical and natural gas prices, and earlier this year, Dynegy, we and the West Coast Power entities commenced extensive settlement negotiations with FERC Staff; the People of the State of California *ex rel.* Bill Lockyer, Attorney General; the California Public Utility Commission, or CPUC staff; the California Department of Water Resources acting through its Electric Power Fund, the California Electricity Oversight Board; PG&E; Southern California Edison Company; and San Diego Gas and Electric Company. The parties have now reached a definitive, comprehensive settlement, which has been filed with FERC and awaits FERC approval.

As part of the settlement agreement, West Coast Power will place into escrow for distribution to various California energy consumers a total of \$22.5 million, which includes the \$3 million settlement with FERC announced on January 20, 2004. In addition, West Coast Power will forego: (1) past due receivables from the California Independent System Operator, or ISO, and the California Power Exchange related to the settlement period; and (2) natural gas cost recovery claims against the settling parties related to the settlement period. In exchange, the various California settling parties will forego: (1) all claims relating to refunds or other monetary damages for sales of electricity during the settlement period; (2) claims alleging that West Coast Power received unjust or unreasonable rates for the sale of electricity during the settlement period; and (3) FERC will dismiss numerous investigations respecting market transactions. For a two year period following FERC's acceptance of the Settlement Agreement, West Coast Power will retain an independent engineering company to perform semi-annual audits of the technical and economic basis, justification and rationale for outages that occurred at its California generating plants during the previous six month period, and to have the results of such audits provided to the FERC Office of Market Oversight and Investigation without prior review by West Coast Power.

West Coast Power and NRG Energy are fully reserved for both the past due receivables and the cash settlement as of June 30, 2004. West Coast Power is also subject to other legal matters and litigation. Other litigation and investigations respecting West Coast Power are set forth in detail in Note 17.

## **Note 10 Intangible Assets**

### ***Reorganized NRG***

Upon the adoption of Fresh Start, we established certain intangible assets for power sales agreements and plant emission allowances. These intangible assets will be amortized over their respective lives based on a straight-line or units of production basis to resemble our realization of such assets.

Power sale agreements will be amortized as a reduction to revenue over the terms and conditions of each contract. The weighted

**Table of Contents**

average remaining amortization period is two years for the power sale agreements. Emission allowances will be amortized as additional fuel expense based upon the actual level of emissions from the respective plants through 2023. Aggregate amortization recognized for the three and six months ended June 30, 2004 was approximately \$12.4 million and \$29.2 million, respectively. The annual aggregate amortization for each of the five succeeding years is expected to approximate \$20.9 million in year one, \$33.0 million in year two, \$26.8 million in each of years three and four, and \$20.3 million in year five for both the power sale agreements and emission allowances. The expected annual amortization of these amounts is expected to change as we relieve our tax valuation allowance, as explained below.

For the six months ended June 30, 2004, we reduced our tax valuation allowance by \$44.0 million (see Note 16) and recorded a corresponding reduction of \$37.1 million related to our intangible assets at our wholly owned subsidiaries. The remaining \$6.9 million was recorded as a reduction to our intangible asset related to our equity investments (see Note 9). In accordance with SOP 90-7, any future benefits from reducing the valuation allowance should first reduce intangible assets until exhausted, and thereafter be recorded as a direct addition to paid-in-capital. Intangible assets were also reduced by \$10.0 million in connection with the recognition of certain tax credits to be claimed on our New York state franchise tax return.

Intangible assets consisted of the following:

<u>(In thousands)</u>	<u>Power Sale Agreements</u>	<u>Emission Allowances</u>	<u>Total</u>
Original balance as of December 6, 2003	\$ 64,055	\$ 373,518	\$ 437,573
Amortization	<u>(5,212)</u>	<u>          </u>	<u>(5,212)</u>
Balance as of December 31, 2003	58,843	373,518	432,361
Tax valuation adjustment	(3,720)	(33,377)	(37,097)
Other adjustments		(10,004)	(10,004)
Amortization	<u>(19,274)</u>	<u>(9,918)</u>	<u>(29,192)</u>
Balance as of June 30, 2004	<u>\$ 35,849</u>	<u>\$ 320,219</u>	<u>\$ 356,068</u>

***Predecessor Company***

We had intangible assets of \$27 million at June 30, 2003, which were not amortized and consisted of goodwill. We also had intangible assets of \$45.0 million at June 30, 2003, which were amortized and consisted of service contracts. Aggregate amortization expense recognized for the three and six months ended June 30, 2003 was approximately \$1.0 million and \$2.1 million, respectively.

**Note 11 Derivative Instruments and Hedging Activities**

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, requires us to record all derivatives on the balance sheet as assets or liabilities at fair value. For derivatives designated as cash flow hedges,



the effective portion of the changes in fair value of the derivatives are recorded in Accumulated Other Comprehensive Income, or OCI, and subsequently recognized in earnings when the hedged items impact income. For derivatives designated as hedges of the fair value of assets or liabilities, the changes in fair value of both the derivatives and the hedged items are recorded in current earnings. Changes in the fair value of non-hedge derivatives will be immediately recognized in earnings. Additionally, many of our commodity sales and purchase agreements that otherwise would be required to follow derivative accounting qualify as normal purchases and sales under SFAS No. 133, and are therefore exempt from fair value accounting treatment.

SFAS No. 133 applies to our long-term power sales contracts, long-term gas purchase contracts and other energy related commodities financial instruments used to mitigate variability in earnings due to fluctuations in spot market prices, hedge fuel requirements at generation facilities and protect investments in fuel inventories. SFAS No. 133 also applies to various interest rate financial instruments used to mitigate the risks associated with movements in interest rates, foreign exchange contracts used to reduce the effect of fluctuating foreign currencies on foreign denominated investments and other transactions.

**Table of Contents****Accumulated Other Comprehensive Income (OCI)**

The following table summarizes the effects of SFAS No. 133 on our OCI balance attributable to hedged derivatives for the three months ended June 30, 2004:

<b>(Gains/(Losses) In thousands)</b>	<b>Energy Commodities</b>	<b>Interest Rate</b>	<b>Foreign Currency</b>	<b>Total</b>
Accumulated OCI balance at March 31, 2004	\$(15,271)	\$ (7,817)	\$	\$(23,088)
Unwound from OCI during period:				
Due to unwinding of previously deferred amounts	9,408	3,272		12,680
Mark-to-market of hedge contracts	(3,079)	27,138	—	24,059
Accumulated OCI balance at June 30, 2004	<u>\$ (8,942)</u>	<u>\$22,593</u>	<u>\$</u>	<u>\$ 13,651</u>
Gains expected to unwind from OCI during next 12 months	\$ 13,138	\$24,750	\$	\$ 37,888

The following table summarizes the effects of SFAS No. 133 on our OCI balance attributable to hedged derivatives for the six months ended June 30, 2004:

<b>(Gains/(Losses) In thousands)</b>	<b>Energy Commodities</b>	<b>Interest Rate</b>	<b>Foreign Currency</b>	<b>Total</b>
Accumulated OCI balance at December 31, 2003	\$ (1,953)	\$ 1,600	\$ (170)	\$ (523)
Unwound from OCI during period:				
Due to unwinding of previously deferred amounts	8,784	7,058	170	16,012
Mark-to-market of hedge contracts	(15,773)	13,935	—	(1,838)
Accumulated OCI balance at June 30, 2004	<u>\$ (8,942)</u>	<u>\$22,593</u>	<u>\$</u>	<u>\$13,651</u>
Gains expected to unwind from OCI during next 12 months	\$ 13,138	\$24,750	\$	\$37,888

Losses of \$12.7 million and \$16.0 million were reclassified from OCI to current period earnings during the three and six months ended June 30, 2004 due to the unwinding of previously deferred amounts. These amounts are recorded on the same line in the statement of operations in which the hedged items are recorded. Also during the three and six months ended June 30, 2004 we recorded gains in OCI of approximately \$24.1 million and losses of \$1.8 million, respectively, related to changes in the fair values of derivatives accounted for as hedges. The net balance in OCI relating to SFAS No. 133 as of June 30, 2004 was an unrecognized gain of approximately \$13.7 million. We expect \$37.9 million of deferred net gains on derivative instruments accumulated in OCI to be recognized in earnings during the next twelve months.

**Statement of Operations**

The following tables summarize the pre-tax effects of non-hedge derivatives and derivatives that no longer qualify as hedges on our statement of operations for the three months ended June 30, 2004:

<b>(Gains/(Losses) In thousands)</b>	<b>Reorganized NRG</b>			
	<b>Energy</b>	<b>Interest</b>	<b>Foreign</b>	<b>Total</b>
	<b>Commodities</b>	<b>Rate</b>	<b>Currency</b>	
<b>Revenue from majority-owned subsidiaries</b>	<b>\$ 6,572</b>	<b>\$</b>	<b>\$</b>	<b>\$ 6,572</b>
<b>Equity in earnings of unconsolidated subsidiaries</b>	<b>9,733</b>	<b>560</b>		<b>10,293</b>
<b>Cost of operations</b>	<b>(1,129)</b>			<b>(1,129)</b>
<b>Total statement of operations impact before tax</b>	<b>\$15,176</b>	<b>\$ 560</b>	<b>\$</b>	<b>\$15,736</b>

**Table of Contents**

The following tables summarize the pre-tax effects of non-hedge derivatives and derivatives that no longer qualify as hedges on our statement of operations for the six months ended June 30, 2004:

<b>(Gains/(Losses) In thousands)</b>	<b>Reorganized NRG</b>			
	<b>Energy</b>	<b>Interest</b>	<b>Foreign</b>	<b>Total</b>
	<b>Commodities</b>	<b>Rate</b>	<b>Currency</b>	
<b>Revenue from majority-owned subsidiaries</b>	<b>\$ 7,468</b>	<b>\$</b>	<b>\$</b>	<b>\$ 7,468</b>
<b>Equity in earnings of unconsolidated subsidiaries</b>	<b>8,506</b>	<b>629</b>		<b>9,135</b>
<b>Cost of operations</b>	<b>(1,632)</b>			<b>(1,632)</b>
<b>Interest expense</b>		<b>411</b>		<b>411</b>
<b>Total statement of operations impact before tax</b>	<b>\$14,342</b>	<b>\$ 1,040</b>	<b>\$</b>	<b>\$15,382</b>

The following tables summarize the pre-tax effects of non-hedge derivatives and derivatives that no longer qualify as hedges on our statement of operations for the three months ended June 30, 2003:

<b>(Gains/(Losses) In thousands)</b>	<b>Predecessor NRG</b>			
	<b>Energy</b>	<b>Interest</b>	<b>Foreign</b>	<b>Total</b>
	<b>Commodities</b>	<b>Rate</b>	<b>Currency</b>	
Revenue from majority-owned subsidiaries	\$35,722	\$	\$	\$ 35,722
Equity in earnings of unconsolidated subsidiaries	2,187	(29)		2,158
Cost of operations	2,623			2,623
Interest expense		(33,369)		(33,369)
<b>Total statement of operations impact before tax</b>	<b>\$40,532</b>	<b>\$(33,398)</b>	<b>\$</b>	<b>\$ 7,134</b>

The following tables summarize the pre-tax effects of non-hedge derivatives and derivatives that no longer qualify as hedges on our statement of operations for the six months ended June 30, 2003:

<b>Predecessor NRG</b>			
<b>Energy</b>	<b>Foreign</b>		

<b>(Gains/(Losses) In thousands)</b>	<b>Commodities</b>	<b>Interest Rate</b>	<b>Currency</b>	<b>Total</b>
Revenue from majority-owned subsidiaries	\$33,293	\$	\$	\$ 33,293
Equity in earnings of unconsolidated subsidiaries	3,731	(288)		3,443
Cost of operations	(9,155)			(9,155)
Other income			92	92
Interest expense		(45,608)		(45,608)
	_____	_____	_____	_____
Total statement of operations impact before tax	\$27,869	\$(45,896)	\$ 92	\$(17,935)
	_____	_____	_____	_____

### ***Energy Related Commodities***

We are exposed to commodity price variability in electricity, emission allowances and natural gas, oil and coal used to meet fuel requirements. In order to manage these commodity price risks, we entered into financial instruments, which may take the form of fixed price, floating price or indexed sales or purchases, and options, such as puts, calls, basis transactions and swaps. Certain of these transactions have been designated as cash flow hedges. We have accounted for these derivatives by recording the effective portion of the cumulative gain or loss on the derivative instrument as a component of OCI in stockholders' equity. We recognize deferred gains and losses into earnings in the same period or periods during which the hedged transaction affects earnings. Such reclassifications are included on the same line of the statement of operations in which the hedged item is recorded.

No ineffectiveness was recognized on commodity cash flow hedges during the three and six months ended June 30, 2004 and 2003.

During the three and six months ended June 30, 2004, our pre-tax earnings were increased by an unrealized gain of \$15.7 million and \$15.0 million, respectively, associated with changes in the fair value of energy related derivative instruments not accounted for as hedges in accordance with SFAS No. 133.

During the three and six months ended June 30, 2003, our pre-tax earnings were increased by an unrealized gain of \$40.5 million and \$27.8 million, respectively, associated with changes in the fair value of energy related derivative instruments not accounted for as hedges in accordance with SFAS No. 133.

## **Table of Contents**

During the three and six months ended June 30, 2004, we reclassified losses of \$9.4 million and \$8.8 million, respectively, from OCI to current period earnings and expect to reclassify approximately \$13.1 million of deferred gains to earnings during the next twelve months on energy related derivative instruments accounted for as hedges.

At June 30, 2004, we had hedge and non-hedge energy related commodities financial instruments extending through December 2005.

## ***Interest Rates***

To manage interest rate risk, we have entered into interest-rate swap agreements that fix the interest payments or the fair value of selected debt issuances. The qualifying swap agreements are accounted for as cash flow or fair value hedges. The effective portion of the cash flow hedges' cumulative gains/losses are reported as a component of OCI in stockholders' equity. These gains/losses are recognized in earnings as the hedged interest expense is incurred. The reclassification from OCI is included on the same line of the statement of operations in which the hedged item appears. The entire amount of the change in fair value hedges is recorded in the statement of operations along with the change in value of the hedged item.

No ineffectiveness was recognized on interest rate swaps that qualify as hedges during the three and six months ended June 30, 2004.

During the three and six months ended June 30, 2004, pre-tax earnings were increased by an unrealized gain of \$0 million and \$0.4 million, respectively, related to the change in fair value of one interest rate related derivative instrument. This instrument is a \$400 million floating to fixed interest rate swap, which was not designated as an effective hedge of the expected cash flows at June 30, 2004. As of April 1, 2004, this instrument was designated as a cash flow hedge under SFAS No. 133. As a result, subsequent changes to its fair value will be deferred and recorded as part of other comprehensive income.

During the three and six months ended June 30, 2003, pre-tax earnings were decreased by an unrealized loss of \$33.4 million and \$45.8 million, respectively, associated with changes in the fair value of interest rate derivative instruments not accounted for as hedges in accordance with SFAS No. 133.

During the three and six months ended June 30, 2004, we reclassified losses of \$3.3 million and \$7.1 million, respectively, from OCI to current period earnings and expect to reclassify approximately \$24.8 million of deferred gains to earnings during the next twelve months associated with interest rate swaps accounted for as hedges.

At June 30, 2004, we had interest rate derivatives instruments extending through June 2019.

## ***Foreign Currency Exchange Rates***

To preserve the U.S. dollar value of projected foreign currency cash flows, we may hedge, or protect those cash flows if appropriate foreign hedging instruments are available.

No ineffectiveness was recognized on foreign currency cash flow hedges during the three and six months ended June 30, 2004 and 2003.

During the three and six months ended June 30, 2004, our pre-tax earnings were not affected by any gain or loss associated with foreign currency hedging instruments not accounted for as hedges in accordance with SFAS No. 133.

During the three and six months ended June 30, 2003, our pre-tax earnings were increased by unrealized gains of \$0 and \$92,000 associated with foreign currency hedging instruments not accounted for as hedges in accordance with SFAS No. 133.

During the three months ended June 30, 2004, no amounts were reclassified from OCI to current period earnings. During the six months ended June 30, 2004, we reclassified losses of \$0.2 million from OCI to current period earnings and we do not expect to reclassify any deferred gains/losses to earnings during the next twelve months on foreign currency swaps accounted for as hedges.

**Note 12 Short Term Debt and Long Term Debt**

As part of and concurrent with our emergence from bankruptcy on December 5, 2003, certain senior unsecured credit facilities were terminated and defaults related to those facilities were eliminated.

**Table of Contents**

As of June 30, 2004, we have made timely scheduled payments on interest and/or principal on all of our recourse debt and were not in default under any of our related recourse debt instruments. Additionally, we are not in default of any obligations to post collateral. However, a significant amount of our subsidiaries' debt and other obligations contain terms that require they be supported with letters of credit or cash collateral.

As discussed below, our NRG McClain project debt was in default as of June 30, 2004, however, on July 9, 2004, NRG McClain executed a sale of its interest in the McClain Generating Station and subsequently used the proceeds to repay outstanding project debt under the secured term loan and working capital facility.

***NRG Energy Corporate Debt***

On December 5, 2003, we entered into a \$10.0 million promissory note with Xcel Energy. The note accrues interest at a rate of 3% per year, payable quarterly in arrears. All principal is due at maturity on June 5, 2006.

On December 23, 2003, we and PMI entered into a Senior Secured Credit Facility for up to \$1.45 billion, which is comprised of both long-term and short-term debt. Long-term debt included a \$950.0 million, six and a half-year senior secured term loan and a \$250.0 million letter of credit facility, funded with proceeds from the senior secured lenders. Principal and interest on the term loan is payable quarterly on March 31, June 30, September 30 and December 31 of each year. As of June 30, 2004, the interest rate on the term loan was 5.56%, based on the London Interbank Offering Rate, or LIBOR, plus a credit spread. The LIBOR portion is subject to a floor of 1.5%.

As of June 30, 2004, the \$250.0 million letter of credit facility was fully funded and reflected as a funded letter of credit on the June 30, 2004 balance sheet. As of June 30, 2004, \$132.3 million in letters of credit had been issued under this facility, leaving \$117.7 million available for future issuances. Expenses associated with the funded letter of credit include commitment fees on the undrawn portion of the letter of credit facility, participation fees for the credit-linked deposit and other fees.

The short-term debt component of the Senior Secured Credit Facility is a four-year, \$250.0 million revolving line of credit, or the Corporate Revolver. Portions of the Corporate Revolver are available as a swing-line facility and as a revolving letter of credit sub-facility. As of June 30, 2004, the Corporate Revolver was undrawn. We pay a commitment fee of 1% on any undrawn portion of the Corporate Revolver, and interest on any borrowed amounts.

On December 23, 2003, we issued \$1.25 billion in 8% Second Priority Notes, due and payable on December 15, 2013. The 8% Second Priority Notes are general obligations of ours. They are secured on a second-priority basis by security interests in all of our assets, subject to the liens securing our obligations under the Senior Secured Credit Facility and any other priority lien obligations, which will be secured on a first-priority basis by the same assets that secure the 8% Second Priority Notes. The 8% Second Priority Notes will be senior in right of payment to any future subordinated indebtedness. Interest on the 8% Second Priority Notes accrues at the rate of 8.0% per annum and is payable semi-annually in arrears on June 15 and December 15, commencing June 15, 2004.

On January 28, 2004, we issued, at a premium, an additional \$475.0 million in 8% Second Priority Notes under the same terms and indenture as the December 23, 2003 offering. Proceeds of the additional offering were used to prepay \$503.5 million of the term loan under the Senior Secured Credit Facility, reducing the outstanding principal of the term loan from \$950.0 million to \$446.5 million. In January 2004 we wrote-off \$15.0 million of deferred financing costs (included in interest expense) related to the term loans which were repaid. In addition, we deferred an additional \$7.2 million of financing costs related to the newly issued notes.

On February 25, 2004, we amended our Senior Secured Credit Facility to remove an interest rate hedge mandate. The amendment provides us with additional flexibility in how we choose to mitigate interest-rate risk.



## Edgar Filing: NRG ENERGY INC - Form 10-Q/A

On March 24, 2004, we executed an interest rate swap agreement to mitigate our floating-rate interest exposure associated with our Senior Secured Credit Facility. The swap agreement became effective March 26, 2004 and terminates March 31, 2006. Under the agreement, we agree to pay quarterly a fixed interest rate on a notional amount of \$400.0 million, commencing on March 31, 2004, and receive quarterly a floating-rate interest rate payment on the same notional amount. The floating rate is based upon three-month LIBOR, subject to a floor.

On March 24, 2004, we executed a second interest rate swap agreement to mitigate our fixed-rate interest exposure associated with our 8% Second Priority Notes. This swap agreement became effective March 26, 2004 and terminates December 15, 2013. The swap agreement has provisions for early termination that are linked to any prepayment of the 8% Second Priority Notes. Under the agreement, we agree to pay semi-annually in arrears, commencing June 15, 2004, a floating interest rate on a notional amount of

**Table of Contents**

\$400.0 million, and receive semi-annually in arrears a fixed interest rate payment on the same notional amount. The floating interest rate is based upon six-month LIBOR plus a spread. Depending on market interest rates, we or the swap counterparty may be required to post collateral on a daily basis in support of both of these swaps, to the benefit of the other party. On June 30, 2004, we had posted \$17.8 million in collateral. As of August 2, 2004, we have posted \$11.1 million in collateral in support of the swaps.

On April 29, 2004, we amended our Senior Secured Credit Facility to give us the flexibility to enter into joint ventures from time to time with affiliates of our 21.5% stockholder, MatlinPatterson Global Opportunities Partners, L.P. Three representatives of MatlinPatterson are members of our board of directors. We paid the lenders and agent under our senior secured credit agreement a fee equal to 12.5 basis points, or approximately \$1.2 million, for the amendment.

*Certain Events Related to Project Level Debt*

***NRG McClain LLC Project Debt***

On November 28, 2001, NRG McClain entered into a credit agreement with Westdeutsche Landesbank Girozentrale, or West LB AG s, New York Branch and various other lending institutions for a \$181.0 million secured term loan and an \$8.0 million working capital facility. As of June 30, 2004 and December 31, 2003, the outstanding amount under this facility was \$156.5 million. As of June 30, 2004, the interest rate on such outstanding borrowings was 4.625%.

On September 17, 2002, NRG McClain received notice from the agent bank that the project loan was in default as a result of our downgrades and of defaults on material obligations under the Energy Management Services Agreement. On August 19, 2003, NRG McClain signed an asset purchase agreement with Oklahoma Gas & Electric Company, or OG&E, for substantially all of the assets of McClain Generating Station and contemporaneously filed for bankruptcy pursuant to the asset purchase agreement. On July 9, 2004, NRG McClain completed the sale of its 77% interest in the McClain Generating Station to OG&E. The Oklahoma Municipal Power Authority will continue to own the remaining 23% interest in the facility. A portion of the proceeds of \$160.2 million, from the sale, was used to repay outstanding project debt under the secured term loan and working capital facility. As of June 30, 2004, NRG McClain was recorded as a discontinued operation on the accompanying financial statements. NRG McClain continues to be in bankruptcy and in default, with the expectation that it will file a liquidating plan of reorganization, settle all its outstanding obligations and be subsequently dissolved.

**Note 13 Corporate Relocation Charges**

On March 16, 2004, we announced plans to implement a new regional business strategy and structure. The new structure calls for a reorganized leadership team and a corporate headquarters relocation to West Windsor, New Jersey. The corporate relocation is intended to increase our effectiveness in serving our plants and employees as well as our external stakeholders such as regulators, customers and investors. The corporate headquarters staff will be streamlined as part of the relocation, as functions are shifted to the regions. The transition of our corporate headquarters has commenced and is expected to run through March 2005.

We expect to incur \$26.5 million of expenses in connection with corporate relocation charges. Relocating, recruiting and other employee-related transition costs are expected to be approximately \$12.8 million. These costs and cash payments are expected to be incurred through first quarter of 2005. Severance and termination benefits of \$8.6 million are expected to be incurred through first quarter of 2005 with cash payments being made through fourth quarter of 2005. Building lease termination costs are expected to be \$5.1 million. These costs are expected to be incurred through first quarter of 2005 with cash payments being made through fourth quarter of 2006. A summary of

the significant components of the restructuring liability is as follows:

(In thousands)	Balance at December 31, 2003	Restructuring Related Charges	Cash Payments	Balance at June 30, 2004
Employee related transition costs	\$	\$ 1,670	\$(1,670)	\$
Severance and termination benefits		4,024	(502)	3,522
Lease termination costs		1,067	(18)	1,049
	—	—	—	—
Total	\$	\$ 6,761	\$(2,190)	\$ 4,571

As of June 30, 2004, the restructuring liability was \$4.6 million and is included in other current liabilities on the consolidated balance sheet. Charges related to the employee related transition costs, severance and termination benefits and lease termination costs are recorded at our corporate level within our Other segment, in the corporate relocation charges line on the consolidated statement of operations.

**Table of Contents****Note 14 Earnings Per Share**

Basic earnings per common share were computed by dividing net income by the weighted average number of common stock shares outstanding. Shares issued during the year are weighted for the portion of the year that they were outstanding. Shares of common stock granted to our officers and employees are included in the computation only after the shares become fully vested. Diluted earnings per share are computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive common shares that were outstanding during the period. The dilutive effect of the potential exercise of outstanding options to purchase shares of common stock is calculated using the treasury stock method. The reconciliation of basic earnings per common share to diluted earnings per common share is shown in the following table:

	<b>Reorganized NRG</b>	
	<b>Three Months Ended June 30, 2004</b>	<b>Six Months Ended June 30, 2004</b>
	<b>(In thousands, except per share data)</b>	
<b><i>Basic earnings per share</i></b>		
<b>Numerator:</b>		
Income from continuing operations	\$ 68,869	\$ 99,969
Income on discontinued operations, net of income taxes	14,155	13,290
	<u>          </u>	<u>          </u>
Net income	\$ 83,024	\$ 113,259
	<u>          </u>	<u>          </u>
<b>Denominator:</b>		
Weighted average number of common shares outstanding	100,080	100,051
Income from continuing operations per weighted average common share	\$ 0.69	\$ 1.00
Income from discontinued operations, net of income taxes per weighted average common share	0.14	0.13
	<u>          </u>	<u>          </u>
Net income per weighted average common share basic	\$ 0.83	\$ 1.13
	<u>          </u>	<u>          </u>
<b><i>Diluted earnings per share</i></b>		
<b>Numerator</b>		
Income from continuing operations	\$ 68,869	\$ 99,969
Income on discontinued operations, net of income taxes	14,155	13,290
	<u>          </u>	<u>          </u>
Net income	\$ 83,024	\$ 113,259
	<u>          </u>	<u>          </u>

**Denominator:**

Weighted average number of common shares outstanding	100,080	100,051
Incremental shares attributable to the assumed exercise of outstanding stock options (treasury stock method)		
Incremental shares attributable to the issuance of nonvested restricted stock units (treasury stock method)	398	163
	<u>          </u>	<u>          </u>
Total dilutive shares	<u>100,478</u>	<u>100,214</u>
Income from continuing operations per weighted average common share - diluted	\$ 0.69	\$ 1.00
Income from discontinued operations, net of income taxes per weighted average common share - diluted	0.14	0.13
	<u>          </u>	<u>          </u>
Net income per weighted average common share - diluted	<u>\$ 0.83</u>	<u>\$ 1.13</u>

For the three and six months ended June 30, 2004, options totaling 770,751 and 786,751, respectively, have been excluded from the dilutive calculation as their exercise price exceeded the average market price of the common shares and therefore the effect would be anti-dilutive.

*Stock options:* During the period January 1, 2004 through June 30, 2004, we issued stock option grants for 307,000 shares of common stock under the Long-Term Incentive Plan at fair values between \$19.90 and \$22.24. These options have a three-year graded vesting schedule. Compensation expense recorded under the stock option grants for the three and six months ended June 30, 2004 was approximately \$1.8 million and \$3.1 million, respectively.

*Restricted stock units:* During the period January 1, 2004 through June 30, 2004, we issued 655,100 Restricted Stock Units, or RSUs, under the Long-Term Incentive Plan at fair values between \$19.90 and \$23.00 per unit. These units cliff vest in three years. Compensation expense recorded under the RSUs for the three and six months ended June 30, 2004 was approximately \$1.4 million and \$2.1 million, respectively. For purposes of computing earnings per share, nonvested RSUs are not considered outstanding for

**Table of Contents**

purposes of computing basic earnings per share; however, these units are included in the denominator for purposes of computing diluted earnings per share under the treasury stock method.

*Deferred stock units:* During the period January 1, 2004 through June 30, 2004, we issued 100,961 Deferred Stock Units, or DSUs, under the Long-Term Incentive Plan at fair values between \$19.95 and \$21.05 per unit. A DSU will entitle the grantee to receive either one share of common stock or RSU at the end of the deferral period of not less than one year. Compensation expense recorded under the DSUs for the three and six months ended June 30, 2004 was approximately \$0.8 million and \$2.1 million, respectively. For the purposes of computing basic earnings per share, the DSUs are considered outstanding upon grant on a weighted average basis.

**Note 15 Segment Reporting**

In connection with our emergence from bankruptcy and the new management team, we determined that it was necessary to adjust our segment reporting disclosures to more closely align our disclosures with the realignment of our management team. Accordingly, we have expanded our domestic geographical disclosures and collapsed our international geographical disclosures related to our wholesale power generation segment. In addition, our other segments have been further refined. As a result of these changes, we have recast our prior period disclosures in a consistent manner.

We conduct the majority of our business within five reportable operating segments all of our other operations are presented under the All Other category. Our reportable operating segments consist of Wholesale Power Generation Northeast, Wholesale Power Generation South Central, Wholesale Power Generation West Coast, Wholesale Power Generation Other North America and Wholesale Power Generation Australia. These reportable segments are distinct components with separate operating results and management structures in place. Included in the All Other category are our Wholesale Power Generation Other International operations, our Alternative Energy operations, our Non Generation operations and an Other component which includes primarily our corporate charges (primarily interest expense) that have not been allocated to the reportable segments and the remainder of our operations which are not significant. We have presented this detail within the All Other category as we believe that this information is important to a full understanding of our business. Segment information for the three and six months ended June 30, 2004 and 2003 is as follows:

**Reorganized NRG  
Three Months Ended June 30, 2004  
Wholesale Power Generation**

	(In thousands)				
	Northeast	South Central	West Coast	Other North America	Australia
<b>Operating Revenues</b>	<b>\$ 275,029</b>	<b>\$ 102,497</b>	<b>\$ 929</b>	<b>\$ 29,587</b>	<b>\$ 36,793</b>
<b>Corporate relocation charges</b>		<b>1</b>			
<b>Reorganization items</b>	<b>28</b>	<b>(70)</b>		<b>1</b>	
<b>Restructuring and impairment charges</b>		<b>1,676</b>			
<b>Write downs and gains/(losses) on sales of equity method</b>				<b>500</b>	<b>705</b>

<b>investments</b>					
<b>Income/(Loss) from</b>					
<b>Continuing Operations</b>					
<b>Before Income Taxes</b>	<b>56,230</b>	<b>16,494</b>	<b>23,237</b>	<b>(868)</b>	<b>(8,278)</b>
<b>Income tax expense</b>					
<b>(benefit)</b>			<b>185</b>	<b>409</b>	<b>(3,370)</b>
<b>Income/(Loss) From</b>					
<b>Continuing Operations</b>	<b>56,230</b>	<b>16,494</b>	<b>23,052</b>	<b>(1,277)</b>	<b>(4,908)</b>
<b>Income/(Loss) on</b>					
<b>Discontinued</b>					
<b>Operations, net of</b>					
<b>Income Taxes</b>				<b>1,915</b>	
<b>Net Income/(Loss)</b>	<b>56,230</b>	<b>16,494</b>	<b>23,052</b>	<b>638</b>	<b>(4,908)</b>
<b>Balance Sheet Total</b>					
<b>Assets</b>	<b>\$2,000,169</b>	<b>\$1,138,749</b>	<b>\$319,937</b>	<b>\$1,965,970</b>	<b>\$869,228</b>

Table of Contents

**Reorganized NRG  
Three Months Ended June 30, 2004**

(In thousands)

**All Other**

	<b>Wholesale Power Generation</b>				<b>Total</b>
	<b>Other International</b>	<b>Alternative Energy</b>	<b>Non- Generation</b>	<b>Other</b>	
<b>Operating Revenues</b>	\$ 39,374	\$18,833	\$ 71,778	\$ (1,146)	\$ 573,674
<b>Corporate relocation charges</b>				5,644	5,645
<b>Reorganization items</b>	(1)		(528)	(2,091)	(2,661)
<b>Restructuring and impairment charges</b>					1,676
<b>Write downs and gains/(losses) on sales of equity method investments</b>					1,205
<b>Income/(Loss) from Continuing Operations Before Income Taxes</b>	26,263	3,658	44,378	(55,923)	105,191
<b>Income tax expense (benefit)</b>	5,306	4	435	33,353	36,322
<b>Income/(Loss) From Continuing Operations</b>	20,957	3,654	43,943	(89,276)	68,869
<b>Income/(Loss) on Discontinued Operations, net of Income Taxes</b>	12,237			3	14,155
<b>Net Income/(Loss)</b>	33,194	3,654	43,943	(89,273)	83,024
<b>Balance Sheet Total Assets</b>	\$807,787	\$64,648	\$552,773	\$834,014	\$8,553,275

**Predecessor Company  
Three Months Ended June 30, 2003  
Wholesale Power Generation**

(In thousands)

	<b>Northeast</b>	<b>South Central</b>	<b>West Coast</b>	<b>Other North America</b>	<b>Australia</b>
	<b>Operating Revenues</b>	\$ 201,299	\$ 92,820	\$ 4,953	\$ 19,667
<b>Reorganization items</b>	566	886			
<b>Restructuring and impairment charges</b>	223,724	1,249		41,598	6
<b>Write downs and gains/(losses) on sales of</b>				(186)	(139,972)



equity method investments					
Income/(Loss) from Continuing Operations Before Income Taxes	(299,805)	(1,090)	38,729	(63,680)	(146,612)
Income tax expense (benefit)			264	732	(1,780)
Income/(Loss) From Continuing Operations	(299,805)	(1,090)	38,465	(64,412)	(144,832)
Income/(Loss) on Discontinued Operations, net of Income Taxes				(100,480)	
Net Income/(Loss)	(299,805)	(1,090)	38,465	(164,892)	(144,832)
Balance Sheet Total Assets	\$2,461,126	\$1,374,882	\$466,675	\$2,610,196	\$ 545,208

**Table of Contents**

**Predecessor Company  
Three Months Ended June 30, 2003**

(In thousands)

**All Other**

	<b>Wholesale Power Generation</b>				<b>Total</b>
	<b>Other International</b>	<b>Alternative Energy</b>	<b>Non-Generation</b>	<b>Other</b>	
Operating Revenues	\$ 39,532	\$18,418	\$ 31,992	\$ (1,490)	\$ 441,599
Reorganization items				4,882	6,334
Restructuring and impairment charges	221		10	2,823	269,631
Write downs and gains/(losses) on sales of equity method investments	5,526	2,196			(132,436)
Income/(Loss) from Continuing Operations Before Income Taxes	15,313	4,203	5,294	(57,097)	(504,745)
Income tax expense (benefit)	2,822	(52)	148	2,171	4,305
Income/(Loss) From Continuing Operations	12,491	4,255	5,146	(59,268)	(509,050)
Income/(Loss) on Discontinued Operations, net of Income Taxes	4,593	3,043		(6,507)	(99,351)
Net Income/(Loss)	17,084	7,298	5,146	(65,775)	(608,401)
Balance Sheet Total Assets	\$1,459,490	\$89,555	\$345,752	\$657,985	\$10,010,869

**Reorganized NRG  
Six Months Ended June 30, 2004  
Wholesale Power Generation**

(In thousands)

	<b>Northeast</b>	<b>South Central</b>	<b>West Coast</b>	<b>Other North America</b>	<b>Australia</b>
	<b>Operating Revenues</b>	<b>\$605,569</b>	<b>\$197,762</b>	<b>\$ (2,393)</b>	<b>\$ 50,422</b>
<b>Corporate relocation charges</b>		<b>1</b>			
<b>Reorganization items</b>	<b>349</b>	<b>653</b>		<b>151</b>	
<b>Restructuring and impairment charges</b>		<b>1,676</b>			
<b>Write downs and gains/(losses) on sales of equity method</b>				<b>735</b>	<b>(1,268)</b>

investments					
Income/(Loss) from Continuing Operations Before Income Taxes	143,658	27,871	24,600	(10,770)	8,122
Income tax expense (benefit)			337	744	(106)
Income/(Loss) From Continuing Operations	143,658	27,871	24,263	(11,514)	8,228
Income/(Loss) on Discontinued Operations, net of Income Taxes				933	
Net Income/(Loss)	143,658	27,871	24,263	(10,581)	8,228

**Reorganized NRG  
Six Months Ended June 30, 2004**

(In thousands)

All Other

	Wholesale Power Generation				
	Other International	Alternative Energy	Non- Generation	Other	Total
Operating Revenues	\$79,440	\$32,485	\$113,447	\$ (1,762)	\$1,173,992
Corporate relocation charges				6,760	6,761
Reorganization items			160	2,276	3,589
Restructuring and impairment charges					1,676
Write downs and gains/(losses) on sales of equity method investments					(533)
Income/(Loss) from Continuing Operations Before Income Taxes	40,617	4,203	53,151	(140,881)	150,571
Income tax expense (benefit)	9,450	8	600	39,569	50,602
Income/(Loss) From Continuing Operations	31,167	4,195	52,551	(180,450)	99,969
Income/(Loss) on Discontinued Operations, net of Income Taxes					
Taxes	12,357				13,290
Net Income/(Loss)	43,524	4,195	52,551	(180,450)	113,259

**Table of Contents**

**Predecessor Company  
Six Months Ended June 30, 2003  
Wholesale Power Generation**

	(In thousands)				
	Northeast	South Central	West Coast	Other North America	Australia
Operating Revenues	\$ 440,864	\$ 196,927	\$ 6,373	\$ 36,740	\$ 82,424
Reorganization items	566	886			
Restructuring and impairment charges	224,484	1,918		41,970	6
Write downs and gains/(losses) on sales of equity method investments				(186)	(139,972)
Income/(Loss) from Continuing Operations Before Income Taxes	(320,553)	8,857	62,728	(99,333)	(136,612)
Income tax expense (benefit)			36,444	1,623	(1,263)
Income/(Loss) From Continuing Operations	(320,553)	8,857	26,284	(100,956)	(135,349)
Income/(Loss) on Discontinued Operations, net of Income Taxes				(108,773)	
Net Income/(Loss)	(320,553)	8,857	26,284	(209,729)	(135,349)

**Predecessor Company  
Six Months Ended June 30, 2003**

(In thousands)

**All Other**

	Wholesale Power Generation				
	Other International	Alternative Energy	Non-Generation	Other	Total
Operating Revenues	\$ 73,105	\$ 31,792	\$ 71,870	\$ (3,486)	\$ 936,609
Reorganization items				4,882	6,334
Restructuring and impairment charges	(3,352)		26	26,715	291,767
Write downs and gains/(losses) on sales of equity method investments	3,388	(12,257)			(149,027)

Income/(Loss) from Continuing Operations Before Income Taxes	31,497	(10,219)	12,762	(194,380)	(645,253)
Income tax expense (benefit)	5,987	(52)	820	(6,217)	37,342
Income/(Loss) From Continuing Operations	25,510	(10,167)	11,942	(188,163)	(682,595)
Income/(Loss) on Discontinued Operations, net of Income Taxes	208,951	(22,955)		(15,661)	61,562
Net Income/(Loss)	234,461	(33,122)	11,942	(203,824)	(621,033)

## Note 16 Income Taxes

The income tax provisions for the six months ended June 30, 2004 and June 30, 2003 have been recorded on the basis that we and our U.S. subsidiaries will file a consolidated federal income tax return for 2004 and separate federal income tax returns for the period January 1 to December 5, 2003.

Income tax expense for the three and six months ended June 30, 2004 was \$36.3 million and \$50.6 million, respectively, compared to a tax expense of \$4.3 million and \$37.3 million, respectively, for the same periods in 2003. The tax expense for the six months ended June 30, 2004 includes U.S. tax expense of \$41.0 million and foreign tax expense of \$9.6 million. The tax expense for the six months ended June 30, 2003 includes U.S. tax expense of \$32.3 million and foreign tax expense of \$5.0 million.

For U.S. income tax purposes, the tax expense in 2004 is due to a reduction in deferred tax assets without a tax benefit for the corresponding reduction in valuation allowance. Due to the uncertainty of realization of deferred tax assets related to net operating losses and other temporary differences, our U.S. net deferred tax assets at December 5, 2003 were offset by a full valuation allowance of \$1.3 billion in accordance with SFAS No. 109, *Accounting for Income Taxes*. SOP 90-7 requires that reductions in the valuation allowance as of December 5, 2003 (date of emergence) first reduce intangible assets until exhausted and thereafter be reported as a direct addition to paid-in-capital. Consequently, our effective tax rate in post bankruptcy emergence years will not benefit from reductions in the valuation allowance. For 2003, the U.S. tax expense is due to an additional valuation allowance recorded against the deferred tax assets of NRG West Coast LLC as a result of its conversion from a corporation to a disregarded entity for federal income

## **Table of Contents**

tax purposes. Subsequent to the conversion, NRG West Coast will no longer be taxed as an entity separate from NRG Energy.

The foreign tax expense for the first six months of 2004 and 2003 is due to the earnings in foreign jurisdictions.

The effective income tax rate for the six months ended June 30, 2004 differs from the statutory federal income tax rate of 35% primarily due to lower tax rates in foreign jurisdictions and to the SOP 90-7 requirement that reductions to the valuation allowance as of December 5, 2003 (date of emergence) first reduce intangible assets until exhausted and thereafter be reported as a direct addition to paid-in-capital. The effective income tax rate for the six months ended June 30, 2003 differs from the statutory federal income tax rate of 35% primarily due to limitations on tax benefits.

We assessed the likelihood that a substantial portion of our deferred tax assets relating to the net operating loss carryforwards would not be realized. This assessment included consideration of positive and negative factors, including our current financial position and results of operations, projected future taxable income, including projected operating and capital gains, and available tax planning strategies. As a result of such assessment, we determined that it was more likely than not that the deferred tax assets related to our domestic net operating loss carryforwards would not be realized. A full valuation allowance was recorded against the net deferred tax assets including net operating loss carryforwards. We also determined that it is more likely than not that a substantial portion of the net operating loss generated in 2002 and 2003 could be determined to be capital in nature. Given that capital losses are of a different character than ordinary losses the likelihood of capital losses expiring unutilized is greater than that of ordinary net operating losses.

In addition, the conversion of ordinary losses to capital losses, to the extent that amount exceeds our existing net operating loss, results in a corresponding reduction to the tax basis of our fixed assets. The consequence of which is a reduction to expected tax depreciation expense in future years.

## **Note 17 Commitments and Contingencies**

### ***Legal Issues***

#### *California Wholesale Electricity Litigation and Related Investigations*

*People of the State of California ex. rel. Bill Lockyer, Attorney General, v. Dynegy, Inc. et al.*, United States District Court, Northern District of California, Case No. C-02-O1854 VRW; United States Court of Appeals for the Ninth Circuit, Case No. 02-16619.

This action was filed in state court on March 11, 2002 against us, Dynegy, Dynegy Power Marketing, Inc., Xcel Energy, West Coast Power and four of West Coast Power's operating subsidiaries. Through our subsidiary, NRG West Coast LLC, we are a 50 percent beneficial owner with Dynegy of West Coast Power, which owns, operates, and markets the output of four California plants. Dynegy and its affiliates and subsidiaries are responsible for gas procurement and marketing and trading activities on behalf of West Coast Power. The complaint alleges that the defendants violated California Business & Professions Code § 17200 by selling ancillary services to the California Independent Service Operator, or ISO, and subsequently selling the same capacity into the spot market. The California Attorney General seeks injunctive relief as well as restitution, disgorgement and civil penalties.

On April 17, 2002, the defendants removed the case to the United States District Court in San Francisco. Thereafter, the case was transferred to Judge Vaughn Walker, who is also presiding over various other ancillary services cases brought by the California Attorney General against other participants in the California market, as well as other lawsuits brought by the Attorney General against these other market participants. We have tolling agreements

in place with the Attorney General with respect to such other proposed claims against us.

The Attorney General filed motions to remand, which the defendants opposed in July of 2002. In an Order filed in early September 2002, Judge Walker denied the remand motions. The Attorney General appealed that decision to the United States Court of Appeal for the Ninth Circuit. The Attorney General also sought a stay of proceedings in the district court pending the appeal, and this request was also denied. In a lengthy opinion filed March 25, 2003, Judge Walker dismissed the Attorney General's action against Dynegy and us with prejudice, finding it was barred by the filed-rate doctrine and preempted by federal law. The Attorney General filed a Notice of Appeal respecting that decision, and the two appeals were consolidated. On July 6, 2004, the Ninth Circuit rejected the Attorney General's appeals and affirmed both decisions of the district court, including the dismissal of all the Attorney General's substantive claims. On October 29, 2004, the Ninth Circuit denied the Attorney General's petitions for rehearing.

*Public Utility District of Snohomish County v. Dynegy Power Marketing, Inc et al.*, Case No. 02-CV-1993 RHW, United States District Court, Southern District of California (part of MDL 1405).

This action was filed against us, Dynegy, Xcel Energy and several other market participants in the United States District Court in Los Angeles on July 15, 2002. The complaint alleges violations of the California Business & Professions Code § 16720 (the Cartwright Act) and Business & Professions Code § 17200. The basic claims are price fixing and restriction of supply, and other market gaming activities.

**Table of Contents**

The action was transferred from Los Angeles to the United States District Court in San Diego and was made a part of the Multi-District Litigation proceeding described below. All defendants filed motions to dismiss and to strike in the fall of 2002. In an Order dated January 6, 2003, Judge Robert Whaley, a federal judge from Spokane sitting in the United States District Court in San Diego, pursuant to the Order of the Multi-District Litigation Panel, granted the motions to dismiss on the grounds of federal preemption and filed-rate doctrine. The plaintiff filed a notice of appeal, and the appeal was argued in June, 2004. Consistent with its July, 2004 decision in *People of the State of California ex. rel. Bill Lockyer*, described above, the Ninth Circuit on September 10, 2004 rejected plaintiff's appeal, holding that plaintiff's claims are banned by federal preemption and the filed-rate doctrine.

*In re: Wholesale Electricity Antitrust Litigation*, MDL 1405, United States District Court, Southern District of California, pending before Judge Robert H. Whaley. The cases included in this proceeding are as follows:

*Pamela R Gordon, on Behalf of Herself and All Others Similarly Situated v Reliant Energy, Inc. et al.*, Case No. 758487, Superior Court of the State of California, County of San Diego (filed on November 27, 2000).

*Ruth Hendricks, On Behalf of Herself and All Others Similarly Situated and On Behalf of the General Public v. Dynege Power Marketing, Inc. et al.*, Case No. 758565, Superior Court of the State of California, County of San Diego (filed November 29, 2000).

*The People of the State of California, by and through San Francisco City Attorney Louise H. Renne v. Dynege Power Marketing, Inc. et al.*, Case No. 318189, Superior Court of California, San Francisco County (filed January 18, 2001).

*Pier 23 Restaurant, A California Partnership, On Behalf of Itself and All Others Similarly Situated v PG&E Energy Trading et al.*, Case No. 318343, Superior Court of California, San Francisco County (filed January 24, 2001).

*Sweetwater Authority, et al. v. Dynege, Inc. et al.*, Case No. 760743, Superior Court of California, County of San Diego (filed January 16, 2001).

*Cruz M Bustamante, individually, and Barbara Matthews, individually, and on behalf of the general public and as a representative taxpayer suit, v. Dynege Inc. et al., inclusive.* Case No. BC249705, Superior Court of California, Los Angeles County (filed May 2, 2001).

All of West Coast Power's operating subsidiaries are defendants in at least one of these six coordinated cases, which were all filed in late 2000 and 2001 in various state courts throughout California. We are also a defendant in all of them. The cases allege unfair competition, market manipulation and price fixing. All the cases were removed to the appropriate United States District Courts, and were thereafter made the subject of a petition to the Multi-District Litigation Panel (Case No. MDL 1405). The cases were ultimately assigned to Judge Whaley. Judge Whaley entered an order in 2001 remanding the cases to state court, and thereafter the cases were coordinated pursuant to state court coordination proceedings before a single judge in San Diego Superior Court. Thereafter, Reliant Energy and Duke Energy filed cross-complaints naming various Canadian, Mexican and United States government entities. Some of these defendants once again removed the cases to federal court, where they were again assigned to Judge Whaley. The defendants filed motions to dismiss and to strike under the filed-rate and federal preemption theories, and the plaintiffs challenged the district court's jurisdiction and sought to have the cases remanded to state court. In December 2002, Judge Whaley issued an opinion finding that federal jurisdiction was absent in the district court, and remanding the cases to state court. Duke Energy and Reliant Energy then filed a notice of appeal with the Ninth Circuit, and also sought a stay of the remand pending appeal. The stay request was denied by Judge Whaley. On February 20, 2003, however, the Ninth Circuit stayed the remand order and accepted jurisdiction to hear the appeal of Reliant Energy and Duke Energy on the remand order, and that appeal was argued in June, 2004 and is pending. We anticipate that



filed-rate/federal preemption pleading challenges will be renewed once the remand appeal is decided.

*Northern California* cases against various market participants, not including us (part of MDL 1405). These include the *Millar*, *Pastorino*, *RDJ Farms*, *Century Theatres*, *EI Super Burrito*, *Leo s*, *J&M Karsant*, and *Bronco Don* cases.

We were not named in any of these cases, but in virtually all of them, either West Coast Power or one or more of its operating subsidiaries is named as a defendant. These cases all allege violation of Business & Professions Code § 17200, and are similar to the various allegations made by the Attorney General. Dynegy is named as a defendant in all these actions, and Dynegy's outside counsel is representing both Dynegy and the West Coast Power entities in each of these cases. These cases all were removed to federal court, made part of the Multi-District Litigation, and denied remand to state court. In late August 2003, Judge Whaley granted the defendants' motions to dismiss in these various cases, which are now the subject of the plaintiffs' appeal to the Ninth Circuit Court of Appeals.

**Table of Contents**

*Bustamante v. McGraw-Hill Companies, Inc., et al.*, No. BC 235598, California Superior Court, Los Angeles County.

This putative class action lawsuit was filed on November 20, 2002. The complaint generally alleges that the defendants attempted to manipulate gas indexes by reporting false and fraudulent trades. Named defendants in the suit include numerous industry participants unrelated to us, as well as the operating subsidiaries established by West Coast Power for each of its four plants: El Segundo Power, LLC; Long Beach Generation, LLC; Cabrillo Power I LLC; and Cabrillo Power II LLC. The complaint seeks restitution and disgorgement of ill-gotten gains, civil fines, compensatory and punitive damages, attorneys fees and declaratory and injunctive relief. The plaintiff filed an amended complaint in 2003.

*Jerry Egger, et al. v. Dynege, Inc., et al.*, Case No. 809822, Superior Court of California, San Diego County (filed May 1, 2003).

This class action complaint alleges violations of California's Antitrust Law, and Business and Professions Code, as well as unlawful and unfair business practices. The named defendants include West Coast Power, Cabrillo II, El Segundo Power, Long Beach Generation. We are not named. This case now has been removed to the United States District Court, and the defendants have moved to have this case included as Multi-District Litigation along with the above referenced cases before Judge Walker. Plaintiffs have filed a motion to remand to state court, which was heard on February 19, 2004. At the hearing, the court decided to stay the case pending a decision from the Ninth Circuit Court of Appeals in the Pastorino appeal, referenced above.

*Texas-Ohio Energy, Inc., on behalf of Itself and all others similarly situated v. Dynege, Inc. Holding Co., West Coast Power, LLC, et al.*, Case No. CIV.S-03-2346 DFL GGH.

This putative class action was filed on November 10, 2003, in the United States District Court for the Eastern District of California. The complaint alleges violations of the federal Sherman and Clayton Acts and California's Cartwright Act and Business and Professions Code. In addition to naming West Coast Power and Dynege, Inc. Holding Co., the complaint names numerous industry participants, as well as unnamed co-conspirators. The complaint alleges that defendants conspired to manipulate the spot price and basis differential of natural gas with respect to the California market, allegedly enabling defendants to reap exorbitant and illicit profits by gouging natural gas purchasers. Specifically, the complaint alleges that defendants and their co-conspirators employed a variety of false reporting techniques to manipulate the published natural gas price indices. The complaint seeks unspecified amounts of damages, including a trebling of plaintiff's and the putative class's actual damages. We are unable at this time to predict the outcome of this dispute or the ultimate liability, if any, of West Coast Power.

*City of Tacoma, Department of Public Utilities, Light Division, v. American Electric Power Service Corporation, et al.*, United States District Court, Western District of Washington, Case No. C04-5325 RBL

This action was filed in early June, 2004 in Washington federal district court. The complaint names over 50 defendants, including West Coast Power's four operating subsidiaries and various Dynege entities. The complaint also names both us and West Coast Power as Non-Defendant Co-Conspirators. Plaintiff alleges that defendants, acting in concert with some or all of the Non-Defendant Co-Conspirators, violated the federal Sherman Act by unlawfully withholding power generation from, and/or unlawfully inflating the apparent demand for power in, markets in California and elsewhere in the western United States, thereby causing plaintiff to pay power prices substantially above what it would have otherwise paid. Plaintiff alleges defendants' unlawful activities began at least as early as May, 2000, and continued through at least the end of 2001. Plaintiff claims damages in excess of \$175 million. We cannot predict the likelihood of an unfavorable outcome at this time.

*County of Santa Clara v. Sempra Energy, et al., San Diego County Superior Court*

This action was filed in early July, 2004 in California state court. Although we understand that the complaint names West Coast Power and various Dynegy entities among the numerous defendants, West Coast Power has not been served. The complaint apparently alleges violation of California's Cartwright Act and Business and Professions Code and unjust enrichment relating to alleged reporting of false natural gas prices and trading information to inflate retail prices for defendants' benefit. We cannot predict the likelihood of an unfavorable outcome at this time.

*City and County of San Francisco; The People of the State of California; Dennis J. Herrera v Sempra Energy, et al., San Diego County Superior Court*

This action was filed in early July, 2004 in California state court. The complaint names West Coast Power and various Dynegy entities among the numerous defendants. Like the above *County of Santa Clara* case, the complaint alleges violation of California's Cartwright Act and Business and Professions Code and unjust enrichment, as well as unfair competition, asserting that defendants conspired and acted in concert to manipulate retail gas

## **Table of Contents**

prices, thereby allowing defendants to sell natural gas at prices far above competitive levels. We cannot predict the likelihood of an unfavorable outcome at this time

### *County of San Diego v. Sempra Energy, et al., San Diego County Superior Court*

This action was filed in late July, 2004 in California state court. The complaint names West Coast Power and various Dynegy entities among the numerous defendants. Like the above *City and County of San Francisco* case, the complaint asserts that defendants conspired to manipulate retail gas prices, thereby allowing defendants to sell natural gas at grossly inflated prices. We cannot predict the likelihood of an unfavorable outcome at this time.

### *Older v. Sempra Energy, et al., San Diego County Superior Court*

This putative class action lawsuit was filed in late September, 2004 in California state court. The complaint names West Coast Power and various Dynegy entities among the numerous defendants. The complaint alleges violation of California Business & Professions Code § 16720 (the Cartwright Act) and Business & Professions Code § 17200, based on defendants' alleged efforts to fix, raise, stabilize, maintain and manipulate retail natural gas prices in California at supra-competitive levels. The complaint seeks a determination of class action status, a trebling of unspecified damages, restitution, disgorgement and costs and attorneys' fees. We cannot predict the likelihood of an unfavorable outcome at this time.

## ***California Investigations***

### ***FERC California Market Manipulation***

The Federal Energy Regulatory Commission has had an ongoing Investigation of Potential Manipulation of Electric and Natural Gas Prices, involving hundreds of parties (including our affiliate, West Coast Power) and substantial discovery. In June 2001, FERC initiated proceedings related to California's demand for \$8.9 billion in refunds from power sellers who allegedly inflated wholesale prices during the energy crisis. Hearings were conducted before an administrative law judge, who issued an opinion in late 2002. The administrative law judge stated that after assessing a refund of \$1.8 billion for unjust and unreasonable power prices between October 2, 2000 and June 20, 2001, power suppliers were owed \$1.2 billion because the State was holding funds owed to suppliers.

In August 2002, the United States Circuit Court of Appeals for the Ninth Circuit granted a request by the Electricity Oversight Board, the California Public Utilities Commission and others, to seek out and introduce to FERC additional evidence of market manipulation by wholesale sellers. This decision resulted in FERC ordering an additional 100 days of discovery in the refund proceeding, and also allowing the relevant time period for potential refund liability to extend back an additional nine months, to January 1, 2000.

On December 12, 2002, FERC Administrative Law Judge Birchman issued a Certification of Proposed Findings on California Refund Liability in Docket No. EL00-95-045 et al., which determined the method for calculating the mitigated energy market clearing price during each hour of the refund period. On March 26, 2003, FERC issued an Order on Proposed Findings on Refund Liability, or Refund Order, in Docket No. EL00-95-045, adopting, in part, and modifying, in part, the Proposed Findings issued by Judge Birchman on December 12, 2002. In the Refund Order, FERC adopted the refund methodology in the Staff Final Report on Price Manipulation in Western Markets issued contemporaneously with the Refund Order in Docket No. PA02-2-000. This refund calculation methodology made certain changes to Judge Birchman's methodology, because of FERC Staff's findings of manipulation in gas index prices. The Refund Order directed generators wanting to recover any fuel costs above the mitigated market clearing price during the refund period to submit cost information justifying such recovery within 40 days of the issuance of the Refund Order, which West Coast Power did.

Dynegy, we and the West Coast Power entities have been engaged in extensive settlement negotiations with FERC Staff; the People of the State of California *ex rel.* Bill Lockyer, Attorney General; the California Public Utility Commission, or CPUC, staff; the California Department of Water Resources acting through its Electric Power Fund, the California Electricity Oversight Board, PG&E; Southern California Edison Company; and San Diego Gas and Electric Company. The parties have now entered into a definitive, comprehensive settlement, which FERC approved on October 25, 2004.

As part of the settlement agreement, West Coast Power will place into escrow for distribution to various California energy consumers a total of \$22.5 million, which includes the \$3 million settlement with FERC announced on Jan. 20, 2004. In addition, West Coast Power will forego: (1) Past due receivables from the California Independent System Operator, or ISO, and the California Power Exchange related to the settlement period; and (2) natural gas cost recovery claims against the settling parties related to the settlement period. In exchange, the various California settling parties will forego: (1) All claims relating to refunds or other monetary damages for sales of electricity during the settlement period; (2) claims alleging that West Coast Power received unjust or unreasonable rates for the sale of electricity during the settlement period; and (3) FERC will dismiss numerous investigations respecting market transactions. For a two year period following FERC's acceptance of the Settlement Agreement, West Coast Power will retain an independent engineering company to perform semi-annual audits of the technical and economic basis, justification and rationale for outages that occurred at its California generating plants during the previous six month period, and to have the results of such audits provided to the FERC Office of Market Oversight and Investigation without prior review by West Coast Power.

Since the inception of the disputes related to energy sales in California at the end of 2000, West Coast Power has established significant reserves on its balance sheet. As a result, we will not incur any further loss associated with this settlement. We will pay no cash from corporate funds, nor will the settlement have any direct impact on the Company's statement of operations.

#### *Other FERC Proceedings*

There are a number of additional, related proceedings in which West Coast Power entities are parties, which are either pending before FERC or on appeal from FERC to various United States Courts of Appeal. These cases involve, among other things, a FERC-

**Table of Contents**

established price mitigation plan determining maximum rates for wholesale power transactions in certain spot markets, and the enforceability of, and obligations under, various contracts with, among others, the California ISO and the State of California and certain of its agencies and departments.

*U.S. Attorney Houston*

The U.S. Attorney indicted two fired Dynegy traders in connection with the index reporting scheme, and is reportedly investigating other Dynegy activity and employees.

*U.S. Attorney San Francisco*

According to press reports, the U.S. Attorney in San Francisco assembled an energy crisis task force. While Dynegy received a grand jury subpoena in November 2002, the scope and targets of this investigation are unknown to us. We did not receive a subpoena.

*California State Senate Select Committee*

This Committee, chaired by Senator Dunn, subpoenaed records from us during the summer of 2001. We produced about 5,000 pages of documents; Dynegy produced a much larger volume of documents. The Committee has apparently concluded its activities without issuing any reports or findings.

*CPUC*

The CPUC continues to request data and documents in several settings. First, it is one of the parties in the FERC proceeding mentioned above. Second, inspectors have visited West Coast Power plants, usually unannounced and usually immediately following an unplanned outage. They have demanded documentation concerning the reason for the outage. Third, the CPUC has demanded documents to allow it to prepare reports, one of which was issued in the fall of 2002, and another of which was issued January 30, 2003. The FERC's above-referenced March 26 Refund Order undercut the accuracy and reliability of these CPUC reports. Dynegy has made extensive productions to the CPUC of plant-related materials as well as trading data.

*California Attorney General*

In addition to the litigation it has undertaken described above, the California Attorney General has undertaken an investigation entitled In the Matter of the Investigation of Possibly Unlawful, Unfair, or Anti-Competitive Behavior Affecting Electricity Prices in California. In this connection, the Attorney General issued subpoenas to Dynegy, served interrogatories on Dynegy and us, and informally requested documents and interviews from Dynegy and Dynegy employees as well as us and our employees. We responded to the interrogatories in the summer of 2002, with the final set of responses being served on September 3, 2002. We also produced a large volume of documentation relating to the West Coast Power plants. In addition, our employees in California sat for informal interviews with representatives of the Attorney General's office. Dynegy employees also were interviewed.

*NRG Bankruptcy Cap on California Claims*

On November 21, 2003, in conjunction with confirmation of the NRG plan of reorganization, we reached an agreement with the Attorney General and the State of California, generally, whereby for purposes of distributions, if any, to be made to the State of California under the NRG plan of reorganization, the liquidated amount of any and all allowed claims shall not exceed \$1.35 billion in the aggregate. The agreement neither affects our right to object to these claims on any and all grounds nor admits any liability whatsoever. We further agreed to waive any objection to

the liquidation of these claims in a non-bankruptcy forum having proper jurisdiction.

Although any evaluation of the likelihood of an unfavorable outcome or an estimate of the amount or range of potential loss in the above-referenced private actions and various investigations cannot be made at this time, we note that the *Gordon* complaint, discussed above, alleges that the defendants, collectively, overcharged California ratepayers during 2000 by \$4.0 billion.

***Electricity Consumers Resource Council v. Federal Energy Regulatory Commission, Docket No. 03-1449***

On December 19, 2003 the Electricity Consumers Resource Council, or ECRC, appealed to the United States Court of Appeals for the District of Columbia Circuit a recent decision by FERC approving the implementation of a demand curve for the New York installed capacity, or ICAP, market. ECRC claims that the implementation of the ICAP demand curve violates section 205 of the

**Table of Contents**

Federal Power Act because it constitutes unreasonable ratemaking. We are a party to this appeal and will contest ECRC's assertions, but at this time cannot assess what the eventual outcome will be.

***Consolidated Edison Co. of New York v. Federal Energy Regulatory Commission, Docket No. 01-1503***

Consolidated Edison and others petitioned the United States Court of Appeals for the District of Columbia Circuit for review of certain FERC orders in which FERC refused to order a redetermination of prices in the New York Independent System Operator, or NYISO, operating reserve markets for the period from January 29, 2000 to March 27, 2000. Petitioners alleged that the prices in the operating reserves markets were unduly elevated by approximately \$65 million as a result of market power abuse and operating flaws. On November 7, 2003, the court issued a decision which found that the NYISO's method of pricing spinning reserves violated the NYISO tariff. The court also required FERC to determine whether the exclusion from the non-spinning market of a generating facility known as Blenheim-Gilboa and resources located in western New York also constituted a tariff violation and/or whether these exclusions enabled NYISO to use its Temporary Extraordinary Procedure, or TEP, authority to require refunds. On June 25, 2004, the NYISO filed a motion requesting that it be permitted to supplement the record. The motion indicated that FERC had the authority to order refunds in the case because the failure to model Blenheim-Gilboa constituted a TEP. On July 16, 2004, we filed an objection to the NYISO's motion, asserting that the failure to model was a conscious decision of the owners of that facility and that NYISO's authority under TEP did not apply. It is unclear at this time whether FERC will require refunds, much less the amount of any such refunds. If refunds are required, NRG entities which may be affected include NRG Power Marketing, Inc., Astoria Gas Turbine Power LLC and Arthur Kill Power LLC. Although non-NRG-related entities will share responsibility for payment of such refunds, under the petitioners' theory and calculations the cumulative exposure to our above-listed entities could exceed \$23 million.

***Connecticut Light & Power Company v. NRG Power Marketing, Inc., Docket No. 3:01-CV-2373 (AWT), pending in the United States District Court, District of Connecticut***

This matter involves a claim by CL&P for recovery of amounts it claims are owing for congestion charges under the terms of a SOS contract between the parties, dated October 29, 1999. CL&P has served and filed its motion for summary judgment to which PMI filed a response on March 21, 2003. CL&P has withheld approximately \$30 million from amounts owed to PMI, claiming that it has the right to offset those amounts under the contract. PMI has counterclaimed seeking to recover those amounts, arguing among other things that CL&P has no rights under the contract to offset them. By reason of the previous bankruptcy stay, the court has not ruled on the pending motion. On November 6, 2003, the parties filed a joint stipulation for relief from the automatic stay in order to allow the proceeding to go forward and PMI is about to supplement the record on the pending summary judgment motion. PMI cannot estimate at this time the likelihood of an unfavorable outcome in this matter.

***The State of New York and Erin M. Crotty, as Commissioner of the New York State Department of Environmental Conservation v. Niagara Mohawk Power Corporation, NRG Energy, Inc., NRG Dunkirk Operations, Inc., Dunkirk Power, LLC, NRG Huntley Operations, Inc., Huntley Power, LLC, NRG Northeast Generating, LLC, Northeast Generation Holding, LLC, NRG Eastern, LLC and NRG Operating Services, Inc., United States District Court for the Western District of New York, Civil Action No. 02-CV-0024S***

In January 2002, the New York Department of Environmental Conservation, or DEC, sued Niagara Mohawk Power Corporation, or NiMo, us and certain of our affiliates in federal court in New York. The complaint asserted that projects undertaken at our Huntley and Dunkirk plants by NiMo, the former owner of the facilities, required preconstruction permits pursuant to the Clean Air Act and that the failure to obtain these permits violated federal and state laws. In July, 2002, we filed a motion to dismiss. On March 27, 2003, the court dismissed the complaint against us as to the federal claims and without prejudice as to the state claims. On December 31, 2003, the trial court granted



the state's motion to amend the complaint to again sue us and various affiliates in this same action in the federal court in New York, asserting against us violations of operating permits and deficient operating permits at the Huntley and Dunkirk plants. The parties have commenced written discovery, and the court has scheduled the trial on liability issues for March, 2006. For several months, the parties have been engaged in discussions respecting possible settlement of this matter. If the case ultimately is litigated to an unfavorable outcome that could not be addressed otherwise, we have estimated that the total investment that would be required to install pollution control devices could be as high as \$300 million over a ten to twelve-year period. We also could be found responsible for payment of certain penalties and fines.

***Niagara Mohawk Power Corporation v. NRG Energy, Inc., Huntley Power, LLC, and Dunkirk Power, LLC, Supreme Court, State of New York, County of Onondaga, Case No. 2001-4372***

We have asserted that NiMo is obligated to indemnify us for any related compliance costs associated with resolution of the above enforcement action. NiMo has filed suit in state court in New York seeking a declaratory judgment with respect to its obligations to

**Table of Contents**

indemnify us under the asset sales agreement. We have pending a summary judgment motion on our entitlement to be reimbursed by NiMo for the attorneys' fees we have incurred in the enforcement action.

***Huntley Power LLC***

On April 30, 2003, the Huntley Station submitted a self-disclosure letter to the DEC reporting violations of applicable sulfur in fuel limits, which had occurred during 6 days in March 2003 at the chimney stack serving Huntley Units 63-66. The Huntley Station self-disclosed that the average sulfur emissions rates for those days had been 1.8 lbs/mm BTU, rather than the maximum allowance of 1.7 lbs/mm BTU. NRG Huntley Operations discontinued use of Unit 65 (the only unit utilizing the subject stack at the time) and has kept the remaining three units off line until adherence with the applicable standard is assured. On May 19, 2003, the DEC issued Huntley Power LLC a Notice of Violation. Huntley Power LLC has met with the DEC to discuss the circumstances surrounding the event and the appropriate means of resolving the matter. Huntley Power LLC does not know what relief the DEC will seek through an enforcement action. Under applicable provisions of the Environmental Conservation Law, the DEC asserts that it may impose a civil penalty up to \$10,000, plus an additional penalty not to exceed \$10,000 for each day that a violation continues and may enjoin continuing violations.

***Niagara Mohawk Power Corporation v. Dunkirk Power LLC, NRG Dunkirk Operations, Inc., Huntley Power LLC, NRG Huntley Operations, Inc., Oswego Power LLC and NRG Oswego Operations, Inc., Supreme Court, Erie County, Index No. 1-2000-8681 Station Service Dispute ;***

On October 2, 2000, plaintiff Niagara Mohawk Power Corporation, or NiMo, commenced this action against us to recover damages plus late fees, less payments received through the date of judgment, as well as any additional amounts due and owing, for electric service provided to the Dunkirk Plant after September 18, 2000. NiMo claims that we have failed to pay retail tariff amounts for utility services commencing on or about June 11, 1999. Plaintiff has alleged breach of contract, suit on account, violation of statutory duty and unjust enrichment claims. On or about October 23, 2000, we served an answer denying liability and asserting affirmative defenses.

After proceeding through discovery, and prior to trial, the parties and the court entered into a Stipulation and Order filed August 9, 2002 consolidating this action with two other actions against our Huntley and Oswego subsidiaries, both of which cases assert the same claims and legal theories for failure to pay retail tariffs for utility services at those plants.

On October 8, 2002, a Stipulation and Order was filed in the Erie County Clerk's Office staying this action pending submission to FERC of some or all of these disputes. We cannot make an evaluation of the likelihood of an unfavorable outcome. The cumulative potential loss could amount to some \$40 million.

***Niagara Mohawk Power Corporation v. Huntley Power LLC, NRG Huntley Operations, Inc., NRG Dunkirk Operations, Inc., Dunkirk Power LLC, Oswego Harbor Power LLC, and NRG Oswego Operations, Inc., Case Filed November 26, 2002 in Federal Energy Regulatory Commission Docket No. EL 03-27-000***

This is the companion action filed by NiMo at FERC, similarly asserting that NiMo is entitled to receive retail tariff amounts for electric service provided to the Huntley, Dunkirk and Oswego plants. On October 31, 2003, the FERC Trial Staff, a party to the proceedings, filed a reply brief in which it supported and agreed with each position taken by our facilities. In short, the staff argued that our facilities: (1) self-supply station power under the NYISO tariff (which took effect on April 1, 2003) in any month during which they produce more energy than they consume and, as such, should not be assessed a retail rate; (2) are connected only to transmission facilities and, as such, at most should only pay NiMo a FERC-approved transmission rate; and (3) should be allowed to net consumption and output even if power is injected into the grid at a different point from which it is drawn off. We are presently awaiting a

ruling by FERC. At this stage of the proceedings, we cannot estimate the likelihood of success on this action. As noted above, the cumulative potential loss could amount to some \$40 million.

***In the Matter of Louisiana Generating, LLC, Adversary Proceeding No. 2002-1095 1-EQ on the docket of the Louisiana Division of Administrative Law***

During 2000, the Louisiana Department of Environmental Quality, or DEQ, issued a Part 70 Air Permit modification to Louisiana Generating to construct and operate two 240 MW natural gas-fired turbines. The Part 70 Air Permit set emissions limits for the criteria air pollutants, including NO(x), based on the application of Best Available Control Technology, or BACT. The BACT limitation for NO(x) was based on the guarantees of the manufacturer, Siemens-Westinghouse. Louisiana Generating sought an interim emissions limit to allow Siemens-Westinghouse time to install additional control equipment. To establish the interim limit, DEQ issued a

**Table of Contents**

Compliance Order and Notice of Potential Penalty, No. AE-CN-02-0022, on September 8, 2002, which is, in part, subject to the above-referenced administrative hearing. DEQ alleged that Louisiana Generating did not meet its NO(x) emissions limit on certain days, did not conduct all opacity monitoring and did not complete all record keeping and certification requirements. Louisiana Generating intends to vigorously defend certain claims and any future penalty assessment, while also seeking an amendment of its limit for NO(x). An initial status conference was held with the Administrative Law Judge and quarterly reports are being submitted to that judge to describe progress, including settlement and amendment of the limit. In late February 2004, we timely submitted to the DEQ an amended BACT analysis and amended Prevention of Significant Deterioration and Title V permit application to amend the NO(x) limit. The DEQ is presently processing the permit application. In addition, Louisiana Generating may assert breach of warranty claims against the manufacturer. With respect to the administrative action described above, at this time we are unable to predict the eventual outcome of this matter or the potential loss contingencies, if any, to which we may be subject.

***United States Environmental Protection Agency Request for Information under Section 114 of the Clean Air Act***

On January 27, 2004, Louisiana Generating, LLC and Big Cajun II received a request for information under Section 114 of the Clean Air Act from the United States Environmental Protection Agency, or EPA, seeking information primarily relating to physical changes made at Big Cajun II in 1994 and 1995 by the predecessor owner of that facility. Louisiana Generating, LLC and Big Cajun II have been responding to the EPA request in an appropriate manner. At the present time, we cannot predict the probable outcome in this matter.

***Itiquira Energetica, S.A.***

Our indirectly controlled Brazilian project company, Itiquira Energetica S.A., the owner of a 156 MW hydro project in Brazil, is currently in arbitration with the former EPC contractor for the project, Inepar Industria e Construcoes, or Inepar. The dispute was commenced by Itiquira in September of 2002 and pertains to certain matters arising under the former EPC contract. Itiquira principally asserts that Inepar breached the contract and caused damages to Itiquira by (i) failing to meet milestones for substantial completion; (ii) failing to provide adequate resources to meet such milestones; (iii) failing to pay subcontractors amounts due; and (iv) being insolvent. Itiquira's arbitration claim is for approximately U.S. \$40 million. Inepar has asserted in the arbitration that Itiquira breached the contract and caused damages to Inepar by failing to recognize events of force majeure as grounds for excused delay and extensions of scope of services and material under the contract. Inepar's damage claim is for approximately U.S. \$10 million. The parties submitted their respective statements of claims, counterclaims and responses, and a preliminary arbitration hearing was held on March 21, 2003. In lieu of taking expert testimony at hearing, the court of arbitration ordered an expert investigation process to cover technical and accounting issues. The final report from the expert investigation process has been delivered to the court of arbitration. Expert testimony will be presented at a hearing scheduled for mid-August, 2004, and we expect the court to issue its decision shortly after the hearing. We cannot estimate the likelihood of an unfavorable outcome in this dispute.

***CFTC Trading Inquiry***

On June 17, 2002, the CFTC served Xcel Energy, on behalf of its affiliates, which then included us and PMI, with a subpoena requesting certain information regarding round trip or wash trading and general trading practices in its investigation of several energy trading companies. The CFTC later focused on possible efforts by traders to submit false reports to gas index publications in an attempt to manipulate the index. In January, 2004, the CFTC and Xcel Energy's subsidiary, e prime, inc., reached a settlement in connection with this investigation, which included the payment of a \$16 million fine and the entry of a cease and desist order. Other industry participants that have settled with the CFTC have paid fines of between \$1.5 million and \$28 million and have agreed to the terms of cease and desist orders. The CFTC requested additional related information from us and subpoenaed to appear for testimony a

number of our present and former employees. We cooperated with the CFTC and submitted materials responsive to the CFTC's requests, while vigorously denying that we engaged in any improper conduct. On July 1, 2004, we learned that the CFTC had filed a civil complaint against us in Minnesota federal district court, alleging that we engaged in false reporting of natural gas trades from August, 2001 to May, 2002. The CFTC's complaint seeks only an injunction against future violations of the Commodity Exchange Act. We cannot at this time predict the outcome of this matter.

***General Electric Company and Siemens Westinghouse Turbine Purchase Disputes***

We and/or our affiliates have entered into several turbine purchase agreements with affiliates of General Electric Company, or GE, and Siemens Westinghouse Power Corporation, or Siemens. GE and Siemens have notified us that we are in default under certain of those contracts, terminated such contracts, and demanded that we pay the termination fees set forth in such contracts. GE's claim amounts to approximately \$113 million and Siemens approximately \$45 million in cumulative termination charges. Most of these disputes fall within the NRG plan of reorganization and are subject to our disputed claims reserves, discussed below. In early July,

## **Table of Contents**

2004, we reached an agreement in principle with GE resolving the disputed bankruptcy claims of GE and its subsidiaries. The parties are now preparing final documentation of the settlement. We cannot estimate the likelihood of an unfavorable outcome in our disputes with Siemens.

### ***Additional Litigation***

In addition to the foregoing, we are parties to other litigation or legal proceedings, which may or may not be material. There can be no assurance that the outcome of such matters will not have a material adverse effect on our business, financial condition or results of operations.

### **Disputed Claims Reserve**

As part of the NRG plan of reorganization, we have funded a disputed claims reserve for the satisfaction of certain general unsecured claims that were disputed claims as of the effective date of the plan. Under the terms of the plan, to the extent such claims are resolved now that we have emerged from bankruptcy, the claimants will be paid from the reserve on the same basis as if they had been paid out in the bankruptcy. That means that their allowed claims will be reduced to the same recovery percentage as other creditors would have received and will be paid in pro rata distributions of cash and common stock. We believe we have funded the disputed claims reserve at a sufficient level to settle the remaining unresolved proofs of claim we received during the bankruptcy proceedings. However, to the extent the aggregate amount of these payouts of disputed claims ultimately exceeds the amount of the funded claim reserve, we are obligated to provide additional cash and common stock to the claimants. We will continue to monitor our obligation as the disputed claims are settled. If excess funds remain in the disputed claims reserve after payment of all obligations, such amounts will be reallocated to the Creditor Pool. We have provided our common stock and cash contribution to an escrow agent to complete the distribution and settlement process. Since we have surrendered control over the common stock and cash provided to the disputed claims reserve, we recognized the issuance of the common stock as of December 6, 2003 and removed the cash amounts from our balance sheet. Similarly, we have removed the obligations relevant to the claims from our balance sheet when the common stock was issued and cash contributed.

In conjunction with confirmation of the NRG plan of reorganization, we reached an agreement with the Attorney General and the State of California that limits the potential maximum amount of its claims, if any. Under the NRG plan of reorganization, the liquidated amount of any allowed claims shall not exceed \$1.35 billion in total. The agreement neither affects our right to object to these claims on any grounds nor admits any liability. We further agreed to waive any objection to the liquidation of these claims in a non-bankruptcy forum having proper jurisdiction. Although we cannot at this time make any evaluation of the likelihood of an unfavorable outcome or an estimate of the amount or range of potential loss in the private actions and various investigations, we note that the Gordon complaint, discussed above, alleges that the defendants, collectively, overcharged California ratepayers during 2000 by \$4.0 billion.

### **Regulatory Issues**

#### ***New England***

Consistent with expectations, the Peaking Unit Safe Harbor, or PUSH, bidding has not yielded sufficient revenues to cover all costs for most of the Company's affected facilities. On January 16, 2004, the Company filed proposed reliability-must-run agreements, or RMR agreements, with FERC for the following facilities: Devon station units 11, 14, Middletown station and Montville station. The RMR agreement filings requested FERC to establish cost of service rates. On March 18, 2004 FERC granted us a one day suspension of the rates, subject to refund, set the case for hearing and consolidated the case with other similar NRG cases before a settlement judge. In the March 18, 2004

order the FERC ruled that the RMR agreements would expire with the implementation of a locational installed capacity, or LICAP, market, which was expected to begin on June 1, 2004. On April 14, 2004 we filed a motion for rehearing with FERC requesting FERC to revise the termination date ruling. As of this date, FERC has not responded to the rehearing request.

Prior to the March 18, 2004 order, Devon 11-14, Middletown 4 and Montville had been submitting PUSH bids. As a result of the March 18, 2004 order we received more money from the sale of energy and capacity for the period January 17, 2004 through March 18, 2004 than was allowed under the March 18, 2004 order. Therefore, on June 23, 2004, we filed a report ( Report ) with the FERC showing that we received approximately \$4.9 million more from the sales of energy and other services than was permitted under the March 18th order. The Report further stated, however, that ISO-NE owed us a total of approximately \$18.5 million under the RMR Agreement for the same period. The Report further stated that ISO-NE had, as of the date of the Report, paid us only \$2.6 million, with the result that we, rather than owing any refunds to ISO-NE, were owed an additional \$11.0 million for the period. The FERC

**Table of Contents**

has not yet acted on the Report.

On February 6, 2004, we filed updated maintenance schedules for the tracking mechanism that provides for the payment by certain NEPOOL participants of third party maintenance expense incurred by Devon 11 14, Middletown, Montville and Norwalk Harbor for the period beginning April 1, 2004 and ending March 31, 2005. On April 1, 2004 FERC accepted the revised schedules, subject to refund, set the case for hearing and consolidated the case with other similar NRG cases before a settlement judge. In the April 1, 2004 order the FERC ruled that the tracking mechanism would expire with the implementation of a LICAP market, which is expected to begin on June 1, 2004. On April 14, 2004 we filed a motion for rehearing with FERC requesting FERC to revise the termination date ruling. As of this date, FERC has not responded to the rehearing request.

On April 1, 2004, we filed with FERC true-up schedules for the third-party payment of our maintenance expenses for the period February 27, 2003 to December 31, 2003. On July 12, 2004 FERC accepted the true-up schedules, effective June 7, 2004, subject to refund, set them for hearing and consolidated the case with other similar cases before a settlement judge.

In addition to the facilities noted above, the following of the Company's quick-start facilities in Connecticut have submitted PUSH bids that have been approved by FERC: Cos Cob, Franklin Drive, Banford and Torrington. The existing RMR agreement between ISO-NE and the Company covering Devon station units 7 and 8 terminated on September 30, 2003. On October 2, 2003, the Company filed with FERC to extend the existing RMR agreement for the two Devon units. On December 1, 2003, FERC granted a one-day suspension of the rates, subject to refund, set the case for hearing and appointed a settlement judge. On February 25, 2004, a FERC sponsored technical conference occurred to review the costs associated with the two Devon units. In the technical conference, the costs relevant to the RMR agreements were discussed. ISO-NE has indicated in a letter dated February 27, 2004, that one of the Devon units will no longer be needed for reliability services.

Therefore, on May 28, 2004, Devon 8 was deactivated. On May 28, 2004, a revised RMR agreement was filed with FERC for Devon 7 facility to account for the costs remaining after the deactivation of Devon 8. On July 12, 2004, FERC granted us a one day suspension of the proposed rate of \$10.15 per KW-month subject to refund, set the case for hearing and consolidated the case with other similar NRG cases before a settlement judge.

On March 1, 2004, ISO-NE filed a locational capacity proposal with FERC. Under the proposal, generators that are needed for reliability and have a capacity factor of 15% or less in 2003 would be eligible for a monthly capacity payment of \$5.38 per KW-month. Most of the Company's generators located in Connecticut satisfy this requirement. On June 2, 2004, FERC issued an order rejecting ISO-NE's LICAP proposal. In the order, the FERC ruled that LICAP would not go into effect until January 1, 2006. Until the implementation of LICAP, the existing PUSH bidding rules and existing RMR agreements are to continue. New RMR agreements must also end when the LICAP market is implemented.

***New York***

In April of 2003, the NYISO implemented a demand curve in its capacity market and scarcity pricing improvements in its energy market. The New York demand curve eliminated the previous market structure's tendency to price capacity at either its cap (deficiency rate) or near zero. In a complaint filed with FERC on December 15, 2003, Consolidated Edison Company of New York, Inc. and other load-serving entities alleged that NYISO had used the wrong rate setting methodology to establish prices and rebates in the New York City markets for a portion of the summer capacity auction in 2003, and that this action resulted in overcharges to customers and overpayments to suppliers, including the Company, totaling approximately \$21 million, with the Company's share being approximately \$5 million. On July 13, 2004, FERC denied the complaint.



***PJM***

On April 2, 2003, Reliant Resources, Inc., or Reliant, filed a complaint against the Pennsylvania, Jersey, Maryland Interconnector area, or PJM, with FERC and suggested specific modifications to PJM's price mitigation rules. On June 9, 2003, FERC rejected the Reliant modifications but required PJM to file a report to address the concerns of Reliant by September 30, 2003. The PJM market monitoring unit filed its compliance filing with FERC as required, but opted to continue its present mitigation practices. The present mitigation plan permits PJM to cost-cap the energy bids of certain generating facilities that were constructed prior to 1996. The cost capping method is based on a facility's variable costs plus 10%. In addition, the PJM market monitoring unit filed to eliminate the exemption that units built after 1996 had from PJM's mitigation measures. On May 6, 2004, FERC rejected the proposed extension of the cost capping mechanism to generating facilities built after 1996. In the order, the FERC approved the application of cost-capping mitigation method for facilities built prior to 1996 and were cost capped less than 80% of the time the facilities operated. The FERC required that for facilities that are cost capped 80% or more of their operating hours that are mitigated, are needed for reliability and are not

## **Table of Contents**

recovering sufficient revenue to cover their costs, that PJM must provide alternative methods of compensation. The FERC noted that such alternative compensation could consist of market design changes such as a higher bid cap or reliability must run agreements. FERC required that PJM file such a proposal by November 6, 2004. At this time it is unclear how this ruling will impact the Company. The Company continues to monitor these activities for any potential adverse impact to the Company's financial position or results of operations.

### ***PJM West***

On December 31, 2003 and February 5, 2004, PJM filed proposed mitigation plans for the Commonwealth Edison, or Com Ed, franchise territory. Among the proposed changes was the adoption of the existing PJM energy market mitigation plan of cost capping and a new mitigation plan for the capacity market. PJM proposed that the proposed energy market mitigation plan would only be effective through the 2004 summer season but that the capacity mitigation plan would remain effective until April 1, 2005. Under the capacity mitigation proposal, capacity prices would be capped at \$30 per MW-day except when capacity levels are less than 101% of required reserves, then the price cap would be \$160 per MW-day. On March 24, 2004, FERC rejected the proposed mitigation plans. On April 23, 2004, PJM filed a rehearing request on the rejection of the capacity market mitigation proposal. In the rehearing request, PJM requested that the \$30 per MW-day cap be approved and that during times of scarcity there would not be a price cap. FERC has not yet issued an order on the rehearing request.

On May 1, 2004 Commonwealth Edison Corporation became a member of PJM.

### ***Entergy***

On March 31, 2004, Entergy filed with FERC a proposal to have an independent person monitor Entergy's operation of its transmission system. FERC has not ruled on this request. Also, it is unclear at this time how this recent development will impact the Company.

### **Note 18 Guarantees**

In November 2002, the FASB issued FASB Interpretation, or FIN, No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The interpretation addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. The interpretation also clarifies the requirements related to the recognition of a liability by a guarantor at the inception of the guarantee for the obligations the guarantor has undertaken in issuing the guarantee.

In connection with the adoption of Fresh Start, all outstanding guarantees were considered new; accordingly we applied the provisions of FIN 45 to all of those guarantees. Each guarantee was reviewed for the requirement to recognize a liability at inception.

In the normal course of business, we may be asked to provide certain assurances to the counter-parties of our asset sales agreements, such assurances may take the form of a guarantee issued by NRG on behalf of a directly or indirectly held majority-owned subsidiary. Due to the inter-company nature of such arrangements (NRG is essentially guaranteeing its own performance) and the nature of the guarantee being provided (usually the typical representations and warranties that are provided in any asset sales agreement), it is not our policy to recognize the value of such an obligation in our consolidated financial statements.

In connection with the adoption of Fresh Start, all outstanding guarantees were considered new; accordingly we applied the provisions of FIN 45 to all those guarantees. Each guarantee was reviewed for the requirement to recognize a liability at inception. As a result, we recorded a \$15.0 million liability, which is included in other long-term liabilities.

We are directly liable for the obligations of certain of our project affiliates and other subsidiaries pursuant to guarantees relating to certain of their indebtedness, equity and operating obligations. In addition, in connection with the purchase and sale of fuel, emission credits and power generation products to and from third parties with respect to the operation of some of our generation facilities in the United States, we may be required to guarantee a portion of the obligations of certain of our subsidiaries.

**Table of Contents**

As of June 30, 2004, our obligations pursuant to our guarantees of the performance, equity and indebtedness obligations of our subsidiaries were as follows (includes only quantifiable amounts):

Description	June 30, 2004
	<b>(In thousands)</b>
Guarantees of subsidiaries	\$511,066
Guarantees of NRG Power Marketing, Inc. obligations	38,500
	<hr/>
Total	\$549,566
	<hr/>

As of June 30, 2004, the nature and details of our guarantees were as follows:

Project or Subsidiary	Maximum Amount (June 30, 2004) (In thousands)	Nature of Guarantee	Expiration	Triggering Event
Astoria/Arthur Kill	Indeterminate	Performance Under Asset Purchase Agreement	None stated	Non-performance Non-performance or
Cobee	\$ 12,500	Guarantee of Obligations Under the Sale and Purchase Agreement	April 27, 2008	non-payment
Elk River	\$ 11,990	Executory Contract	Undetermined	Non-payment
Flinders	\$ 6,357	Fund Superannuation (Pension) Reserve	September 8, 2012	Credit agreement default
Flinders	\$ 48,951	Debt Service Reserve Guaranty	September 8, 2012	Credit agreement default
Flinders	\$ 57,736	Plant Removal and Site Remediation Obligation	Undetermined	Non-performance
Flinders	\$ 69,930	Guaranty of Employee Separation Benefits	None stated	Non-payment
Flinders	Indeterminate	Indemnification of Government Entity for Payment for Power and Fuel	Fourth quarter 2018	Non-payment
Flinders	\$ 218,907	Guaranty of Obligation to Purchase Gas	None stated	Non-payment
Gladstone	\$ 22,819	Payment of Penalties in the Event of an Extraordinary Operational Breach	None stated	Non-performance
Gladstone	Indeterminate	Performance Obligations under Credit Agreement	March 31, 2009	Non-performance
Hsin Yu	\$ 1,000	Guarantee of Obligations Under the Sale and Purchase Agreement	None stated	Non-performance or

Latin Power	Indeterminate	Subscription Commitment Guaranty	None stated	non-payment Non-performance Non-performance or non-payment
Loy Yang	\$ 25,370	Guarantee of Obligations Under the Sale and Purchase Agreement Obligation to Fund Debt Service	April 7, 2011	Non-payment
McClain	\$ 1,015	Reserve Shortfall Guarantee of Share Purchase Agreement	None stated	Non-payment
MIBRAG	\$ 8,314	Executory Contract	None stated	Non-performance
Newport	\$ 7,500	Various	Undetermined	Non-payment
Other	\$ 17,933	Guarantee on behalf of NRG Power Marketing Inc. for various projects	Various	Various
PMI	\$ 38,500	Guaranty of Environmental Cleanup Costs	Various	Non-performance
West Coast LLC	\$ 744	Continuing Obligations Under Asset Sales Agreement and Related Contracts	None stated	Non-performance
West Coast LLC	Indeterminate		None stated	Non-performance
Total	\$ 549,566			

Recourse provisions for each of the guarantees above are to the extent of their respective liability. No assets are held as collateral for any of the above guarantees.

#### **Note 19 Benefit Plans and Other Postretirement Benefits**

##### ***Reorganized NRG***

Substantially all of our employees participate in defined benefit pension plans. We have initiated a new NRG Energy

**Table of Contents**

noncontributory, defined benefit pension plan effective January 1, 2004, with credit for service from December 5, 2003. In addition, we provide postretirement health and welfare benefits (health care and death benefits) for certain groups of our employees. Generally, these are groups that were acquired in recent years and for whom prior benefits are being continued (at least for a certain period of time or as required by union contracts). Cost sharing provisions vary by acquisition group and terms of any applicable collective bargaining agreements. We have contributed \$1.0 million to the NRG pension plans during the six months ended June 30, 2004. We expect to contribute approximately \$1.0 million to our postretirement medical plan in 2004.

**NRG Pension and Postretirement Medical Plans***Components of Net Periodic Benefit Cost*

The net annual periodic pension cost related to all of our plans, include the following components:

	<b>Pension Benefits</b>			
	<b>Reorganized NRG</b>	<b>Predecessor Company</b>	<b>Reorganized NRG</b>	<b>Predecessor Company</b>
	<b>Three Months Ended</b>	<b>Three Months Ended June</b>	<b>Six Months Ended</b>	<b>Six Months Ended</b>
	<b>June 30, 2004</b>	<b>30, 2003</b>	<b>June 30, 2004</b>	<b>June 30, 2003</b>
	(In thousands)			
Service cost benefits earned	\$2,950	\$	\$ 5,900	\$
Interest cost on benefit obligation	738		1,476	
Amortization of prior service cost				
Expected return on plan assets				
Recognized actuarial (gain)/loss	—	—	—	—
Net periodic benefit cost	<b>\$3,688</b>	<b>\$</b>	<b>\$ 7,376</b>	<b>\$</b>

	<b>Other Benefits</b>			
	<b>Reorganized NRG</b>	<b>Predecessor Company</b>	<b>Reorganized NRG</b>	<b>Predecessor Company</b>
	<b>Three Months Ended</b>	<b>Three Months Ended</b>	<b>Six Months Ended</b>	<b>Six Months Ended</b>
			<b>June 30, 2004</b>	<b>June 30, 2003</b>



**Table of Contents**

million from Xcel Energy. On April 30, 2004 we received \$328.5 million from Xcel Energy as part of the third settlement payment. The remainder of the third settlement payment, \$23.5 million, was paid by Xcel Energy on May 28, 2004. We used the proceeds from the Xcel Energy settlement to reduce our creditor pool obligation. As of June 30, 2004 and December 31, 2003 the balance of our creditor pool obligation was \$25.0 million and \$540.0 million, respectively. On February 20, 2004, April 30, 2004 and May 28, 2004, we made payments of \$163.0 million, \$328.5 million and \$23.5 million, respectively. In addition, our other bankruptcy settlement obligation as of June 30, 2004 and December 31, 2003 was \$221.3 million and \$220.0 million, respectively. This obligation relates to the allowed claims pending against our Audrain and Pike facilities. The net change in the balance of \$1.3 million as of June 30, 2004 relates to a \$2.6 million increase to the outstanding obligation offset by an increase of \$1.3 million related to an agreement whereby we are entitled to reimbursement of certain costs incurred while we are maintaining these facilities in anticipation of their sale whereupon any proceeds will be turned over to the creditors.



**Table of Contents**

**Note 21 Condensed Consolidating Financial Information**

On December 17, 2003 and January 28, 2004, we issued \$1.2 billion and \$475.0 million, respectively, of 8% Second Priority Senior Secured Notes due on December 15, 2013, or the Notes. These Notes are guaranteed by each of our current and future wholly owned domestic subsidiaries, or Guarantor Subsidiaries. Each of the following Guarantor Subsidiaries fully and unconditionally guarantee the Notes.

Arthur Kill Power LLC	NRG Cabrillo Power Operations Inc.
Astoria Gas Turbine Power LLC	NRG Cadillac Operations Inc.
Berrians I Gas Turbine Power LLC	NRG California Peaker Operations LLC
Big Cajun II Unit 4 LLC	NRG Central U.S. LLC
Capistrano Cogeneration Company	NRG Connecticut Affiliate Services Inc.
Chickahominy River Energy Corp.	NRG Devon Operations Inc.
Commonwealth Atlantic Power LLC	NRG Dunkirk Operations Inc.
Conemaugh Power LLC	NRG Eastern LLC
Connecticut Jet Power LLC	NRG El Segundo Operations Inc.
Devon Power LLC	NRG Huntley Operations Inc.
Dunkirk Power LLC	NRG International LLC
Eastern Sierra Energy Company	NRG Kaufman LLC
El Segundo Power II LLC	NRG Mesquite LLC
Hanover Energy Company	NRG MidAtlantic Affiliate Services Inc.
Huntley Power LLC.	NRG MidAtlantic Generating LLC
Indian River Operations Inc.	NRG MidAtlantic LLC
Indian River Power LLC	NRG Middletown Operations Inc.
James River Power LLC	NRG Montville Operations Inc.
Kaufman Cogen LP	NRG New Jersey Energy Sales LLC
Keystone Power LLC	NRG New Roads Holdings LLC
Louisiana Generating LLC	NRG North Central Operations Inc.
MidAtlantic Generation Holding LLC	NRG Northeast Affiliate Services Inc.
Middletown Power LLC	NRG Northeast Generating LLC
Montville Power LLC	NRG Norwalk Harbor Operations Inc.
NEO California Power LLC	NRG Operating Services, Inc.
NEO Chester-Gen LLC	NRG Oswego Harbor Power Operations Inc.
NEO Corporation	NRG Power Marketing Inc.
NEO Freehold-Gen LLC	NRG Rocky Road LLC
NEO Landfill Gas Holdings Inc.	NRG Saguaro Operations Inc.
NEO Power Services Inc.	NRG South Central Affiliate Services Inc.
Northeast Generation Holding LLC	NRG South Central Generating LLC
Norwalk Power LLC	NRG South Central Operations Inc.
NRG Affiliate Services Inc.	NRG West Coast LLC
NRG Arthur Kill Operations Inc.	NRG Western Affiliate Services Inc.
NRG Asia-Pacific, Ltd.	Oswego Harbor Power LLC
NRG Astoria Gas Turbine Operations ,Inc.	Saguaro Power LLC
NRG Bayou Cove LLC	Somerset Operations Inc.
	Somerset Power LLC
	South Central Generation Holding LLC



**Table of Contents**

The non-guarantor subsidiaries, or Non-Guarantor Subsidiaries, include all of our foreign subsidiaries and certain domestic subsidiaries. We conduct much of our business through and derive much of our income from our subsidiaries. Therefore, our ability to make required payments with respect to our indebtedness and other obligations depends on the financial results and condition of our subsidiaries and our ability to receive funds from our subsidiaries. Except for NRG Bayou Cove LLC, which is subject to certain restrictions under our Peaker financing agreements, there are no restrictions on the ability of any of the Guarantor Subsidiaries to transfer funds to us. In addition, there may be restrictions for certain Non-Guarantor Subsidiaries.

The following condensed consolidating financial information presents the financial information of NRG Energy, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries in accordance with Rule 3-10 under the Securities and Exchange Commission's Regulation S-X. The financial information may not necessarily be indicative of results of operations or financial position had the Guarantor Subsidiaries or Non-Guarantor Subsidiaries operated as independent entities.

In this presentation, NRG Energy consists of parent company operations. Guarantor Subsidiaries and Non-Guarantor Subsidiaries of NRG Energy are reported on an equity basis. For companies acquired, the fair values of the assets and liabilities acquired have been presented on a push-down accounting basis.

**Table of Contents**

**NRG Energy, Inc. and Subsidiaries**  
**Consolidating Statements of Operations**  
**For the Six Months Ended June 30, 2004**  
**Reorganized NRG**  
**(Unaudited)**

	<b>Guarantor</b>	<b>Non-Guarantor</b>	<b>NRG Energy,</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>Subsidiaries</b>	<b>Subsidiaries</b>	<b>Inc.</b>	<b>(1)</b>	<b>Balance</b>
			<b>(In thousands)</b>		
<b>Operating Revenues</b>					
Revenues from majority-owned operations	\$848,258	\$ 303,458	\$ 26,026	\$ (3,750)	\$ 1,173,992
<b>Operating Costs and Expenses</b>					
Cost of majority-owned operations	520,126	204,139	15,286	(3,750)	735,801
Depreciation and amortization	66,389	35,284	6,501		108,174
General, administrative and development	46,391	14,925	21,013		82,329
Corporate relocation charges			6,761		6,761
Reorganization items	874	151	2,564		3,589
Restructuring and impairment charges	1,965		(289)		1,676
Total operating costs and expenses	635,745	254,499	51,836	(3,750)	938,330
<b>Operating Income/(Loss)</b>	<b>212,513</b>	<b>48,959</b>	<b>(25,810)</b>		<b>235,662</b>
<b>Other Income (Expense)</b>					
Minority interest in earnings of consolidated subsidiaries		(709)			(709)
Equity in earnings of consolidated subsidiaries	46,941		155,365	(202,306)	
Equity in earnings/(losses) of unconsolidated affiliates	34,556	30,066	(808)		63,814
Write downs and gains/(losses) on sales of equity method investments		(1,271)	738		(533)
Other income, net	3,660	12,357	2,713	(7,022)	11,708
Interest expense	587	(48,252)	(118,728)	7,022	(159,371)

Edgar Filing: NRG ENERGY INC - Form 10-Q/A

Total other income/(expense)	<u>85,744</u>	<u>(7,809)</u>	<u>39,280</u>	<u>(202,306)</u>	<u>(85,091)</u>
<b>Income From Continuing Operations Before Income Taxes</b>	298,257	41,150	13,470	(202,306)	150,571
Income Tax Expense (Benefit)	<u>139,481</u>	<u>10,910</u>	<u>(99,789)</u>	<u>          </u>	<u>50,602</u>
<b>Income/(Loss) From Continuing Operations</b>	158,776	30,240	113,259	(202,306)	99,969
<b>Income/(Loss) on Discontinued Operations, net of Income Taxes</b>	<u>(2)</u>	<u>13,292</u>	<u>          </u>	<u>          </u>	<u>13,290</u>
<b>Net Income</b>	<u>\$ 158,774</u>	<u>\$ 43,532</u>	<u>\$ 113,259</u>	<u>\$(202,306)</u>	<u>\$ 113,259</u>

(1) All significant intercompany transactions have been eliminated in consolidation.

**Table of Contents**

**NRG Energy, Inc. and Subsidiaries**  
**Consolidating Statements of Operations**  
**For the Three Months Ended June 30, 2004**  
**Reorganized NRG**  
**(Unaudited)**

	<b>Guarantor</b>	<b>Non-Guarantor</b>	<b>NRG Energy,</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>Subsidiaries</b>	<b>Subsidiaries</b>	<b>Inc.</b>	<b>(1)</b>	<b>Balance</b>
			<b>(In thousands)</b>		
<b>Operating Revenues</b>					
Revenues from majority-owned operations	\$421,748	\$ 139,985	\$ 14,019	\$ (2,078)	\$ 573,674
<b>Operating Costs and Expenses</b>					
Cost of majority-owned operations	248,080	100,127	7,621	(2,078)	353,750
Depreciation and amortization	31,493	17,866	3,809		53,168
General, administrative and development	26,543	9,217	10,077		45,837
Corporate relocation charges			5,645		5,645
Reorganization items	(859)	1	(1,803)		(2,661)
Restructuring and impairment charges	1,967	(3)	(288)		1,676
Total operating costs and expenses	307,224	127,208	25,061	(2,078)	457,415
<b>Operating Income/(Loss)</b>	<b>114,524</b>	<b>12,777</b>	<b>(11,042)</b>		<b>116,259</b>
<b>Other Income (Expense)</b>					
Minority interest in (earnings)/losses of consolidated subsidiaries	(508)	307			(201)
Equity in earnings of consolidated subsidiaries	25,165		99,404	(124,569)	
Equity in earnings/(losses) of unconsolidated affiliates	26,672	19,412	17		46,101
Gains on sales of equity method investments		702	503		1,205
Other income, net	3,467	9,580	1,935	(6,930)	8,052
Interest expense	(132)	(28,001)	(45,022)	6,930	(66,225)

Edgar Filing: NRG ENERGY INC - Form 10-Q/A

Total other income (expense)	<u>54,664</u>	<u>2,000</u>	<u>56,837</u>	<u>(124,569)</u>	<u>(11,068)</u>
<b>Income From Continuing Operations Before Income Taxes</b>	169,188	14,777	45,795	(124,569)	105,191
Income Tax Expense (Benefit)	<u>68,514</u>	<u>5,037</u>	<u>(37,229)</u>	<u>                    </u>	<u>36,322</u>
<b>Income From Continuing Operations</b>	100,674	9,740	83,024	(124,569)	68,869
<b>Income/(Loss) on Discontinued Operations, net of Income Taxes</b>	<u>(2)</u>	<u>14,157</u>	<u>                    </u>	<u>                    </u>	<u>14,155</u>
<b>Net Income/(Loss)</b>	<u>\$100,672</u>	<u>\$ 23,897</u>	<u>\$ 83,024</u>	<u>\$(124,569)</u>	<u>\$ 83,024</u>

(1) All significant intercompany transactions have been eliminated in consolidation.

**Table of Contents**

**NRG Energy, Inc. and Subsidiaries**  
**Consolidating Balance Sheets**  
**at June 30, 2004**  
**Reorganized NRG**  
**(Unaudited)**

	<b>Guarantor</b>	<b>Non-Guarantor</b>	<b>NRG Energy, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>Subsidiaries</b>	<b>Subsidiaries</b>	<b>(Note Issuer)</b>	<b>(1)</b>	<b>Balance</b>
			<b>(In thousands)</b>		
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 267,405	\$ 202,187	\$ 351,284	\$	\$ 820,876
Restricted cash	15,673	136,000			151,673
Accounts receivable trade, net	219,394	79,816	14,439		313,649
Current portion of notes receivable affiliates	700	3,053	8,874	(10,710)	1,917
Current portion of notes receivable		122,773	287		123,060
Taxes receivable			35	14,789	14,824
Inventory	173,713	28,631	1,328		203,672
Derivative instruments valuation	11,670				11,670
Prepayments and other current assets	129,468	100,142	33,506	(33,155)	229,961
Current deferred income taxes	(506)	2,900		(1,433)	961
Current assets discontinued operations		56,955			56,955
<b>Total current assets</b>	<b>817,517</b>	<b>732,457</b>	<b>409,753</b>	<b>(30,509)</b>	<b>1,929,218</b>
<b>Property, Plant and Equipment</b>					
In service	2,288,658	1,611,832	35,425		3,935,915
Under construction	64,105	39,897	792		104,794
<b>Total property, plant and equipment</b>	<b>2,352,763</b>	<b>1,651,729</b>	<b>36,217</b>		<b>4,040,709</b>
Less accumulated depreciation	(73,508)	(38,732)	(7,247)		(119,487)



Edgar Filing: NRG ENERGY INC - Form 10-Q/A

Net property, plant and equipment	2,279,255	1,612,997	28,970		3,921,222
<b>Other Assets</b>					
Investments in subsidiaries	652,395		4,223,083	(4,875,478)	
Equity investments in affiliates	360,345	316,950	389		677,684
Notes receivable, less current portion affiliates	14,710	347,892		(240,063)	122,539
Notes receivable, less current portion	379,838	197,003	1,277	34,000	612,118
Intangible assets, net	301,791	54,277			356,068
Debt issuance costs, net			63,038		63,038
Derivative instruments valuation	1,724	46,070	5,680		53,474
Deferred income tax	179,525		158,274	(337,799)	
Funded letter of credit			250,000		250,000
Other assets	34,738	25,880	55,511		116,129
Non-current assets discontinued operations		451,785			451,785
<b>Total other assets</b>	<b>1,925,066</b>	<b>1,439,857</b>	<b>4,757,252</b>	<b>(5,419,340)</b>	<b>2,702,835</b>
<b>Total Assets</b>	<b>\$5,021,838</b>	<b>\$3,785,311</b>	<b>\$5,195,975</b>	<b>\$(5,449,849)</b>	<b>\$ 8,553,275</b>

(1) All significant intercompany transactions have been eliminated in consolidation.

**Table of Contents**

**NRG Energy, Inc. and Subsidiaries**  
**Consolidating Balance Sheets**  
**at June 30, 2004**  
**Reorganized NRG**  
**(Unaudited)**

	<b>Guarantor</b>	<b>Non-Guarantor</b>	<b>NRG Energy, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>Subsidiaries</b>	<b>Subsidiaries</b>	<b>(Note Issuer)</b>	<b>(1)</b>	<b>Balance</b>
	<b>(In thousands)</b>				
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>					
<b>Current Liabilities</b>					
Current portion of long-term debt and capital leases	\$ 2,449	\$ 94,795	\$ 9,851	\$ (10,710)	\$ 96,385
Short-term debt		17,826			17,826
Accounts payable trade	43,627	86,128	7,278		137,033
Accounts payable affiliates	105,689	(201,737)	109,788	(7,368)	6,372
Accrued property, sales and other taxes	4,048	10,951	1,137		16,136
Accrued salaries, benefits and related costs	18,056	11,112	3,904		33,072
Accrued interest	3	46,262	6,928	(33,155)	20,038
Derivative instruments valuation	20,979				20,979
Creditor pool obligation			25,000		25,000
Other bankruptcy settlement		221,283			221,283
Current liabilities discontinued operations		23,121			23,121
<b>Total current liabilities</b>	<b>272,488</b>	<b>324,951</b>	<b>187,462</b>	<b>(53,883)</b>	<b>731,018</b>
<b>Other Liabilities</b>					
Long term debt and capital leases	10,664	1,739,059	2,412,757	(240,063)	3,922,417
Non-current deferred income tax liability		147,051		(2,529)	144,522
Postretirement and other benefit obligations	84,452	13,788	12,602		110,842
Derivative instruments valuation		127,894	31,673		159,567
Other long-term obligations	348,833	109,011	15,403		473,247
Non-current liabilities discontinued operations		469,911			469,911

(1) All significant intercompany transactions have been eliminated in consolidation.

**Table of Contents**

**NRG Energy, Inc. and Subsidiaries**  
**Consolidating Statements of Cash Flows**  
**For the Six Months Ended June 30, 2004**  
**Reorganized NRG**  
**(Unaudited)**

	<b>Guarantor</b>	<b>Non-Guarantor</b>	<b>NRG Energy, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>Subsidiaries</b>	<b>Subsidiaries</b>	<b>(Note Issuer)</b>	<b>(1)</b>	<b>Balance</b>
	<b>(In thousands)</b>				
<b>Cash Flows from Operating Activities</b>					
Net income	\$ 158,774	\$ 43,532	\$ 113,259	\$(202,306)	\$ 113,259
Adjustments to reconcile net income to net cash provided (used) by operating activities					
Distributions in excess of (less than) equity in earnings of unconsolidated affiliates	(16,936)	(26,176)	(147,171)	195,034	4,751
Depreciation and amortization	66,389	40,609	6,501		113,499
Amortization of debt issuance costs		211	19,849		20,060
Amortization of debt discount	(27,672)	21,356	(2,149)	20,260	11,795
Deferred income taxes	(6,799)	1,828	(139,625)	193,980	49,384
Non-cash contribution from members current taxes	119,312	40,721		(160,033)	
Minority interest		2,089			2,089
Unrealized (gains)/losses on derivatives	(32,122)	(46,084)	4,049	52,699	(21,458)
Asset impairment	1,676				1,676
Write downs and (gains)/losses on sales of equity method investments		1,268	(735)		533
Gain on sale of discontinued operations		(13,012)			(13,012)
Amortization of power contracts and emission credits	11,705	22,812			34,517
Cash provided (used) by changes in certain working capital items, net of acquisition affects					
Accounts receivable	(98,983)	(10,991)	(1,080)		(111,054)
Xcel Energy settlement receivable			640,000		640,000
Accrued taxes			39	(29,324)	(29,285)
Inventory	(8,860)	515	(94)		(8,439)
Prepayments and other current assets	(42,797)	(36,224)	44,757	32,199	(2,065)
Accounts payable	4,249	(24,764)	(7,111)		(27,626)

Edgar Filing: NRG ENERGY INC - Form 10-Q/A

Accounts payable affiliates	(340,305)	1,514	209,251	129,753	213
Accrued property, sales and other taxes	(3,184)	(3,084)	(797)		(7,065)
Accrued salaries, benefits and related costs	12,492	4,082	3,618		20,192
Accrued interest	(2,554)	47,209	2,427	(32,199)	14,883
Other current liabilities	7,386	(709)	(513,045)		(506,368)
Cash (provided)/used by changes in other assets and liabilities	46,045	(6,182)	103,297	(126,282)	16,878
	<u>46,045</u>	<u>(6,182)</u>	<u>103,297</u>	<u>(126,282)</u>	<u>16,878</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>(152,184)</u>	<u>60,520</u>	<u>335,240</u>	<u>73,781</u>	<u>317,357</u>
<b>Cash Flows from Investing Activities</b>					

**Table of Contents**

	<b>Guarantor</b>	<b>Non-Guarantor</b>	<b>NRG Energy, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>Subsidiaries</b>	<b>Subsidiaries</b>	<b>(Note Issuer)</b>	<b>(1)</b>	<b>Balance</b>
			<b>(In thousands)</b>		
Proceeds on sale of equity method investments		26,693	3,000		29,693
Proceeds on sale of discontinued operations		59,190			59,190
Investments in subsidiaries	(17,642)	48,979	(256,230)	224,893	
Investments in equity method investments and projects	55,573	(64,861)	287,136	(278,414)	(566)
Decrease in notes receivable, net	49,687	187,260	22,296	(244,035)	15,208
Capital expenditures	(43,882)	(19,839)	(955)		(64,676)
Increase in restricted cash and trust funds	(11,375)	(25,916)			(37,291)
	<u>32,361</u>	<u>211,506</u>	<u>55,247</u>	<u>(297,556)</u>	<u>1,558</u>
<b>Net Cash Provided by Investing Activities</b>					
	<u>32,361</u>	<u>211,506</u>	<u>55,247</u>	<u>(297,556)</u>	<u>1,558</u>
<b>Cash Flows from Financing Activities</b>					
Proceeds from issuance of long-term debt, net	(335)	301,124	(33,933)	223,775	490,631
Capital contribution from parent to subsidiary	92,000		(92,000)		
Deferred debt issuance costs		53	(8,550)		(8,497)
Principal payments on short and long-term debt		(567,806)			(567,806)
	<u>91,665</u>	<u>(266,629)</u>	<u>(134,483)</u>	<u>223,775</u>	<u>(85,672)</u>
<b>Net Cash Provided (Used) by Financing Activities</b>					
	<u>91,665</u>	<u>(266,629)</u>	<u>(134,483)</u>	<u>223,775</u>	<u>(85,672)</u>
<b>Change in Cash from Discontinued Operations</b>		10,822			10,822
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	54	25,534			25,588
	<u>54</u>	<u>25,534</u>			<u>25,588</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(28,104)	41,753	256,004		269,653

<b>Cash and Cash Equivalents at Beginning of Period</b>	<u>295,509</u>	<u>160,434</u>	<u>95,280</u>	<u>          </u>	<u>551,223</u>
<b>Cash and Cash Equivalents at End of Period</b>	<u>\$267,405</u>	<u>\$ 202,187</u>	<u>\$ 351,284</u>	<u>\$          </u>	<u>\$ 820,876</u>

(1) All significant intercompany transactions have been eliminated in consolidation.

**Table of Contents**

**NRG Energy, Inc. and Subsidiaries**  
**Consolidating Statements of Operations**  
**For the Six Months Ended June 30, 2003**  
**Predecessor Company**  
**(Unaudited)**

	<b>Guarantor</b>	<b>Non-Guarantor</b>	<b>NRG Energy, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>Subsidiaries</b>	<b>Subsidiaries</b>	<b>(Note Issuer)</b>	<b>(1)</b>	<b>Balance</b>
	<b>(In thousands)</b>				
<b>Operating Revenues</b>					
Revenues from majority-owned operations	\$ 639,588	\$ 272,335	\$ 25,598	\$ (912)	\$ 936,609
<b>Operating Costs and Expenses</b>					
Cost of majority-owned operations	555,459	187,938	16,947	(912)	759,432
Depreciation and amortization	74,320	40,831	7,755		122,906
General, administrative and development	26,456	24,908	36,299		87,663
Reorganization items	1,452		4,882		6,334
Restructuring and impairment charges	227,437	(136,007)	200,337		291,767
Total operating costs and expenses	885,124	117,670	266,220	(912)	1,268,102
<b>Operating Income/(Loss)</b>	<b>(245,536)</b>	<b>154,665</b>	<b>(240,622)</b>		<b>(331,493)</b>
<b>Other Income (Expense)</b>					
Equity in earnings of consolidated subsidiaries	104,375	1,476	(135,648)	29,797	
Equity in earnings/(losses) of unconsolidated affiliates	66,437	26,527	(478)		92,486
Write downs and losses on sales of equity method investments	(12,257)	(136,770)			(149,027)
Other income, net	3,092	6,311	(4,019)	(1,842)	3,542
Interest expense	(70,848)	(80,164)	(111,591)	1,842	(260,761)
Total other income (expense)	90,799	(182,620)	(251,736)	29,797	(313,760)



	_____	_____	_____	_____	_____
<b>Loss From Continuing Operations Before Income Taxes</b>	(154,737)	(27,955)	(492,358)	29,797	(645,253)
Income Tax Expense (Benefit)	(78,855)	3,183	113,014		37,342
	_____	_____	_____	_____	_____
<b>Loss From Continuing Operations</b>	(75,882)	(31,138)	(605,372)	29,797	(682,595)
<b>Income (Loss) on Discontinued Operations, net of Income Taxes</b>	(22,881)	100,104	(15,661)		61,562
	_____	_____	_____	_____	_____
<b>Net Income/(Loss)</b>	<b>\$ (98,763)</b>	<b>\$ 68,966</b>	<b>\$(621,033)</b>	<b>\$ 29,797</b>	<b>\$ (621,033)</b>
	_____	_____	_____	_____	_____

(1) All significant intercompany transactions have been eliminated in consolidation.

**Table of Contents**

**NRG Energy, Inc. and Subsidiaries**  
**Consolidating Statements of Operations**  
**For the Three Months Ended June 30, 2003**  
**Predecessor Company**  
**(Unaudited)**

	<b>Guarantor</b>	<b>Non-Guarantor</b>	<b>NRG Energy, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>Subsidiaries</b>	<b>Subsidiaries</b>	<b>(Note Issuer)</b>	<b>(1)</b>	<b>Balance</b>
	<b>(In thousands)</b>				
<b>Operating Revenues</b>					
Revenues from majority-owned operations	\$ 297,161	\$ 131,345	\$ 13,663	\$ (570)	\$ 441,599
<b>Operating Costs and Expenses</b>					
Cost of majority-owned operations	286,838	86,403	9,174	(570)	381,845
Depreciation and amortization	38,420	20,951	4,397		63,768
General, administrative and development	10,301	15,290	13,556		39,147
Reorganization items	1,452		4,882		6,334
Restructuring and impairment charges	225,295	(107)	44,443		269,631
Total operating costs and expenses	562,306	122,537	76,452	(570)	760,725
<b>Operating Income/(Loss)</b>	<b>(265,145)</b>	<b>8,808</b>	<b>(62,789)</b>		<b>(319,126)</b>
<b>Other Income (Expense)</b>					
Equity in earnings of consolidated subsidiaries	(121,396)	1,476	(408,376)	528,296	
Equity in earnings/(losses) of unconsolidated affiliates	38,647	8,705	(495)		46,857
Write downs and gains/(losses) on sales of equity method investments	2,196	(134,632)			(132,436)
Other income, net	1,416	4,003	(11,530)	(1,842)	(7,953)
Interest expense	(35,066)	(42,468)	(16,395)	1,842	(92,087)

Edgar Filing: NRG ENERGY INC - Form 10-Q/A

Total other income (expense)	<u>(114,203)</u>	<u>(162,916)</u>	<u>(436,796)</u>	<u>528,296</u>	<u>(185,619)</u>
<b>Loss From Continuing Operations Before Income Taxes</b>					
Taxes	(379,348)	(154,108)	(499,585)	528,296	(504,745)
Income Tax Expense (Benefit)	<u>(95,557)</u>	<u>(2,447)</u>	<u>102,309</u>	<u>                    </u>	<u>4,305</u>
<b>Loss From Continuing Operations</b>	(283,791)	(151,661)	(601,894)	528,296	(509,050)
<b>Income (Loss) on Discontinued Operations, net of Income Taxes</b>					
Taxes	<u>3,056</u>	<u>(95,900)</u>	<u>(6,507)</u>	<u>                    </u>	<u>(99,351)</u>
<b>Net Loss</b>	<u>\$ (280,735)</u>	<u>\$ (247,561)</u>	<u>\$ (608,401)</u>	<u>\$ 528,296</u>	<u>\$ (608,401)</u>

(1) All significant intercompany transactions have been eliminated in consolidation.

**Table of Contents**

**NRG Energy, Inc. and Subsidiaries**  
**Consolidating Balance Sheets**  
**at December 31, 2003**  
**Reorganized NRG**

	<b>Guarantor</b>	<b>Non- Guarantor</b>	<b>NRG Energy, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>Subsidiaries</b>	<b>Subsidiaries</b>	<b>(Note Issuer)</b>	<b>(1)</b>	<b>Balance</b>
	<b>(In thousands)</b>				
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 295,509	\$ 160,434	\$ 95,280	\$	\$ 551,223
Restricted cash	4,298	111,769			116,067
Accounts receivable-trade, net	120,411	68,151	13,359		201,921
Xcel Energy settlement receivable			640,000		640,000
Current portion of notes receivable affiliates			31,170	(30,970)	200
Current portion of notes receivable		64,854	287		65,141
Inventory	164,853	28,839	1,234		194,926
Derivative instruments valuation	772				772
Prepayments and other current assets	86,671	58,200	78,263	(956)	222,178
Current deferred income taxes		2,998		(1,148)	1,850
Current assets discontinued operations		119,561			119,561
<b>Total current assets</b>	<b>672,514</b>	<b>614,806</b>	<b>859,593</b>	<b>(33,074)</b>	<b>2,113,839</b>
<b>Property, Plant and Equipment</b>					
In service	2,288,280	1,562,048	35,137		3,885,465
Under construction	20,600	118,433	138		139,171
<b>Total property, plant and equipment</b>	<b>2,308,880</b>	<b>1,680,481</b>	<b>35,275</b>		<b>4,024,636</b>
Less accumulated depreciation	(7,118)	(3,923)	(759)		(11,800)

Edgar Filing: NRG ENERGY INC - Form 10-Q/A

Net property, plant and equipment	2,301,762	1,676,558	34,516		4,012,836
<b>Other Assets</b>					
Investment in subsidiaries	626,979		4,090,996	(4,717,975)	
Equity investments in affiliates	403,606	322,279	12,113		737,998
Notes receivable, less current portion affiliates	389,257	120,733		(379,838)	130,152
Notes receivable, less current portion	5,678	684,489	1,277		691,444
Intangible assets, net	411,540	20,821			432,361
Debt issuance costs, net			74,337		74,337
Derivative instruments valuation		59,907			59,907
Non-current deferred income tax	58,586			(58,586)	
Funded letter of credit			250,000		250,000
Other assets	36,029	30,612	56,504		123,145
Non-current assets discontinued operations		618,968			618,968
<b>Total other assets</b>	<b>1,931,675</b>	<b>1,857,809</b>	<b>4,485,227</b>	<b>(5,156,399)</b>	<b>3,118,312</b>
<b>Total Assets</b>	<b>\$4,905,951</b>	<b>\$4,149,173</b>	<b>\$5,379,336</b>	<b>\$(5,189,473)</b>	<b>\$ 9,244,987</b>

(1) All significant intercompany transactions have been eliminated in consolidation.

**Table of Contents**

**NRG Energy, Inc. and Subsidiaries**  
**Consolidating Balance Sheets (Continued)**  
**at December 31, 2003**  
**Reorganized NRG**

	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>NRG Energy, Inc. (Note Issuer)</b>	<b>Eliminations (1)</b>	<b>Consolidated Balance</b>
	(In thousands)				
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>					
<b>Current Liabilities</b>					
Current portion of long-term debt and capital leases	\$ 30,121	\$ 790,078	\$ 12,000	\$ (30,970)	\$ 801,229
Short-term debt		19,019			19,019
Accounts payable trade	39,378	104,916	14,389		158,683
Accounts payable affiliates	333,722	(217,207)	(102,094)	(7,368)	7,053
Accrued taxes			(74)	16,169	16,095
Accrued property, sales and other taxes	7,232	13,156	1,934		22,322
Accrued salaries, benefits and related costs	9,295	8,949	1,087		19,331
Accrued interest	2,557	2,880	4,501	(956)	8,982
Derivative instruments valuation	429				429
Creditor pool obligation			540,000		540,000
Other bankruptcy settlement		220,000			220,000
Current deferred income tax	509			(509)	
Other current liabilities	70,251	13,639	18,971		102,861
Current liabilities discontinued operations		110,177			110,177
<b>Total current liabilities</b>	<b>493,494</b>	<b>1,065,607</b>	<b>490,714</b>	<b>(23,634)</b>	<b>2,026,181</b>
<b>Other Liabilities</b>					
Long-term debt and capital leases	10,999	1,333,931	2,446,690	(463,838)	3,327,782
Deferred income taxes		152,392	(22,514)	19,615	149,493
Postretirement and other benefit obligations	80,720	13,425	11,801		105,946
Derivative instruments valuation		153,503			153,503
Other long-term obligations	399,353	66,196	15,389		480,938
Non-current liabilities discontinued operations		558,884			558,884

Edgar Filing: NRG ENERGY INC - Form 10-Q/A

Total non-current liabilities	<u>491,072</u>	<u>2,278,331</u>	<u>2,451,366</u>	<u>(444,223)</u>	<u>4,776,546</u>
Total Liabilities	<u>984,566</u>	<u>3,343,938</u>	<u>2,942,080</u>	<u>(467,857)</u>	<u>6,802,727</u>
Minority Interest		5,004			5,004
Commitments and Contingencies					
Stockholders Equity	<u>3,921,385</u>	<u>800,231</u>	<u>2,437,256</u>	<u>(4,721,616)</u>	<u>2,437,256</u>
<b>Total Liabilities and Stockholders Equity</b>	<b><u>\$4,905,951</u></b>	<b><u>\$ 4,149,173</u></b>	<b><u>\$ 5,379,336</u></b>	<b><u>\$(5,189,473)</u></b>	<b><u>\$ 9,244,987</u></b>

(1) All significant intercompany transactions have been eliminated in consolidation.

**Table of Contents**

**NRG Energy, Inc. and Subsidiaries**  
**Consolidating Statements of Cash Flows**  
**For the Six Months Ended June 30, 2003**  
**Predecessor Company**  
**(Unaudited)**

	<b>Guarantor</b>	<b>Non-Guarantor</b>	<b>NRG Energy, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>Subsidiaries</b>	<b>Subsidiaries</b>	<b>(Note Issuer)</b>	<b>(1)</b>	<b>Balance</b>
	<b>(In thousands)</b>				
<b>Cash Flows from Operating Activities</b>					
Net income/(loss)	\$ (98,763)	\$ 68,966	\$(621,033)	\$ 29,797	\$ (621,033)
Adjustments to reconcile net income/(loss) to net cash provided (used) by operating activities					
Distributions in excess of (less than) equity in earnings of unconsolidated affiliates	(108,670)	(21,602)	136,126	(29,797)	(23,943)
Depreciation and amortization	75,020	62,446	7,755		145,221
Amortization of debt issuance costs	2,095	5,047	3,948		11,090
Deferred income taxes	(132,854)	3,966	134,322	31,091	36,525
Non-cash contribution from members-current taxes	24,558	(38,008)		13,450	
Minority interest		466			466
Unrealized (gains)/losses on derivatives	(29,524)	(5,576)	52,896		17,796
Asset impairment	245,437	101,344	1,132		347,913
Write downs and losses on sales of equity method investments	11,313	134,951	2,577		148,841
(Gain)/loss on sale of discontinued operations	2,224	(245,633)	24,873		(218,536)
Cash provided (used) by changes in certain working capital items, net of acquisition affects					
Accounts receivable	35,646	16,806	(96,060)		(43,608)
Accrued taxes			25,938	(44,541)	(18,603)
Inventory	14,413	(3,474)	2,611		13,550
Prepayments and other current assets	(77,604)	17,599	(14,257)		(74,262)
Accounts payable	102,070	(12,954)	174,990		264,106
Accounts payable affiliates	99,780	(157,343)	62,351		4,788
	2,126	3,264	8		5,398



Accrued property, sales and other taxes				
Accrued salaries, benefits and related costs	5,963	(2,953)	(6,779)	(3,769)
Accrued interest	(35,309)	43,244	118,643	126,578
Other current liabilities	5,596	16,782	(139,733)	(117,355)
Cash (provided)/used by changes in other assets and liabilities	(16,881)	11,884	27,866	22,869
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>126,636</u>	<u>(778)</u>	<u>(101,826)</u>	<u>24,032</u>
<b>Cash Flows from Investing Activities</b>				
Proceeds on sale of equity method investments		89,223		89,223

**Table of Contents**

	<b>Guarantor</b>	<b>Non-Guarantor</b>	<b>NRG Energy, Inc. (Note Issuer)</b>	<b>Eliminations (1)</b>	<b>Consolidated Balance</b>
	<b>Subsidiaries</b>	<b>Subsidiaries</b>	<b>(In thousands)</b>		
Investment in subsidiaries			135,252	(135,252)	
Investments in equity method investments and projects	(250)	(119)			(369)
Decrease in note receivable, net	78,855	7,784	6	(77,240)	9,405
Capital expenditures	(10,953)	(45,041)	(611)		(56,605)
Increase in restricted cash and trust funds	(4,366)	(9,771)			(14,137)
<b>Net Cash Provided by Investing Activities</b>	<b>63,286</b>	<b>42,076</b>	<b>134,647</b>	<b>(212,492)</b>	<b>27,517</b>
<b>Cash Flows from Financing Activities</b>					
Proceeds from issuance of long-term debt, net		5,342			5,342
Deferred debt issuance costs	(7,428)	(46)			(7,474)
Capital contributions from parent	(135,252)			135,252	
Principal payments on short and long-term debt	(3,106)	(105,524)		77,240	(31,390)
<b>Net Cash Used by Financing Activities</b>	<b>(145,786)</b>	<b>(100,228)</b>		<b>212,492</b>	<b>(33,522)</b>
<b>Change in Cash from Discontinued Operations Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>2,287</b>	<b>(95,450)</b>			<b>24,062</b> <b>(93,163)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>46,423</b>	<b>(130,318)</b>	<b>32,821</b>		<b>(51,074)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>63,403</b>	<b>228,135</b>	<b>69,322</b>		<b>360,860</b>

**Cash and Cash Equivalents at  
End of Period**

\$ 109,826	\$ 97,817	\$ 102,143	\$	\$ 309,786
------------	-----------	------------	----	------------

(1) All significant intercompany transactions have been eliminated in consolidation.

**Table of Contents**

**Item 6. Exhibits and Reports on Form 8-K**

**(a) Exhibits**

- 3.2 Amended and Restated By-laws.(2)
  - 14 Code of Conduct. (2)
  - 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (1)
  - 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (1)
  - 31.3 Certification of Controller pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (1)
  - 32 Certification of Chief Executive Officer, Chief Financial Officer and Controller pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. (1)
  - 99.1 Financial Statements of Louisiana Generating LLC for the six months ended June 30, 2004.(1)
  - 99.2 Financial Statements of NRG Northeast Generating LLC for the six months ended June 30, 2004.(1)
  - 99.3 Financial Statements of Indian River Power LLC for the six months ended June 30, 2004.(1)
  - 99.4 Financial Statements of NRG MidAtlantic Generating LLC for the six months ended June 30, 2004.(1)
  - 99.5 Financial Statements of NRG South Central Generating LLC for the six months ended June 30, 2004.(1)
  - 99.6 Financial Statements of NRG Eastern LLC for the six months ended June 30, 2004.(1)
  - 99.7 Financial Statements of Northeast Generation Holding LLC for the six months ended June 30, 2004.(1)
  - 99.8 Financial Statements of NRG International LLC for the six months ended June 30, 2004.(1)
- 

(1) Filed herewith.

(2) Incorporated herein by reference to NRG Energy, Inc.'s Form 10-Q for the quarter ended June 30, 2004, filed on August 9, 2004.

**(b) Reports on Form 8-K:**

NRG Energy filed or furnished reports on Form 8-K on the following dates during the quarter ended June 30, 2004:

Form 8-K, filed on May 3, 2004, to provide information under Item 7 regarding an amendment to the credit agreement dated as of December 23, 2003.

Form 8-K, filed on May 3, 2004, to provide information under Item 4 that PricewaterhouseCoopers LLP would decline to stand for re-election as the company's independent auditors.

Edgar Filing: NRG ENERGY INC - Form 10-Q/A

Form 8-K, filed on May 3, 2004, to provide information under Item 5 that we initiated a search for a new independent auditor.

Form 8-K, filed on May 7, 2004, to provide under Item 5 notice of our entering into an agreement to sell our interest in a generating plant located in Batesville, Mississippi.

Form 8-K, furnished on May 11, 2004, to provide information under Item 12 regarding our financial and operating results for the quarter ended March 31, 2004.

Form 8-K, filed on May 25, 2004, to provide information under Item 4 announcing that the Audit Committee engaged KPMG LLP as our independent registered public accounting firm.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NRG ENERGY, INC.  
(Registrant)

/s/ DAVID CRANE  
David Crane,  
*Chief Executive Officer*

Date: November 2, 2004

**Table of Contents**

**EXHIBIT INDEX**

3.2	Amended and Restated By-Laws. (2)
14	Code of Conduct. (2)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (1)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (1)
31.3	Certification of Controller pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (1)
32	Certification of Chief Executive Officer, Chief Financial Officer and Controller pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. (1)
99.1	Financial Statements of Louisiana Generating LLC for the six months ended June 30, 2004.(1)
99.2	Financial Statements of NRG Northeast Generating LLC for the six months ended June 30, 2004.(1)
99.3	Financial Statements of Indian River Power LLC for the six months ended June 30, 2004.(1)
99.4	Financial Statements of NRG MidAtlantic Generating LLC for the six months ended June 30, 2004.(1)
99.5	Financial Statements of NRG South Central Generating LLC for the six months ended June 30, 2004.(1)
99.6	Financial Statements of NRG Eastern LLC for the six months ended June 30, 2004.(1)
99.7	Financial Statements of Northeast Generation Holding LLC for the six months ended June 30, 2004.(1)
99.8	Financial Statements of NRG International LLC for the six months ended June 30, 2004.(1)

---

(1) Filed herewith.

(2) Incorporated herein by reference to NRG Energy, Inc.'s Form 10-Q for the quarter ended June 30, 2004, filed on August 9, 2004.