

NRG ENERGY, INC.  
Form 10-K/A  
December 07, 2004

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K/ A**

**Amendment No. 3**

**o ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Fiscal Year ended December 31, 2003.**

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Transition Period from        to        .**

**Commission File No. 001-15891**

**NRG Energy, Inc.**

*(Exact name of Registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**211 Carnegie Center  
Princeton, New Jersey**  
*(Address of principal executive offices)*

**41-1724239**  
*(I.R.S. Employer  
Identification No.)*  
**08540**  
*(Zip Code)*

**(609) 524-4500**

*(Registrant's telephone number, including area code)*

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of Each Class**

**Name of Exchange on Which Registered**

None

None

**Securities registered pursuant to Section 12(g) of the Act:**

**Common Stock, par value \$0.01 per share**

Indicate by check mark whether the Registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter 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     No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.   

Indicate by check mark whether the registrant is an accelerated filer as defined by Rule 12b-2 of the Act.    Yes     No

As of the last business day of the most recently completed second fiscal quarter, the aggregate market value of the common stock of the registrant held by non-affiliates was approximately \$1,943,806,466.

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 Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.    Yes     No

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date.

Class	Outstanding at December 3, 2004
Common Stock, par value \$0.01 per share	100,008,053

**Documents Incorporated by Reference:**

None

**NRG ENERGY, INC. AND SUBSIDIARIES**

**INDEX**

	<u>Page No.</u>
<b>PART II</b>	
<u>Item 6</u> <u>Selected Financial Data</u>	2
<u>Item 7</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	3
<b>PART IV</b>	
<u>Item 15</u> <u>Exhibits, Financial Statements Schedules and Reports on Form 8-K</u>	37
<u>Signatures</u>	165
<u>Consent of PricewaterhouseCoopers LLP</u>	
<u>Rule 13a-14(a)/15d-14(a) Certification of David Crane</u>	
<u>Rule 13a-14(a)/15d-14(a) Certification of Robert Flexon</u>	
<u>Rule 13a-14(a)/15d-14(a) Certification of James Ingoldsby</u>	
<u>Section 1350 Certification</u>	

We are reissuing our audited financial statements for the year ended December 31, 2003 as Amendment No. 3 on Form 10-K/A. The updated information includes 2004 discontinued operations as described in Note 6. Discontinued operations have been updated to include four NEO Corporation projects (NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha LLC and NEO Tajiguas LLC). These are in addition to the entities included in Amendment No. 2, filed on November 3, 2004, which relate to the sale of our interests in Penobscot Energy Recovery Company, Compania Boliviana De Energia Electrica S.A., Bolivian Power Company Limited, LSP Energy and Hsin Yu.

**Table of Contents****Item 6 Selected Financial Data**

The following table presents our selected financial data. The data included in the following table has been restated to reflect the assets, liabilities and results of operations of certain projects that have met the criteria for treatment as discontinued operations. For additional information refer to Item 15 Note 6 to the Consolidated Financial Statements. This historical data should be read in conjunction with the Consolidated Financial Statements and the related notes thereto in Item 15 and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7. Due to the adoption of Fresh Start reporting as of December 5, 2003, the Successor Company's post Fresh Start balance sheet and statement of operations 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 reporting. A black line has been drawn to separate and distinguish between Reorganized NRG and the Predecessor Company.

	Predecessor Company				Reorganized NRG	
	Year Ended December 31,				January 1 -	December 6 -
	1999	2000	2001	2002	December 5,	December 31,
				2003	2003	
(In thousands, except per share amounts)						
Revenues from majority-owned operations	\$ 418,590	\$ 1,664,980	\$ 2,085,350	\$ 1,938,293	\$ 1,798,387	\$ 138,490
Legal settlement					462,631	
Fresh start reporting Adjustments					(4,118,636)	
Reorganization, restructuring and impairment charges				2,563,060	435,400	2,461
Total operating costs and Expenses	368,714	1,308,589	1,703,531	4,321,385	(1,475,523)	122,328
Write downs and losses on equity method investments				(200,472)	(147,124)	
Income/(loss) from continuing operations	52,960	149,729	210,502	(2,788,452)	2,949,078	11,405
Income/(loss) from discontinued operations, net	4,235	33,206	54,702	(675,830)	(182,633)	(380)
Net income/(loss)	57,195	182,935	265,204	(3,464,282)	2,766,445	11,025
Net income per weighted Average share - basic						\$ .11
Net income per weighted Average share - diluted						\$ .11
Total assets	3,435,304	5,986,401	12,922,385	10,896,851	N/A	9,244,987
Long-term debt, including current maturities	\$ 1,705,634	\$ 3,194,322	\$ 6,857,055	\$ 7,782,648	N/A	\$ 4,129,011

N/A Not Applicable.

**Table of Contents**

The following table provides the detail of our revenues from majority-owned operations:

	Predecessor Company					Reorganized NRG
	Year Ended December 31,				January 1 - December 5,	December 6 - December 31,
	1999	2000	2001	2002	2003	2003
	(In thousands, except per share amounts)					
Energy and energy related	\$ 3,292	\$ 1,091,115	\$ 1,376,044	\$ 1,183,514	\$ 992,626	\$ 78,018
Capacity	4,288	405,697	490,315	553,321	565,965	39,955
Alternative energy	83,343	92,671	161,845	97,712	115,911	12,064
O&M Fees	9,502	10,073	15,789	14,413	12,942	1,135
Other	318,165	65,424	41,357	89,333	110,943	7,318
Total revenues from majority-owned operations	\$ 418,590	\$ 1,664,980	\$ 2,085,350	\$ 1,938,293	\$ 1,798,387	\$ 138,490

Energy and energy related revenue consists of revenues received upon the physical delivery of electrical energy to a third party at both spot (merchant sales) and contracted rates. In addition, we also generate revenues from the sale of ancillary services and by entering into certain financial transactions. Ancillary revenues are derived from the sale of energy related products associated with the generation of electrical energy such as spinning reserves, reactive power and other similar products. Revenues derived from financial transactions are generally received upon the settlement of transactions relating to the sale of energy or fuel which do not require the physical delivery of the underlying commodity.

Capacity revenue consists of revenues received from a third party at either spot (merchant sales) or negotiated contract rates for making installed generation capacity available upon demand in order to satisfy system integrity and reliability requirements. In addition, capacity revenues includes revenues received under tolling arrangements which entitle third parties to dispatch our facilities and assume title to the electrical generation produced from that facility.

Alternative energy revenue consists of revenues received from the sale of steam, hot and chilled water generally produced at a central district energy plant and sold to commercial, governmental and residential buildings for space heating, domestic hot water heating and air conditioning. Alternative energy revenue includes the sale of high-pressure steam produced and delivered to industrial customers that is used as part of an industrial process. In addition, alternative revenue includes revenues received from the processing of municipal solid waste into refuse derived fuel that is sold to a third party to be used as fuel in the generation of electricity.

O&M fees consist of revenues received from providing certain unconsolidated affiliates with management and operational services generally under long-term operating agreements.

Other revenues consist of miscellaneous other revenues derived from the sale of natural gas, recovery of incurred costs under reliability agreements and revenues received under leasing arrangements.

## Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations* Overview

We are 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, which help us, mitigate risk. We intend 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.

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Our focus will continue to be on the operating performance of our entire portfolio and, in particular, on developing the assets in our core regions into integrated businesses well-suited to serving the requirements of the load-serving entities in our core markets. Power sales, fuel procurement and risk management will remain

**Table of Contents**

a key strategic element of these regional businesses contributing to our overall objective to optimize the operating income generated by all of our facilities within an appropriate risk and liquidity profile. Our business will involve the reinvestment of capital in our existing assets for reasons of life extension, repowering, expansion, environmental remediation, operating efficiency, greater fuel optionality or for alternative use, among other reasons. Our business also may involve select acquisitions intended to complement and enhance the commercial performance of the asset portfolios in our core regions.

*Industry Trends.* In this Management's Discussion and Analysis of Financial Condition and Results of Operations, we discuss our historical results of operations and expected financial condition. During 2002 and 2003, the following factors, among others, have negatively affected our results of operations:

weak markets for electric energy, capacity and ancillary services;

a narrowing of the spark spread (the difference between power prices and fuel costs) in most regions of the United States in which we operate power generation facilities offset by our coal-fired assets, which gain a competitive advantage when gas prices rise;

mild weather during peak seasons in regions where we have significant merchant capacity;

reduced liquidity in the energy trading markets as a result of fewer participants trading lower volumes;

the imposition of price caps and other market mitigation in markets where we have significant merchant capacity;

regulatory and market frameworks in certain regions where we operate that prevent us from charging prices that will enable us to recover our operating costs and to earn acceptable returns on capital; however, we benefited from the FERC acceptance of certain RMR agreements subject to refund;

the obligation through 2003 to perform under certain long-term contracts that are not profitable;

physical, regulatory and market constraints on transmission facilities in certain regions that limit or prevent us from selling power generated by certain of our facilities;

limited access to capital due to our financial condition since July 2002 and the resulting contraction of our ability to conduct business in the merchant energy markets; and

changes and turnover in senior and middle management since June 2002 in connection with our restructuring.

We expect that these generally weak market conditions will continue for the foreseeable future in some markets. Historically, we have believed that, as supply surpluses begin to tighten and as market rules and regulatory conditions stabilize, prices will improve for energy, capacity and ancillary services. This view is consistent with our belief that in the long run market prices will support an adequate rate of return on the construction of new power generation assets needed to meet increasing demand. This view is currently being challenged in certain markets as regulatory actions and market rules unfold that limit the ability of merchant power companies to earn favorable returns on existing and new investments. To the extent unfavorable regulatory and market conditions exist in the long term; we could have significant impairments of our property, plant and equipment, which, in turn, could have a material adverse effect on our results of operations. Further, this could lead to us closing certain of our facilities resulting in additional economic losses and liabilities.

*Asset Sales.* As part of our strategy, we plan to continue the selective divestment of certain assets. Since July 2002, we have sold or made arrangements to sell a number of assets and equity investments. In addition, we are currently marketing our interest in certain other non-strategic assets.

*Discontinued Operations.* 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 pending final disposition. Accounting regulations require that continuing operations are reported separately in the income statement from discontinued operations, and that any gain or loss on the disposition of any such business be reported along with the operating results of such business. Assets classified as discontinued operations on our balance sheet as of December 31, 2003 include McClain, Penobscot Energy



**Table of Contents**

Recovery Company (PERC), Compania Boliviana De Energia Electrica S.A. Bolivian Power Company Limited, or Cobee, LSP Energy, Hsin Yu and four NEO Corporation projects (NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha LLC and NEO Tajiguas LLC). For the periods January 1, 2003 through December 5, 2003, discontinued results of operations include our McClain, PERC, Cobee, Killingholme, NEO Landfill Gas, Inc., or NLGI, seven NEO Corporation projects (NEO Fort Smith LLC, NEO Woodville LLC, NEO Phoenix LLC, NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha LLC and NEO Tajiguas LLC), Timber Energy Resources, Inc., or TERI, Cahua, Energia Pacasmayo, LSP Energy and Hsin Yu projects. For the period December 6, 2003 through December 31, 2003, discontinued results of operations included McClain, PERC, Cobee, LSP Energy, Hsin Yu and four NEO Corporation projects (NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha LLC and NEO Tajiguas LLC). All prior periods presented have been restated accordingly.

The following table summarizes our discontinued operations for all periods presented in our consolidated financial statements:

<b>Discontinued Operations</b>		
<b>Projects</b>	<b>Initial Discontinued Operations Treatment</b>	<b>Disposal Date</b>
Bulo Bulo	Second Quarter 2002	Fourth Quarter 2002
Crockett Cogeneration Project	Third Quarter 2002	Fourth Quarter 2002
Csepel and Entrade	Third Quarter 2002	Fourth Quarter 2002
Killingholme	Fourth Quarter 2002	First Quarter 2003
NLGI	Second Quarter 2003	Second Quarter 2003
NEO Corp. projects (NEO Fort Smith LLC, NEO Woodville LLC, NEO Phoenix LLC)	Fourth Quarter 2003	Fourth Quarter 2003
TERI	Third Quarter 2003	Third Quarter 2003
Cahua and Pacasmayo	Fourth Quarter 2003	Fourth Quarter 2003
McClain	Third Quarter 2003	Third Quarter 2004
PERC	First Quarter 2004	Second Quarter 2004
Cobee	First Quarter 2004	Second Quarter 2004
LSP Energy	Second Quarter 2004	Third Quarter 2004
Hsin Yu	Second Quarter 2004	Second Quarter 2004
NEO Corp. projects (NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha LLC and NEO Tajiguas LLC)	Third Quarter 2004	Third Quarter 2004

*New Management.* On October 21, 2003, we announced the appointment of David Crane as our President and Chief Executive Officer, effective December 1, 2003. Before joining us, Mr. Crane served as the Chief Executive Officer of London-based International Power PLC and has over 12 years of energy industry experience. On March 11, 2004 we announced the appointment of Robert Flexon as Executive Vice President and Chief Financial Officer, effective March 29, 2004. Before joining us Mr. Flexon served as Vice President, Work Processes, Corporate Resources and Development at Hercules, Inc. In addition, we have filled several other senior and middle management positions over the last 12 months. Our board of directors currently is comprised of Mr. Crane and ten independent individuals, three of whom have been designated by MatlinPatterson, a significant holder of NRG common stock.

*Independent Registered Public Accounting Firm; Audit Committee.* On May 3, 2004, we announced that we had initiated a search for a new independent auditor because PricewaterhouseCoopers LLP, our previous auditor, informed us that they would not be standing for re-election as our independent auditor for the year ended December 31, 2004. For each of the two fiscal years ended December 31, 2002 and 2003 and for the period from January 1, 2004 through April 27, 2004, there had been no disagreements with PricewaterhouseCoopers on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

**Table of Contents**

On May 25, 2004, we announced that the audit committee of our board of directors had engaged KPMG LLP to serve as our independent auditor, effective immediately. On August 4, 2004, our stockholders ratified the appointment of KPMG LLP as our independent registered public accounting firm at our 2004 annual meeting of stockholders. KPMG's engagement with us commenced with its review of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.

Our new board of directors appointed an audit committee consisting entirely of independent directors in January 2004. Pursuant to its charter, the committee appoints, retains, oversees, evaluates, compensates and terminates on its sole authority our independent auditors and approves all audit engagements, including the scope, fees, and terms of each engagement. The audit committee's oversight process is intended to ensure that we will continue to have high-quality, cost efficient independent auditing services.

**Results of Operations**

Due to the adoption of Fresh Start as of December 5, 2003, Reorganized NRG's balance sheet, statement of operations and statement of cash flows have not been prepared on a consistent basis with, and are therefore generally not comparable to those of the Predecessor Company prior to the application of Fresh Start. In accordance with SOP 90-7, Reorganized NRG's balance sheet, statement of operations and statement of cash flows have been presented separately from those of the Predecessor Company.

Reorganized NRG's revenues from majority-owned operations, operating costs and expenses and general, administrative and development expenses, were not significantly affected by the adoption of Fresh Start. Therefore, the Predecessor Company's 2003 amounts have been combined with Reorganized NRG's 2003 amounts for comparison and analysis purposes herein.

	Predecessor Company		Reorganized NRG		
	Year Ended December 31,		For the Period	For the Period	Total 2003
	2001	2002	January 1 - December 5, 2003	December 6 - December 31, 2003	
	(In thousands)				
Revenues from majority-owned operations	\$2,085,350	\$1,938,293	\$1,798,387	\$138,490	\$1,936,877
Cost of majority-owned operations	1,375,390	1,332,446	1,355,909	95,541	1,451,450
General, administrative and development	187,165	218,852	170,330	12,518	182,848

Reorganized NRG's net loss, equity in earnings of unconsolidated affiliates, depreciation and amortization, other income (expense), other charges, income taxes and discontinued operations were affected by the adoption of Fresh Start. Therefore, the Predecessor Company's 2003 and the Reorganized NRG's 2003 amounts are discussed separately for comparison and analysis purposes herein.

	Predecessor Company		Reorganized NRG	
	Year Ended December 31		For the Period	For the Period
	2001	2002	January 1 - December 5, 2003	December 6 - December 31, 2003
	(In thousands)			
Net income/(loss)	\$ 265,204	\$(3,464,282)	\$ 2,766,445	\$ 11,025
Depreciation and amortization	140,976	207,027	218,843	11,808
Other expense	(131,096)	(572,227)	(286,903)	(5,418)
Other charges/(credits)		2,563,060	(3,220,605)	2,461
Income tax expense/(benefit)	40,221	(166,867)	37,929	(661)
Income/(loss) from discontinued operations	54,702	(675,830)	(182,633)	(380)



**Table of Contents**

*For the Year Ended December 31, 2003 Compared to the Year Ended December 31, 2002*

*Net Income*

***Predecessor Company***

During the period January 1, 2003 through December 5, 2003, we recorded net income of \$2.8 billion. Net income for the period is directly attributable to our emerging from bankruptcy and adopting the Fresh Start provisions of SOP 90-7. Upon the confirmation of our Plan of Reorganization and our emergence from bankruptcy we were able to remove significant amounts of long-term debt and other prepetition obligations from our balance sheet. Accordingly, as part of net income, we recorded a net gain of \$3.9 billion (comprised of a \$4.1 billion gain from continuing operations and a \$0.2 billion loss from discontinued operations) as the impact of our adopting Fresh Start in our statement of operations, \$6.0 billion of this amount is directly related to the forgiveness of debt and settlement of substantial amounts of our pre-petition obligations upon our emergence from bankruptcy. In addition to the removal of substantial amounts of pre-petition debt and other obligations from our balance sheet, we have also revalued our assets and liabilities to fair value, accordingly we have substantially written down the value of our fixed assets. We have recorded a net \$1.7 billion charge related to the revaluation of our assets and liabilities within the Fresh Start Reporting adjustment line of our consolidated statement of operations. In addition to our recording adjustments related to our emergence from bankruptcy, we also recorded substantial charges related to other items such as the settlement of certain outstanding litigation in the amount of \$462.6 million, write downs and losses on the sale of equity investments of \$147.1 million, advisor cost and legal fees directly attributable to our being in bankruptcy of \$197.8 million and \$237.6 million of other asset impairment and restructuring costs incurred prior to our filing for bankruptcy. Net income for the period January 1, 2003 through December 5, 2003 was also favorably impacted by our not recording interest expense on substantial amounts of corporate level debt while we were in bankruptcy and by the continued favorable results experienced by our equity investments.

During the year ended December 31, 2002, we recognized a net loss of \$3.5 billion. The loss from continuing operations incurred during 2002 primarily consisted of \$2.6 billion of other charges consisting primarily of asset impairments.

***Reorganized NRG***

During the period December 6, 2003 through December 31, 2003, we recognized net income of \$11.0 million or \$0.11 per share of common stock. Net income was directly attributable to a number of factors some of which are discussed below. From an overall operational perspective our facilities were profitable during this period. Our results were adversely impacted by our having to continue to satisfy the standard offer service contract that we entered into with Connecticut Light & Power, or CL&P in 2000. As a result of our inability to terminate this contract during our bankruptcy proceeding we continued to be exposed to losses under this contract. These losses were incurred, as we were unable to satisfy the requirements of this contract at a price/cost below the contracted sales price. Upon our adoption of Fresh Start, we recorded at fair value, all assets and liabilities on our opening balance sheet and accordingly we recorded as an obligation the fair value of the CL&P contract. During the period December 6, 2003 through December 31, 2003, we recognized as revenues, the entire fair value of this contract effectively offsetting the actual losses incurred under this contract. The CL&P contract terminated on December 31, 2003.

***Revenues from Majority Owned Operations***

Our operating revenues from majority owned operations were \$1.9 billion in 2003, compared to \$1.9 billion in the prior year, a decrease of \$1.4 million or less than 0.1%.

Revenues from majority owned operations of \$1.9 billion for the year 2003, includes \$1.1 billion of energy revenues, \$605.9 million of capacity revenues, \$128.0 million of alternative energy, \$14.1 million of O&M fees and \$118.3 million of other revenues which include financial and physical gas sales, sales from our Schkopau facility and NEPOOL expense reimbursements. The decrease of \$1.4 million is due to increased capacity revenues resulting from additional projects becoming operational in the later part of 2002, higher sales in New

## **Table of Contents**

York, and by our recognizing, as additional revenues, the fair value of the out-of-market CL&P contract upon our emergence from bankruptcy. Offsetting these increases, we continued to recognize losses on the CL&P contract throughout 2003 resulting from higher market prices and lower generation.

### *Cost of Majority-Owned Operations*

Our cost of majority owned operations related to continuing operations was \$1.5 billion in 2003, compared to \$1.3 billion for 2002, an increase of \$119.0 million or 8.9%. For 2003 and 2002, cost of majority owned operations represented 74.9% and 68.7% of revenues from majority owned operations, respectively. Cost of majority owned operations, consists primarily of cost of energy (primarily fuel costs), labor, operating and maintenance costs and non income based taxes related to our majority owned operations.

For the year 2003, cost of energy was \$902.4 million compared to \$900.9 million for 2002, representing an increase of \$1.5 million. As a percent of revenue from majority owned operations, cost of energy was 46.6% and 46.5%, for 2003 and 2002, respectively. Cost of energy was directly affected by an overall decrease in the cost of fuel during 2003 and a favorable change in the fair value of our energy related derivatives resulting from contract terminations. Offsetting this decrease are liquidated damages of \$72.9 million triggered from our financial condition.

### *Depreciation and Amortization*

#### *Predecessor Company*

Our depreciation and amortization expense related to continuing operations was \$218.8 million for the period January 1, 2003 through December 5, 2003 and \$207.0 million for the year ended December 31, 2002. Depreciation and amortization consists of the allocation of our historical depreciable fixed asset costs over the remaining lives of such property as well as the amortization of certain contract based intangible assets.

#### *Reorganized NRG*

Our depreciation and amortization expense related to continuing operations was \$11.8 million for the period December 6, 2003 through December 31, 2003. Depreciation and amortization consists of the allocation of our newly valued basis in our fixed assets over newly determined remaining fixed asset lives. As part of adopting the Fresh Start concepts of SOP 90-7 our tangible fixed assets were recorded at fair value as determined by a third party valuation expert who we also consulted with in determining the appropriate remaining lives for our tangible depreciable property. Depreciation expense for this period was based on preliminary depreciable lives and asset balances.

### *General, Administrative and Development*

Our general, administrative and development costs for 2003 were \$182.9 million compared to \$218.9 million for 2002, a decrease of \$36.0 million or 16.4%. For 2003 and 2002, general, administrative and development costs represent 9.4% and 11.3% of revenues from majority owned operations, respectively. This decrease is due to decreased costs related to work force reduction efforts, cost reductions due to the closure of certain international offices and reduced legal costs. Outside services also decreased, due to less non-restructuring legal activities.

### *Other Charges (Credits)*

During the period January 1, 2003 to December 5, 2003, we recorded other credits of \$3.2 billion, which consisted primarily of \$228.9 million related to asset impairments, \$462.6 million related to legal settlements and \$197.8 million related to reorganization charges and \$8.7 million related to restructuring charges. We also incurred a \$4.1 billion credit related to Fresh Start adjustments. During 2002, we recorded other charges of \$2.6 billion, which consisted primarily of \$2.5 billion related to asset impairments and \$111.3 million related to restructuring charges.

**Table of Contents**

We review the recoverability of our long-lived assets on a periodic basis and if we determined that an asset was impaired, we compared asset-carrying values to total future estimated undiscounted cash flows. Separate analyses are completed for assets or groups of assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The estimates of future cash flows included only future cash flows, net of associated cash outflows, directly associated with and expected to arise as a result of our assumed use and eventual disposition of the asset. Cash flow estimates associated with assets in service are based on the asset's existing service potential. The cash flow estimates may include probability weightings to consider possible alternative courses of action and outcomes, given the uncertainty of available information and prospective market conditions.

If an asset was determined to be impaired based on the cash flow testing performed, an impairment loss was recorded to write down the asset to its fair value. Estimates of fair value were based on prices for similar assets and present value techniques. Fair values determined by similar asset prices reflect our current estimate of recoverability from expected marketing of project assets. For fair values determined by projected cash flows, the fair value represents a discounted cash flow amount over the remaining life of each project that reflects project-specific assumptions for long-term power pool prices, escalated future project operating costs, and expected plant operation given assumed market conditions.

Impairment charges (credits) included the following for the year ended December 31, 2002 and for the period January 1, 2003 to December 5, 2003 and the period December 6, 2003 through December 31, 2003.

Project Name	Project Status	Predecessor Company		Reorganized NRG		Fair Value Basis
		Year Ended December 31, 2002	For the Period January 1 December 5, 2003	For the Period December 6 2003	December 31, 2003	
Devon Power LLC	Operating at a loss	\$	\$ 64,198	\$		Projected cash flows
Middletown Power LLC	Operating at a loss		157,323			Projected cash flows
Arthur Kill Power, LLC	Terminated construction project		9,049			Projected cash flows
Langage (UK)	Terminated	42,333	(3,091)			Estimated market price/Realized gain
Turbine	Sold		(21,910)			Realized gain
Berrians Project	Terminated		14,310			Realized loss
Termo Rio	Terminated		6,400			Realized loss
Nelson	Terminated	467,523				Similar asset prices
Pike	Terminated	402,355				Similar asset prices
Bourbonnais	Terminated	264,640				Similar asset prices
Meriden	Terminated	144,431				Similar asset prices
Brazos Valley	Foreclosure completed in January 2003	102,900				Projected cash flows
Kendall and other expansion Projects	Terminated	55,300				Projected cash flows
Turbines & other costs	Equipment being marketed	701,573				Similar asset prices
Audrain	Operating at a loss	66,022				Projected cash flows
Somerset	Operating at a loss	49,289				Projected cash flows
Bayou Cove	Operating at a loss	126,528				Projected cash flows
Other		28,851	2,617			
Total impairment charges (credits)		\$2,451,745	\$228,896	\$		



**Table of Contents***Reorganization Items*

For the period from January 1, 2003 to December 5, 2003, we incurred \$197.8 million in reorganization costs and for the period from December 6, 2003 to December 31, 2003 we incurred \$2.5 million in reorganization costs. All reorganization costs have been incurred since we filed for bankruptcy in May 2003. The following table provides the detail of the types of costs incurred (in thousands):

	<b>Predecessor Company</b>	<b>Reorganized NRG</b>
	<b>For the Period January 1 December 5, 2003</b>	<b>For the Period December 6 December 31, 2003</b>
Reorganization items		
Professional fees	\$ 82,186	<b>\$2,461</b>
Deferred financing costs	55,374	
Pre-payment settlement	19,609	
Interest earned on accumulated cash	(1,059)	
Contingent equity obligation	41,715	
	<hr/>	<hr/>
Total reorganization items	<b>\$ 197,825</b>	<b>\$2,461</b>
	<hr/>	<hr/>

*Restructuring Charges*

We incurred total restructuring charges of approximately \$111.3 million for the year ended December 31, 2002. These costs consisted of employee separation costs and advisor fees. We incurred an additional \$8.7 million of employee separation costs and advisor fees during 2003 until we filed for bankruptcy in May 2003. Subsequent to that date we recorded all advisor fees as reorganization costs.

*Legal Settlement Costs*

During 2003, we recorded \$396.0 million in connection with the resolution of the FirstEnergy Arbitration Claim. As a result of this resolution, FirstEnergy retained ownership of the Lake Plant Assets and received an allowed general unsecured claim of \$396.0 million under the NRG plan of reorganization submitted to the bankruptcy court.

In November 2003, we settled various litigation with Fortistar Capital in which Fortistar Capital released us from all litigation claims in exchange for a \$60.0 million pre-petition claim and an \$8.0 million post-petition claim. We had previously recorded \$10.8 million in connection with various legal disputes with Fortistar Capital; accordingly, we recorded an additional \$57.2 million during November 2003.

In August of 1995, we entered into a Marketing, Development and Joint Proposing Agreement or the Marketing Agreement, with Cambrian Energy Development LLC, or Cambrian. Various claims had arisen in connection with this Marketing Agreement. In November 2003, we entered into a Settlement Agreement with Cambrian where we agreed to transfer our 100% interest in three gasco projects (NEO Ft. Smith, NEO Phoenix and NEO Woodville) and our 50% interest in two genco projects (MM Phoenix and MM Woodville) to Cambrian. In addition, we agreed to pay approximately \$1.8 million in settlement of royalties incurred in connection with the Marketing Agreement. We had previously recorded a liability for royalties owed to Cambrian; therefore, we recorded an additional \$1.4 million during November 2003.

In November 2003, we settled our dispute with Dick Corporation in connection with Meriden Gas Turbines, which resulted in our recording an additional liability of \$8.0 million in November 2003.

*Fresh Start Adjustments*

During the fourth quarter of 2003, we recorded a net credit of \$3.9 billion (comprised of a \$4.1 billion gain from continuing operations and a \$0.2 billion loss from discontinued operations) in connection with fresh

**Table of Contents**

start adjustments as discussed in Item 15 Note 3. Following is a summary of the significant effects of the reorganization and Fresh Start:

	<b>(In millions)</b>
Discharge of corporate level debt	\$ 5,162
Discharge of other liabilities	811
Establishment of creditor pool	(1,040)
Receivable from Xcel	640
Revaluation of fixed assets	(1,392)
Revaluation of equity investments	(207)
Valuation of SO(2) emission credits	374
Valuation of out of market contracts, net	(400)
Fair market valuation of debt	108
Valuation of pension liabilities	(61)
Other valuation adjustments	(100)
	<hr/>
Total Fresh Start adjustments	3,895
Less discontinued operations	224
	<hr/>
Total Fresh Start adjustments continuing operations	\$ 4,119
	<hr/>

*Other Income (Expense)****Predecessor Company***

During the period January 1, 2003 through December 5, 2003, we recorded other expense of \$286.9 million. Other expense consisted primarily of \$329.9 million of interest expense and \$147.1 million of write downs and losses on sales of equity method investments, partially offset by equity in earnings of unconsolidated affiliates of \$170.9 million and \$19.2 million of other income.

For the year ended December 31, 2002, other expenses was \$572.2 million, which consisted primarily of \$452.2 million of interest expense and \$200.5 million of write downs and losses on sales of equity method investments.

Interest expense for the period January 1, 2003 through December 5, 2003 of \$329.9 million consisted of interest expense on both our project and corporate level interest bearing debt. In addition, interest expense includes the amortization of debt issuance costs and any interest rate swap termination costs. Subsequent to our entering into bankruptcy we ceased the recording of interest expense on our corporate level debt as these prepetition claims were deemed to be impaired and subject to compromise. We did not however cease to record interest expense on the project level debt outstanding at our Northeast Generating and South Central Generating facilities even though these entities were also in bankruptcy as these claims were deemed to be most likely not impaired and not subject to compromise. We also recorded substantial amounts of fees and costs related to our acquiring a debtor in possession financing arrangement while we were in bankruptcy. In addition, upon our emergence from bankruptcy we wrote off any remaining deferred finance costs related to our corporate and project level debt including our Northeast and South Central project level debt as it was probable that they would be refinanced upon our emergence from bankruptcy.

***Reorganized NRG***

Other income (expense) for the period December 6, 2003 through December 31, 2003, was an expense of \$5.4 million and consisted primarily of \$18.9 million of interest expense, partially offset by \$13.5 million of equity earnings from unconsolidated subsidiaries.

Interest expense for the period December 6, 2003 through December 31, 2003 of \$18.9 million consists primarily of interest expense at the corporate level, primarily related to the newly issued high yield notes, term

**Table of Contents**

loan facility and revolving line of credit used to refinance certain project level financings. In addition, interest expense includes the amortization of deferred financing costs incurred as a result of our refinancing efforts and the amortization of discounts and premiums recorded upon the marking of our debt to fair value upon our adoption of the Fresh Start provision of SOP 90-7.

*Minority Interest in Earnings of Consolidated Subsidiaries*

For the period December 6, 2003 through December 31, 2003, minority interest in earnings of consolidated subsidiaries was \$134,000 and relates primarily to Northbrook New York and Northbrook Energy.

*Write-Downs and Losses on Sales of Equity Method Investments*

As we periodically review our equity method investments for impairments we have taken substantial write-downs and losses on sales of equity method investments during the period January 1, 2003 through December 5, 2003 and for the year 2002. In 2003 we recorded impairments and losses on the sales of investments of \$147.1 million compared to \$200.5 million in 2002. The \$147.1 million recorded in 2003 consists of the write down of our investment in the Loy Yang project of \$146.4 million and our investment in the NEO Corporation Minnesota Methane project of \$12.3 million during 2003. These losses were partially offset by gains on the sale of our investment in the ECKG and Mustang projects. During 2002 we recorded write-downs and losses on sales of equity method investments of \$200.5 million. The \$200.5 million recorded in 2002 consists of a write down of our investment in the Loy Yang project of \$111.4 million, a loss of \$48.4 million on the transfer of our interest in the Sabine River Works project to our partner, a \$14.2 million write down related to our investment in our EDL project, a write down of our investment in our Kondapalli project of \$12.7 million and a write down of our investment in NEO Corporation Minnesota Methane and MM Biogas of \$12.3 million and \$3.3 million, respectively among others. See Item 15 Note 7 to the Consolidated Financial Statements for additional information.

*Equity Earnings from Unconsolidated Affiliates*

***Predecessor Company***

During the period January 1, 2003 through December 5, 2003, we recorded \$170.9 million of equity earnings from investments in unconsolidated affiliates. Our 50% investment in West Coast Power comprised \$98.7 million of this amount with our investments in the Mibrag, Loy Yang, Gladstone and Rocky Road projects comprising \$21.8 million, \$17.9 million, \$12.4 million and \$6.9 million, respectively, with the remaining amounts attributable to various domestic and international equity investments. Our investment in West Coast Power continues to generate favorable earnings as well as our investments in Mibrag, Loy Yang, Gladstone and Rocky Road. For the year ended December 31, 2002, equity earnings from investments in unconsolidated affiliates was \$69.0 million.

***Reorganized NRG***

Equity in earnings of unconsolidated affiliates of \$13.5 million consists primarily of equity earnings from our 50% ownership in West Coast Power of \$9.3 million.

*Discontinued Operations*

During the first quarter of 2004, we determined that two additional projects had met the necessary criteria for discontinued operations treatment, Penobscot Energy Recovery Company, or PERC and Compania Boliviana De Energia Electrica S.A. Bolivian Power Company Limited, or Cobee accordingly, all periods presented have been restated to reflect the addition of these projects as discontinued operations.

During the second quarter of 2004, we determined that two more projects had met the necessary criteria for discontinued operations treatment, LSP Energy and Hsin Yu. Accordingly, all periods presented have been restated to reflect the addition of these projects as discontinued operations.

**Table of Contents**

During the third quarter of 2004, we determined that four NEO Corporation projects had met the necessary criteria for discontinued operations treatment. Accordingly, all periods presented have been restated to reflect the addition of these projects as discontinued operations.

***Predecessor Company***

As of December 5, 2003, we classified as discontinued operations the operations and gains/losses recognized on the sales of projects that were sold or were deemed to have met the required criteria for such classification pending final disposition. For the period January 1, 2003 through December 5, 2003, discontinued operations consist of the historical operations and net gains/losses related to our Killingholme, McClain, PERC, Cobee, NLGI, NEO Corporation projects, TERI, Cahua, Energia Pacasmayo, LSP Energy and Hsin Yu projects. Discontinued operations for the year ended December 31, 2002 consisted of our Crockett Cogeneration, Entrade, Killingholme, Csepel, Bulo Bulu, McClain, PERC, Cobee, NLGI, NEO Corporation projects, TERI, Cahua, Energia Pacasmayo, LSP Energy and Hsin Yu projects.

For the period January 1, 2003 through December 5, 2003, the results of operations related to such discontinued operations was a net loss of \$182.6 million due to a loss on the sale of our Peru projects, impairment charges recorded at McClain and NLGI and fresh start adjustments at LSP Energy.

During 2002 we recognized a loss on discontinued operations of \$675.8 million due to asset impairments recorded at Killingholme, NLGI, TERI, LSP Energy and Hsin Yu projects.

***Reorganized NRG***

Discontinued operations for the period December 6, 2003 through December 31, 2003 is comprised of a loss of \$0.4 million attributable to the on going operations of our McClain, PERC, Cobee, LSP Energy, Hsin Yu and four NEO Corporation projects (NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha LLC and NEO Tajiguas LLC).

***Income Tax***

***Predecessor Company***

Income tax benefit/expense for the period January 1, 2003 through December 5, 2003 was a tax expense of \$37.9 million as compared to a tax benefit of \$166.9 million for the year ended December 31, 2002. The income tax expense for the period ended December 5, 2003 was primarily due to separate company income tax liabilities and an increase in the valuation allowance against deferred tax assets. An additional valuation allowance of \$33 million was recorded against deferred tax assets of NRG West Coast as a result of its conversion from a corporation to a single member limited liability company (a disregarded entity for federal income tax purposes).

The effective income tax rate for the period January 1, 2003 through December 5, 2003 is relatively low since the U.S. net operating loss carryforwards are offset by the cancellation of debt income resulting from the Bankruptcy. The income tax benefit for the year ended December 31, 2002 was primarily due to the increase in deferred tax assets relating to impairments recognized for financial reporting purposes. A valuation allowance was increased limiting the recognition of deferred tax assets to the extent of previously recorded deferred tax liabilities.

Income taxes have been recorded on the basis that our U.S. subsidiaries and we will file separate federal income tax returns for the period January 1, 2003 through December 5, 2003. Since our U.S. subsidiaries and we will not be included in the Xcel Energy consolidated tax group, each of our U.S. subsidiaries that is classified, as a corporation for U.S. income tax purposes must file a separate federal income tax return. It is uncertain if, on a stand-alone basis, we would be able to fully realize deferred tax assets related to net operating losses and other temporary differences, therefore a full valuation allowance has been established.

**Table of Contents**

***Reorganized NRG***

Income tax benefit/expense for the period December 6, 2003 through December 31, 2003 was a tax benefit of \$0.7 million which consists of a U.S. tax benefit of \$1.5 million and foreign tax expense of \$0.8 million. The foreign tax expense for the period is due to earnings in the foreign jurisdictions.

Our U.S. subsidiaries and we will file a consolidated federal income tax return for the period December 6, 2003 through December 31, 2003. With the exception of alternative minimum tax, or AMT, we anticipate that our cash tax rate for the next 5 years will be relatively low as we realize the cash tax benefits from using our net operating loss carryforwards. For AMT purposes, utilization of net operating losses is limited on an annual basis.

Due to the uncertainty of realization of deferred tax assets related to net operating losses and other temporary differences, the change in U.S. current and deferred income taxes has been fully offset by a change in the valuation allowance and our U.S. net deferred tax assets at December 31, 2003 were offset by a full valuation allowance in accordance with SFAS 109. Regarding the valuation allowance as of December 5, 2003, SOP 90-7 requires any future benefits from reducing the valuation allowance from preconfirmation net operating loss carryforwards be reported as a direct addition to paid-in-capital versus a benefit on our income statement. Consequently, our effective tax rate in post Bankruptcy emergence years will not benefit from utilization of our net operating loss carryforwards which were fully valued as of the date of our emergence from Bankruptcy.

As of December 31, 2003, our management intends to indefinitely reinvest the earnings from our foreign operations. Accordingly, U.S. income taxes and foreign withholding taxes were not provided on the earnings of our foreign subsidiaries.

***For the Year Ended December 31, 2002 Compared to the Year Ended December 31, 2001***

***Net Income/(Loss)***

During the year ended December 31, 2002, we recognized a net loss of \$3.5 billion. This loss represented a decrease in earnings of \$3.7 billion compared to net income of \$265.2 million for the same period in 2001. Our loss from continuing operations was \$2.8 billion for the year ended December 31, 2002 compared to net income of \$210.5 million from continuing operations for the same period in 2001. The loss from continuing operations incurred during 2002 primarily consists of \$2.6 billion of other charges consisting primarily of asset impairments.

During 2002, our continuing operations experienced less favorable results than those experienced during the same period in 2001. Overall, our domestic power generation operations performed poorly compared to the same period in 2001. Our domestic operations experienced reductions in domestic energy and capacity sales and an overall decrease in power pool prices and related spark spreads (the monetary difference between the price of power and fuel cost). During the fourth quarter of 2002, an additional reserve for uncollectible receivables in California was established by West Coast Power, the California joint venture of which we own 50%, which reduced our equity in the earnings of that joint venture by approximately \$58.5 million on a pre-tax basis. In addition, West Coast Power's results were already less than those recorded in 2001 due to less favorable contracts and reductions in sales of energy and capacity. In addition, increased administrative costs, depreciation and interest expense from completed construction costs also contributed to the less than favorable results in 2002. Partially offsetting these earnings reductions was the recognition, in the fourth quarter of 2002, of approximately \$51.0 million of additional revenues related to the contractual termination of a power purchase agreement with our Indian River project.

During the third quarter of 2002, we experienced credit rating downgrades, defaults under certain credit agreements, increased collateral requirements and reduced liquidity. These events led to impairments of a number of our assets, resulting in pre-tax charges related to continuing operations of approximately \$2.5 billion during 2002. In addition, approximately \$200.5 million of net losses on sales and write-downs of equity method investments were recorded in 2002.

**Table of Contents**

Operating results of majority-owned projects that were sold or have met the criteria to be considered as held-for-sale have been classified as discontinued operations. The period ended December 31, 2002, consisted of the historical operations and net gains/losses related to our Crockett Cogeneration, Entrade, Killingholme, Csepel, Bulo Bulo, McClain, PERC, Cobee, NLGI, NEO Fort Smith LLC, NEO Woodville LLC, NEO Phoenix LLC, NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha LLC, NEO Tajiguas LLC, TERI, Cahua, Energia Pacasmayo, LSP Energy and Hsin Yu Projects.

During 2002, we expensed approximately \$111.3 million for costs related to our financial restructuring. These costs include expenses for financial and legal advisors, contract termination costs, employee separation and other restructuring activities.

*Revenues from Majority-Owned Operations*

Our operating revenues from majority-owned operations were \$1.9 billion in 2002 compared to \$2.1 billion in the prior year, a decrease of \$147.1 million or approximately 7.1%. Revenues from majority-owned operations for the year ended December 31, 2002, consisted primarily of power generation revenues from domestic operations of approximately \$1.5 billion in 2002 compared with \$1.6 billion in 2001, a decrease of \$158.1 million. This decrease in domestic generation revenue is due to reductions in energy and capacity sales and an overall decrease in power pool prices.

The Northeast region experienced decreased revenues, as they were significantly affected by a combination of lower capacity revenues and a decline in megawatt hour generation compared with 2001. This decline in generation is attributable to an unseasonably warm winter and cooler spring and a slowing economy, which reduced demand for electricity, together with new regulation, which reduced price volatility, particularly in New York City.

Our International revenues from majority-owned operations decreased by \$6.9 million or 2.4% from 2001 to 2002. The Australia region reported a reduction in revenues of \$42.5 million while increases were reported from the Other International region of \$35.6 million. The reduction in Australia revenue is primarily due to a decline in energy prices and the loss of a significant contract at Flinders. The increase in Other International revenue is primarily due to a full year of operations for acquisitions made in 2001.

*Operating Costs and Expenses*

For the year ended December 31, 2002, cost of majority-owned operations related to continuing operations was \$1.3 billion compared to \$1.4 billion for 2001, a decrease of \$42.9 million or approximately 3.1%. For the years ended December 31, 2002 and 2001, cost of majority-owned operations represented approximately 68.7% and 66.0% of revenues from majority-owned operations, respectively. Cost of majority-owned operations consists primarily of cost of energy (primarily fuel costs), labor, operating and maintenance costs and non-income based taxes related to our majority-owned operations.

For the year ended December 31, 2002, cost of energy was \$900.9 million compared to \$971.4 million for the year ended December 31, 2001. This represents a decrease of \$70.5 million or 7.3%. As a percent of revenue from majority-owned operations cost of energy was 46.5% and 46.6% for the years ended December 31, 2002 and 2001, respectively.

For the year ended December 31, 2002, operating and maintenance costs were \$359.8 million compared to \$319.5 million for the year ended December 31, 2001. This represents an increase of \$40.3 million or 12.6%. As a percent of revenue from majority-owned operations, operating and maintenance costs represented 18.6% and 15.3%, for the years ended December 31, 2002 and 2001, respectively. The increase in operating and maintenance expense is primarily due to a full year of expense in 2002 related to assets acquired during 2001.

*Depreciation and Amortization*

For the year ended December 31, 2002, depreciation and amortization related to continuing operations was \$207.0 million, compared to \$141.0 million for the year ended December 31, 2001, an increase of

**Table of Contents**

\$66.0 million or approximately 46.8%. This increase is primarily due to the addition of property, plant and equipment related to our acquisitions of electric generating facilities completed during 2002.

*General, Administrative and Development*

For the year ended December 31, 2002, general, administrative and development costs were \$218.9 million, compared to \$187.2 million for the year ended December 31, 2001, an increase of \$31.7 million or approximately 16.9%. For the year ended December 31, 2002 and 2001, general, administrative and development costs represent 11.3% and 9.0% of revenues from majority-owned operations, respectively. This increase is primarily due to an increase in bad debt expense. Additionally there was an increase in other general administrative expenses due to 2001 acquisitions and newly constructed facilities coming on line. These increases were partially offset by decreases in business development expenses and other reductions to costs previously incurred to support international and expanded operations.

*Other Charges*

During the third quarter of 2002, we experienced credit rating downgrades, defaults under certain credit agreements, increased collateral requirements and reduced liquidity. We applied the provisions of SFAS No. 144 to our construction and operational projects. We completed an analysis of the recoverability of the asset carrying values of our projects factoring in the probability of different courses of action available to us given our financial position and liquidity constraints. As a result, we determined during the third quarter that many of our construction projects and certain operational projects were impaired and should be written down to fair market value. To estimate fair value, our management considered discounted cash flow analyses, bids and offers related to those projects and prices of similar assets. During 2002, we recorded asset impairment and other special charges related to continuing operations of \$2.6 billion. See Item 15 Note 8 to the Consolidated Financial Statements for additional information.

*Other Income (Expense)*

For the year ended December 31, 2002, total other expense was \$572.2 million, compared to \$131.1 million for the year ended December 31, 2001, an increase of \$441.1 million or approximately 336.5%. The increase in total other expense from 2001 consisted primarily of an increase in interest expense and \$200.5 million of write downs and losses on sales of equity method investments combined with lower equity earnings of unconsolidated affiliates.

For the year ended December 31, 2002, we had equity in earnings of unconsolidated affiliates of \$69.0 million, compared to \$210.0 million for 2001, a decrease of \$141.0 million or approximately 67.1%. The \$141.0 million decrease in equity earnings from unconsolidated affiliates is due primarily to unfavorable results at West Coast Power in 2002 as compared to the same period in 2001. During 2002, West Coast Power had long-term contracts that were less favorable than those held in 2001. In addition during 2002, West Coast Power established reserves for certain receivables not considered recoverable from California PX. Our share of this reserve was approximately \$58.5 million on a pre-tax basis.

For the year ended December 31, 2002, interest expense (which includes both corporate and project level interest expense) was \$452.2 million, compared to \$364.1 million in 2001, an increase of \$88.1 million or approximately 24.2%. This increase is due primarily to increased corporate and project level debt. We issued substantial amounts of long-term debt at both the corporate level (recourse debt) and project level (non-recourse debt) to either directly finance the acquisition of electric generating facilities or refinance short-term bridge loans incurred to finance such acquisitions.

Other income was a gain of \$11.4 million, as compared to \$23.0 million for the year ended December 31, 2001, a decrease of \$11.6 million, or approximately 50.3%. Other income consists primarily of interest income on cash balances and realized and unrealized foreign currency exchange gains and losses. Interest income was lower during 2002 due to lower interest from affiliates, primarily related to West Coast Power. In addition, there were significant foreign currency exchange losses during 2002.

## **Table of Contents**

### *Write-Downs and Losses on Sales of Equity Method Investments*

For the year ended December 31, 2002, write-downs and losses on equity method investments were \$200.5 million. The \$200.5 million charge consists primarily of write-downs related to our investment in Loy Yang in the total amount of \$111.4 million. In addition, we recorded a loss of \$48.4 million upon the transfer of our investment in SRW Cogeneration and recorded write-downs of \$14.2 million and \$3.6 million of our investments in EDL and Collinsville, respectively.

### *Income Tax*

Income tax benefit/expense for the year ended December 31, 2002 was a tax benefit of \$166.9 million as compared to a tax expense of \$40.2 million for the year ended December 31, 2001. The income tax benefit for the year ended December 31, 2002 was primarily due to the increase in deferred tax assets relating to impairments recognized for financial reporting purposes. A valuation allowance was increased limiting the recognition of deferred tax assets to the extent of previously recorded deferred tax liabilities. The income tax expense for the year ended December 31, 2001 was primarily due to U.S. and foreign operating earnings reduced by tax credits of \$35.0 million.

For 2002, income taxes were recorded on the basis that Xcel Energy would not include us in its consolidated federal income tax return following Xcel Energy's acquisition of our public shares on June 3, 2002. Since Xcel Energy did not include us in its consolidated federal income tax return, we and each of our U.S. subsidiaries that is classified as a corporation for U.S. income tax purposes must file separate federal income tax returns. It is uncertain if, on a stand-alone basis, we will be able to fully realize deferred tax assets related to net operating losses and other temporary differences, consequently, a valuation allowance of \$1.2 billion was recorded as of December 31, 2002.

For 2001, our U.S. subsidiaries and we were included in the Xcel Energy consolidated federal income tax return through March 12, 2001, the date of our secondary public offering. For the remainder of the year, we filed a consolidated federal return with our U.S. subsidiaries. Income tax expense was recorded on current and deferred tax liabilities, partially offset by benefits from tax credits.

### *Discontinued Operations*

Subsequent to December 31, 2002, we determined that additional projects had met the necessary criteria for discontinued operations treatment, McClain, PERC, Cobee, NLGI, NEO Fort Smith LLC, NEO Woodville LLC, NEO Phoenix LLC, NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha LLC, NEO Tajiguas LLC, TERI, Cahua, Energia Pacasmayo, LSP Energy and Hsin Yu. Accordingly, we have restated all periods presented to reflect the addition of these projects as discontinued operations.

As of December 31, 2002, we classified the operations and gains/losses recognized on the sales of certain entities as discontinued operations. Discontinued operations consist of the historical operations and net gains/losses related to our Crockett Cogeneration, Entrade, Killingholme, Csepel, Bulo Bulu, McClain, PERC, Cobee, NLGI, NEO Fort Smith LLC, NEO Woodville LLC, NEO Phoenix LLC, NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha LLC, NEO Tajiguas LLC, TERI, Cahua, Energia Pacasmayo, LSP Energy and Hsin Yu that were sold in 2002 or were deemed to have met the required criteria for such classification pending final disposition. For 2002, the results of operations related to such discontinued operations was a net loss of \$675.8 million as compared to a gain of \$54.7 million for the same period in 2001. The primary reason for the loss recognized in 2002 is due to asset impairments recorded at Killingholme, TERI, NLGI, LSP Energy and Hsin Yu.

### **Reorganization and Emergence from Bankruptcy**

On May 14, 2003, we and 25 of our U.S. affiliates, filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code, the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York, or the bankruptcy court.

**Table of Contents**

On May 15, 2003, NRG Energy, PMI, NRG Finance Company I LLC, NRGenerating Holdings (No. 23) B.V. and NRG Capital LLC, collectively the Plan Debtors, filed the NRG plan of reorganization and the related Disclosure Statement for Reorganizing Debtors Joint Plan of Reorganization Pursuant to Chapter 11 of the United States Bankruptcy Code, as subsequently amended, the Disclosure Statement. The Bankruptcy Court held a hearing on the Disclosure Statement on June 30, 2003, and instructed the Plan Debtors to include certain additional disclosures. The Plan Debtors amended the Disclosure Statement and obtained Bankruptcy Court approval for the Third Amended Disclosure Statement for Debtors Second Amended Joint Plan of Reorganization Pursuant to Chapter 11 of the Bankruptcy Code.

On November 24, 2003, the bankruptcy court issued an order confirming the NRG plan of reorganization, and the plan became effective on December 5, 2003. On September 17, 2003, the Northeast/ South Central plan of reorganization was proposed after we secured the necessary financing commitments. On November 25, 2003, the bankruptcy court issued an order confirming the Northeast/ South Central plan of reorganization and the plan became effective on December 23, 2003.

***Financial Reporting by Entities in Reorganization under the Bankruptcy Code and Fresh Start***

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 Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*, or SOP 90-7.

For financial reporting purposes, the close of business on December 5, 2003, represents the date of emergence from bankruptcy. As used herein, the following terms refer to the Company and its operations:

Predecessor Company	The Company, pre-emergence from bankruptcy The Company s operations, January 1, 2001 December 5, 2003
Reorganized NRG	The Company, post-emergence from bankruptcy The Company s operations, December 6, 2003 December 31, 2003

The implementation of the NRG plan of reorganization resulted in, among other things, a new capital structure, the satisfaction or disposition of various types of claims against the Predecessor Company, the assumption or rejection of certain contracts, and the establishment of a new board of directors.

In connection with the emergence from bankruptcy, we adopted Fresh Start 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, the enterprise value of our company was allocated among our assets and liabilities on a basis substantially consistent with purchase accounting in accordance with SFAS No. 141 *Business Combinations*, or SFAS No. 141. Accordingly, we pushed down the effects of this allocation to all of our subsidiaries.

Under the requirements of Fresh Start, we have adjusted our assets and liabilities, other than deferred income taxes, to their estimated fair values as of December 5, 2003. As a result of marking our assets and liabilities to their estimated fair values, we determined that there was no excess reorganization value that was reallocated back to our tangible and intangible assets. Deferred taxes were determined in accordance with SFAS No. 109, *Accounting for Income Taxes*. The net effect of all Fresh Start adjustments resulted in a gain of \$3.9 billion (comprised of a \$4.1 billion gain from continuing operations and a \$0.2 billion loss from discontinued operations), which is reflected in the Predecessor Company s results of operations for the period January 1, 2003 through December 5, 2003. The application of the Fresh Start provisions of SOP 90-7 created a new reporting entity having no retained earnings or accumulated deficit.

As part of the bankruptcy process we engaged an independent financial advisor to assist in the determination of our reorganized enterprise value. The fair value calculation was based on management s forecast of expected cash flows from our core assets. Management s forecast incorporated forward commodity market prices obtained from a third party consulting firm. A discounted cash flow calculation was used to develop the enterprise value of Reorganized NRG, determined in part by calculating the weighted average cost of capital of the Reorganized NRG. The Discounted Cash Flow, or DCF, valuation methodology

**Table of Contents**

equates the value of an asset or business to the present value of expected future economic benefits to be generated by that asset or business. The DCF methodology is a forward looking approach that discounts expected future economic benefits by a theoretical or observed discount rate. The independent financial advisors prepared a 30-year cash flow forecast using a discount rate of approximately 11%. The resulting reorganization enterprise value as included in the Disclosure Statement ranged from \$5.5 billion to \$5.7 billion. The independent financial advisor then subtracted our project level debt and made several other adjustments to reflect the values of assets held for sale, excess cash and collateral requirements to estimate a range of Reorganized NRG equity value of between \$2.2 billion and \$2.6 billion.

In constructing our Fresh Start balance sheet upon our emergence from bankruptcy we used a reorganization equity value of approximately \$2.4 billion, as we believe this value to be the best indication of the value of the ownership distributed to the new equity owners. Our NRG Plan of reorganization provided for the issuance of 100,000,000 shares of NRG common stock to the various creditors resulting in a calculated price per share of \$24.04. Our reorganization value of approximately \$9.1 billion was determined by adding our reorganized equity value of \$2.4 billion, \$3.7 billion of interest bearing debt and our other liabilities of \$3.0 billion. The reorganization value represents the fair value of an entity before liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after restructuring. This value is consistent with the voting creditors and bankruptcy court's approval of the NRG plan of reorganization.

We recorded approximately \$3.9 billion of net reorganization income (comprised of a \$4.1 billion gain from continuing operations and a \$0.2 billion loss from discontinued operations) in the Predecessor Company's statement of operations for 2003, which includes the gain on the restructuring of equity and the discharge of obligations subject to compromise for less than recorded amounts, as well as adjustments to the historical carrying values of our assets and liabilities to fair market value.

Due to the adoption of Fresh Start as of December 5, 2003, the Reorganized NRG post-Fresh Start 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 therefore 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 and the Predecessor Company. The effects of the reorganization and Fresh Start on our balance sheet as of December 5, 2003, were as follows (in thousands):

	<b>Predecessor Company December 5, 2003</b>	<b>Debt Discharge and Exchange of Stock</b>	<b>Fresh Start Adjustments</b>		<b>Consolidation</b>	<b>Reorganized NRG December 6, 2003</b>
(In thousands)						
<b>Current Assets</b>						
Cash and cash equivalents	\$ 396,018	\$ (1,728)(B)	\$	\$	\$ 1,692 (T)	\$ 395,982
Restricted cash	489,383	1,732 (B)			1,932 (T)	493,047
Accounts receivable - trade	208,677		(2)(B)	3,627 (J)	1,177 (T)	213,479
Accounts receivable - affiliates	41,259		819 (B)	(42,078)(J)		
Xcel Energy settlement receivable		640,000 (A)				640,000
Current portion of notes receivable	66,628					66,628
Inventory	233,185		(25,945)(K)	(11,004)(L)		196,236
Derivative instruments valuation	161					161
Prepayments and other current assets	156,785	(25,855)(B)	(7,309)(M)	85,873 (J)	1,047 (T)	210,541
Current assets - discontinued operations	126,188		(1,241)(K)	1,629 (J)		126,576
<b>Total current assets</b>	<b>1,718,284</b>	<b>614,149</b>	<b>(33,678)</b>	<b>38,047</b>	<b>5,848</b>	<b>2,342,650</b>
<b>Property, Plant and Equipment</b>						
Net property, plant and equipment	5,247,375		(1,153,101)(I)	(132,128)(J)	46,652 (T)	4,008,798



**Table of Contents**

	<b>Predecessor Company December 5, 2003</b>	<b>Debt Discharge and Exchange of Stock</b>	<b>Fresh Start Adjustments</b>		<b>Consolidation</b>	<b>Reorganized NRG December 6, 2003</b>
			<b>(In thousands)</b>			
<b>Other Assets</b>						
Equity investments in affiliates	956,757		(216,029)(C)	14 (J)	(6,880)(T)	733,862
Notes receivable, less current portion affiliates	164,987		(39,336)(P)			125,651
Notes receivable, less current portion	752,847	(155,477)(D)	77,862 (P)		(301)(T)	674,931
Decommissioning fund investments	4,787					4,787
Intangible assets, net	70,275		437,222 (O)	(22,829)(I)		484,668
Debt issuance cost, net	67,045		(67,045)(P)			
Derivative instruments valuation	66,442					66,442
Other assets, net	14,122		(37,891)(P)	98,857 (J)	2,170 (T)	108,744
				31,486 (J)		
Non-current assets discontinued operations	826,715		(209,919)(P)			616,796
<b>Total other assets</b>	<b>2,923,977</b>	<b>(155,477)</b>	<b>(55,136)</b>	<b>107,528</b>	<b>(5,011)</b>	<b>2,815,881</b>
<b>Total Assets</b>	<b>\$ 9,889,636</b>	<b>\$ 458,672</b>	<b>\$ (1,241,915)</b>	<b>\$ 13,447</b>	<b>\$47,489</b>	<b>\$9,167,329</b>
<b>Current Liabilities</b>						
Current portion of long-term debt	\$ 1,433,551	\$ (155,477)(D)	\$ (89,182)(P)	\$ 1,307,249 (Q)	\$ 613 (T)	\$2,496,754
Short-term debt			18,645 (P)			18,645
Accounts payable trade	299,340	(101,632)(E)	(805)(N)	5,499 (J)		202,402
Accounts payable affiliates	17,834	(2,308)(B)	(5,192)(N)	2,995 (J)	36 (T)	13,365
Accrued income tax	19,303		(7,127)(M)	4,255 (J)		16,431
Accrued property, sales and other taxes	30,180		(5,942)(B)	3,556 (J)		27,794
Accrued salaries, benefits and related costs	14,194			2,519 (J)	5 (T)	16,718
Accrued interest	76,485	(2,464)(B)		1,631 (J)	121 (T)	75,773
Derivative instruments valuation	95					95
Creditor pool obligation		1,040,000 (F)				1,040,000
Other bankruptcy settlement		220,000 (F)				220,000
Other current liabilities	135,274	57 (F)	11,800 (O)	(10,770)(J)	413 (T)	136,774
Current liabilities discontinued operations	164,362		(51,679)(J)	6 (J)		112,689
<b>Total Current Liabilities</b>	<b>2,190,618</b>	<b>998,176</b>	<b>(129,482)</b>	<b>1,316,940</b>	<b>1,188</b>	<b>4,377,440</b>
<b>Other Liabilities</b>						
Long-term debt	849,192	10,000 (G)	(21,869)(P)	303 (J)	42,060 (T)	879,686
Deferred income taxes	146,120		(13,973)(M)	12,541 (J)		144,688
Postretirement and other benefit obligations	44,601	(1,118)(B)	64,067 (R)	(2,838)(J)		104,712
Derivative instruments valuation	53,082			102,627 (J)		155,709
Other long-term obligations	146,761	763 (B)	488,218 (O)	(99,060)(J)		536,682

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Non-current liabilities						
Discontinued operations	558,194		1,366 (M)			559,560
Total non-current liabilities	1,797,950	9,645	517,809	13,573	42,060	2,381,037
Total liabilities not subject to compromise						
	3,988,568	1,007,821	388,327	1,330,513	43,248	6,758,477
Total liabilities subject to compromise						
	7,658,071	(6,278,547)(H)	(1,367)(J)	(1,378,157)(Q)		
Total liabilities	11,646,639	(5,270,726)	386,960	(47,644)	43,248	6,758,477
<b>Stockholders Equity/(Deficit) Minority interest</b>						
	611				4,241 (T)	4,852

**Table of Contents**

	Predecessor Company December 5, 2003	Debt Discharge and Exchange of Stock	Fresh Start Adjustments		Consolidation	Reorganized NRG December 6, 2003
(In thousands)						
<b>Commitments and Contingencies</b>						
Class A Common stock; \$.01 par value; 100 shares authorized in 2002; 3 shares issued and outstanding at December 31, 2002	1	(1)(S)				
Common stock; \$.01 par value; 100 authorized in 2002; 1 share issued and outstanding at December 31, 2002						
Common stock; \$.01 par value; 500,000,000 authorized in 2003; 100,000,000 shares issued and outstanding at December 6, 2003		1,000 (H)				1,000
Additional paid-in capital	2,227,691	2,403,000 (H)	(2,227,691)(S)			2,403,000
Retained earnings/(deficit)	(3,986,739)		3,924,215 (S)	62,524 (S)		
Accumulated other comprehensive income	1,433			(1,433)(S)		
<b>Total Stockholders equity/(deficit)</b>	<b>(1,757,614)</b>	<b>2,403,999</b>	<b>1,696,524</b>	<b>61,091</b>		<b>2,404,000</b>
<b>Total Liabilities and Stockholders Equity/ (Deficit)</b>	<b>\$ 9,889,636</b>	<b>\$(2,866,727)</b>	<b>\$ 2,083,484</b>	<b>\$ 13,447</b>	<b>\$ 47,489</b>	<b>\$ 9,167,329</b>

- (A) Represents a \$640.0 million receivable from Xcel Energy that relates to the Xcel Energy Settlement Agreement. \$288.0 million was paid on February 20, 2004 in cash and \$352.0 million will be paid on April 30, 2004.
- (B) Adjustments to assets and liabilities resulting from the NRG Energy bankruptcy settlement.
- (C) Includes the adjustment of carrying amount of Investments in Projects to fair market value as determined by independent appraisers.
- (D) The NRG Energy bankruptcy settlement included the liquidation of NRG FinCo. As a result, the NRG FinCo creditors obtained a perfected first priority security interest in all of LSP Pike Energy LLC assets, making the Mississippi Industrial Revenue Bonds owed by LSP Pike Energy LLC worthless.
- (E) Includes \$103.0 million discharge of obligations related to LSP Pike Energy LLC settlement with Shaw Constructors, Inc.
- (F) Includes the establishment of a creditor's pool and the FinCo lender settlement (in millions):

Creditor installment payments	\$ 515.0
Establishment of Plan of reorganization liability	500.0
Contingency payment	25.0
FinCo lender settlement (see Note 24)	220.0
<b>Total other current liabilities</b>	<b>\$ 1,260.0</b>

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- (G) Represents NRG Energy Promissory Note owed to Xcel Energy, due June 5, 2006 with a stated interest rate of 3.0%
- (H) Represents the elimination of approximately \$5.2 billion of corporate level bank and bond debt and approximately \$1.1 billion of additional claims and disputes by distributing a combination of equity and up to \$1.04 billion in cash among our unsecured creditors. Upon reorganization we issued 100 million shares of NRG common stock at \$24.04 per share.
- (I) Result of allocating the reorganization value in conformity with the purchase method of accounting for business combinations. These allocations were based on valuations obtained from independent appraisers.

21

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**Table of Contents**

- (J) Adoption of Fresh Start Reporting and reinstatement of miscellaneous liabilities subject to compromise.
- (K) Accounting policy change upon adoption of fresh start reporting. Consumables are no longer included as inventory and are expensed as incurred.
- (L) Accounting policy change upon adoption of fresh start reporting. Capital spares were reclassified from inventory to Property Plant and Equipment.
- (M) Records income taxes of the Company based on the guidance provided in the Statement of Financial Accounting Standards No. 109 and SOP 90-7.
- (N) Adjust assets and liabilities to reflect management's estimate, with the assistance of independent specialists, of the fair value.
- (O) Reflects management's estimate, with the assistance of independent appraisers, of the fair value of power purchase agreements and SO(2) emission credits. Management identified certain power purchase agreements that were either significantly valuable or significantly burdensome as compared to our market expectations. The predecessor goodwill and intangibles were written off. Our guarantees were reviewed for the requirement to recognize a liability at inception. As a result, we recorded a \$15.0 million liability. In addition, our Asset Retirement Obligation or ARO was revalued.

	(In millions)
SO(2) emission credits	\$373.5
Valuable contracts	111.2
Predecessor intangible	(47.5)
	—
Total intangible	\$437.2
	—
Burdensome contracts	\$ 15.1
Other valuations adjustments	(3.3)
	—
Total other current liabilities	\$ 11.8
	—
Burdensome contracts	\$467.2
Other valuations adjustments	21.0
	—
Total other long-term obligations	\$488.2
	—

- (P) Reflects management's estimate, based on current market interest rates as of December 5, 2003, of the fair value of notes receivable, notes payable and other debt instruments.
- (Q) Reclassification of subject to compromise liabilities due to emergence from bankruptcy consists primarily of the debt held at our Northeast and South Central subsidiaries of \$1.3 billion. The remaining amounts were reclassified to current liabilities.
- (R) Adjustment to post-retirement and other benefit obligations in order to reflect the accumulated benefit obligation liability based on independent actuarial reports. The pension and welfare plans were assumed from Xcel Energy without the transfer of assets.
- (S) Reflects the cancellation of the Predecessor Company's common stock and the elimination of the retained deficit and the accumulated other comprehensive loss.
- (T) As required by SOP 90-7, we have adopted FASB Interpretation No. 46 Consolidation of Variable Interest Entities, or FIN 46, as of the adoption of Fresh Start. The adoption of FIN 46 resulted in the consolidation of Northbrook New York, LLC and Northbrook Energy, LLC.

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APB No. 18, *The Equity Method of Accounting for Investments in Common Stock*, requires us to effectively push down the effects of Fresh Start reporting to our unconsolidated equity method investments and to recognize an adjustment to our share of the earnings or losses of an investee as if the investee were a consolidated subsidiary. As a result of pushing down the impact of Fresh Start to our West Coast Power affiliate, we determined that a contract based intangible asset with a one year remaining life, consisting of the value of West Coast Power's California Department of Water Resources energy sales contract, must be established and recognized as a basis adjustment to our share of the future earnings generated by West Coast Power. This adjustment will reduce our equity earnings in the amount of approximately \$10.4 million per month until the contract expires in December 2004.

**Table of Contents**

**Liquidity and Capital Resources**

***Reorganized Capital Structure***

In connection with the consummation of the NRG plan of reorganization, on December 5, 2003 all shares of our old common stock were canceled and 100,000,000 shares of new common stock of NRG Energy were distributed pursuant to such plan to the holders of certain classes of claims. A certain number of shares of common stock were issued for distribution to holders of disputed claims as such claims are resolved or settled. In the event our disputed claims reserve is inadequate, it is possible we would have to issue additional shares of our common stock to satisfy such pre-petition claims or contribute additional cash proceeds. See Item 3 Legal Proceedings Disputed Claims Reserve. Our authorized capital stock consists of 500,000,000 shares of NRG Energy common stock and 10,000,000 shares of Serial Preferred Stock. Further, a total of 4,000,000 shares of our common stock, representing approximately 4% of our outstanding common stock, are available for issuance under our long-term incentive plan.

In addition to our issuance of new common stock, on December 23, 2003, we completed a note offering consisting of \$1.25 billion of 8% Second Priority Senior Secured Notes due 2013, or the Second Priority Notes, and we entered into a new credit facility consisting of a \$950.0 million term loan facility, a \$250.0 million funded letter of credit facility and a \$250.0 million revolving credit facility. In January of 2004, we completed a supplementary note offering whereby we issued an additional \$475.0 million of the Second Priority Notes at a premium and used the proceeds to repay a portion of the \$950.0 million term loan. As of March 1, 2004, we had \$1.7 billion in aggregate principal amount of Second Priority Notes outstanding, \$446.5 million principal amount outstanding under the term loan and \$147.5 million remains available under the funded letter of credit facility. As of March 1, 2004, we had not drawn down on our revolving credit facility. Finally, in connection with the consummation of the NRG plan of reorganization, we issued to Xcel Energy a \$10.0 million non-amortizing promissory note, which will accrue interest at a rate of 3% per annum and mature 2.5 years after the effective date of the NRG plan of reorganization.

As part of the NRG plan of reorganization, we eliminated approximately \$5.2 billion of corporate level bank and bond debt and approximately \$1.3 billion of additional claims and disputes through our distribution of new common stock and \$1.04 billion in cash among our unsecured creditors. In addition to the debt reduction associated with the restructuring, we used the proceeds of the recent note offering and borrowings under the New Credit Facility to retire approximately \$1.7 billion of project-level debt.

For additional information on our short term and long term borrowing arrangements, see Item 15 Note 17 to the Consolidated Financial Statements.

***Historical Cash Flows***

***Predecessor Company***

Historically, we have obtained cash from operations, issuance of debt and equity securities, borrowings under credit facilities, capital contributions from Xcel Energy, reimbursement by Xcel Energy of tax benefits pursuant to a tax sharing agreement and proceeds from non-recourse project financings. We used these funds to finance operations, service debt obligations, fund the acquisition, development and construction of generation facilities, finance capital expenditures and meet other cash and liquidity needs.

**Table of Contents***Reorganized NRG*

We have obtained cash from operations, Xcel Energy's contribution net of distributions to creditors, proceeds from the sale of certain assets and borrowings under our Second Priority Notes and New Credit Facility.

	Predecessor Company		Reorganized NRG	
	Year Ended December 31,		For the Period	
	2001	2002	January 1 December 5, 2003	December 6 December 31, 2003
(In thousands)				
Net cash provided (used) by operating activities	\$ 276,014	\$ 430,042	\$ 238,509	\$ (588,875)
Net cash (used) provided by investing activities	(4,335,641)	(1,681,467)	(185,679)	363,372
Net cash provided (used) by financing activities	4,153,546	1,449,330	(29,944)	393,273

*Net Cash Provided (Used) By Operating Activities**Predecessor Company*

Net cash provided by operating activities increased during 2002 compared with 2001, primarily due to our efforts to conserve cash by deferring the payment of interest and managing our cash flows more closely. As a result, we increased accounts payable and accrued interest balances and reduced inventory levels.

For the period January 1, 2003 through December 5, 2003 net cash provided by operating activities was \$238.5 million. Operating activities consisted of a net loss before Fresh Start adjustments of \$1.1 billion, offset by non-cash charges of \$567.5 million and cash provided by working capital of \$800.1 million. The non-cash charges consisted primarily of the write-down of our investment in Loy Yang, asset impairments and legal settlement charges. The favorable change in working capital was primarily due to reduced cash expenditures throughout the bankruptcy period resulting in increased accounts payable.

*Reorganized NRG*

For the period December 6, 2003 through December 31, 2003 cash used by operating activities was \$588.9 million. This was primarily a result of payments made to creditors upon our emergence from bankruptcy.

*Net Cash Provided (Used) By Investing Activities**Predecessor Company*

Net cash used in investing activities decreased in 2002, compared with 2001, primarily as a result of the termination of our acquisition program due to our financial difficulties and the receipt of cash upon the sale of assets during 2002.

For the period January 1, 2003 through December 5, 2003 cash used in investing activities \$185.7 million. This was primarily a result of capital expenditures and an increase in restricted cash, offset by cash proceeds received upon the sale of investments.

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### *Reorganized NRG*

For the period December 6, 2003 through December 31, 2003 cash provided by investing activities was \$363.4 million. In connection with the refinancing transaction, approximately \$375.3 million of restricted cash was released upon payment of the Northeast Generating and South Central Generating note. This increase was offset by funds used for capital expenditures and investments in projects.

**Table of Contents**

*Net Cash Provided (Used) By Financing Activities*

*Predecessor Company*

Net cash provided by financing activities decreased during 2002 compared to 2001 due to constraints on our ability to access the capital markets and the cancellation and termination of construction projects reducing the need for capital.

For the period January 1, 2003 through December 5, 2003 cash used by financing activities was \$29.9 million, which consisted primarily of principal payments offset by the issuance of additional debt.

*Reorganized NRG*

For the period December 6, 2003 through December 31, 2003 cash provided by financing activities was \$393.3 million. We entered into refinancing transactions on December 23, 2003, where we issued \$1.25 billion of Second Priority Notes and entered into the New Credit Facility, which consisted of a \$950.0 million senior secured term loan facility and a \$250.0 million funded letter of credit facility. Upon completion of the refinancing transactions, we repaid the Northeast Generating and South Central Generating notes and the Mid-Atlantic Generating obligations.

*Sources of Funds*

The principal sources of liquidity for our future operations, capital expenditures, facility closures and project restructurings are expected to be: (i) existing cash on hand and cash flows from operations, (ii) Xcel Energy's contribution net of distributions to creditors, (iii) proceeds from the sale of certain assets and businesses and (iv) borrowings under our New Credit Facility, including up to \$250.0 million of available borrowings under our new revolving credit facility and up to \$250.0 million of a pre-funded letter of credit facility. Additionally, there are approximately \$89.5 million of undrawn letters of credit under the pre-petition ANZ LC Facility. The ANZ LC Facility is supported by a cash funded claim reserve to support any letters of credit drawn prior to their expiration.

Capacity under the ANZ LC facility will be reduced as the underlying LCs expire or are terminated. All of the LCs will expire or be terminated by the end of 2004, at which time the ANZ LC facility will no longer exist.

As a result of our emergence from bankruptcy, all of our then existing securities, including our old common stock and various issuances of senior notes, were cancelled and approximately \$5.2 billion of our existing debt and approximately \$1.3 billion of additional claims and disputes were eliminated for a combination of equity and up to \$1.04 billion in cash.

On December 23, 2003, we entered into a bank facility for up to \$1.45 billion, or the New Credit Facility, which included a \$950.0 million, six and a half-year senior secured term loan, a \$250.0 million funded letter of credit facility, and a four-year \$250.0 million revolving line of credit, or the revolving credit facility. Portions of the revolving credit facility are available as a swing-line facility and as a revolving letter of credit sub-facility. As of December 31, 2003, the corporate revolver was undrawn. Also on December 23, 2003, we issued \$1.25 billion in 8% second priority, senior secured notes, or the Second Priority Notes, due and payable on December 15, 2013.

Upon completion of the refinancing transactions, we, among other things: (i) repaid the Northeast Generating LLC Notes, or Northeast Notes, the South Central Generating LLC Notes, or South Central Notes, and the Mid-Atlantic Generating LLC Obligations; (ii) paid a settlement amount associated with the repayment of the Northeast Notes and the South Central Notes; (iii) paid \$500.0 million in lieu of 10% NRG Energy senior notes to former unsecured creditors pursuant to the NRG plan of reorganization, the POR Notes, (see the discussion of Senior Securities under Item 15 Note 17 to the Consolidated Financial Statements); (iv) pre-funded a letter of credit sub-facility under the New Credit Facility in the amount of \$250.0 million; and (v) paid fees and expenses related to the offering of notes and the New Credit Facility in the amount of \$74.8 million.

**Table of Contents**

On January 28, 2004, we issued an additional \$475.0 million of the Second Priority Notes, obtaining net proceeds of \$501.8 million. With proceeds from this issuance and other funds, we subsequently 1) repaid \$503.5 million of the term loan under the New Credit Facility, reducing the principal outstanding from \$950.0 million to \$446.5 million, 2) made a prepayment premium payment of \$15.1 million, and 3) repaid accrued but unpaid interest on the prepayment amount, totaling \$0.4 million. On February 25, 2004, we received from our term loan lenders a waiver under the New Credit Facility waiving our obligation to enter into a hedge arrangement on a notional value of \$500.0 million, as required by the credit agreement.

*Cash Flows.* Our operating cash flows are expected to be impacted by, among other things: (i) spark spreads generally; (ii) commodity prices (including demand for natural gas, coal, oil and electricity); (iii) the cost of ordinary course operations and maintenance expenses; (iv) planned and unplanned outages; (v) contraction of terms by trade creditors; (vi) cash requirements for closure and restructuring of certain facilities; (vii) restrictions in the declaration or payments of dividends or similar distributions from our subsidiaries; and (viii) the timing and nature of asset sales.

A principal component of the NRG plan of reorganization is a settlement with Xcel Energy in which Xcel Energy agreed to make a contribution to us consisting of cash (and, under certain circumstances, its common stock) in an aggregate amount of up to \$640.0 million to be paid in three separate installments. Xcel Energy contributed \$288.0 million on February 20, 2004. We anticipate receiving an additional installment of up to \$352.0 million in cash on April 30, 2004. We will distribute \$515.0 million of cash we receive from Xcel Energy to our creditors. In the event we achieve certain liquidity measures in September 2004, an additional \$25.0 million may be distributed to creditors, and we may use \$100.0 million for any purpose, subject to any restrictions contained in the indenture or the New Credit Facility.

*Asset Sales.* We received \$229.3 million and \$196.2 million in net cash proceeds from the sale of certain assets and businesses in the fiscal years ended 2002 and 2003, respectively. The New Credit Facility and the indenture governing the notes place restrictions on the use of any proceeds we may receive from certain asset sales in the future.

*Letter of Credit Sub-facility and Revolving Credit Facility.* The New Credit Facility includes a letter of credit sub-facility in the amount of \$250.0 million. As of December 31, 2003, we had issued \$1.7 million in letters of credit under this facility. The New Credit Facility also includes a revolving credit facility in the amount of \$250.0 million to be used for general corporate purposes. On December 31, 2003 we had not yet drawn on our revolving credit facility. For additional information regarding our debt see Item 15 Note 17 to the Consolidated Financial Statements.

***Uses of Funds***

Our requirements for liquidity and capital resources, other than for operating our facilities, can generally be categorized by the following: (i) PMI activities; (ii) capital expenditures; and (iii) project finance requirements for cash collateral.

*PMI.* PMI activities comprise the single largest requirement for liquidity and capital resources. PMI liquidity requirements are primarily driven by: (i) margin and collateral posting requirements with counterparties; (ii) establishment of trading relationships; (iii) disbursement and receipt timing (i.e., buying fuel before receiving energy revenues); and (iv) initial collateral for large structured transactions. For 2004, we believe that approximately \$265 million to \$360 million may be required for PMI to meet potential margin requirements and to cover prepayments and fuel inventory builds.

Estimates for liquidity requirements are highly dependent on our hedging activity and then current market conditions, including forward prices for energy and fuel and market volatility. In addition, our estimates are dependent on credit terms with third parties. We do not assume that we will be provided with unsecured credit from third parties in budgeting our working capital requirements.

*Capital Expenditures.* Capital expenditures were \$1.4 billion for the year ended 2002, \$113.5 million for the period January 1, 2003 through December 5, 2003 and \$10.6 million for the period December 6, 2003 through December 31, 2003. Capital expenditures in 2003 relate primarily to operations and maintenance of

**Table of Contents**

our existing generating facilities whereas capital expenditures in 2002 related primarily to new plant construction. We anticipate that our 2004 capital expenditures will be approximately \$113.8 million and will relate primarily to the operation and maintenance of our existing generating facilities.

*Project Finance Requirements.* We are a holding company and conduct our operations through subsidiaries. Historically, we have utilized non-recourse debt to fund a significant portion of the capital expenditures and investments required to construct our power plants and related assets. Consistent with our strategy, we may seek, where available on commercially reasonable terms, non-recourse debt financing in connection with the assets or businesses that our affiliates or we may develop, construct or acquire. Non-recourse borrowings are substantially non-recourse to other subsidiaries, affiliates and us, and are generally secured by the capital stock, physical assets, contracts and cash flow of the related project subsidiary or affiliate. Some of these project financings require us to post collateral in the form of cash or an acceptable letter of credit.

Principal on short-term debt, long-term debt and capital leases as of December 31, 2003 are due and payable in the following periods (in thousands):

Subsidiary/Description	Total	2004	2005	2006	2007	2008	Thereafter
\$250 Million Revolver Due Dec 2007	\$	\$	\$	\$	\$	\$	\$
Xcel Energy Note	10,000			10,000			
Credit Facility Due June 2010	1,200,000	12,000	12,000	12,000	12,000	12,000	1,140,000
8% Senior Secured Notes due Dec. 2013	1,250,000						1,250,000
MEC Corp.	126,279	7,329	7,876	8,465	9,097	9,777	83,735
NRG Peaker Finance Co LLC	311,373	311,373					
LSP Kendall Energy	487,013	487,013					
Flinders Power Finance Pty	187,668		9,292	12,436	13,538	14,737	137,665
Pittsburgh Thermal LP	1,550	1,550					
San Francisco Thermal LP	860	729	31	34	37	29	
Meridan	500	500					
Camas Pwr BLR LP Bank facility	8,628	2,352	2,443	2,533	1,300		
Camas Pwr BLR LP Bonds	5,765	1,290	1,385	1,485	1,605		
Northbrook New York	17,199	300	500	600	700	800	14,299
Northbrook Carolina	2,475	100	100	100	150	150	1,875
Northbrook STS HydroPower	24,506	436	477	523	572	627	21,871
Subtotal Debt, Bonds and Notes	3,633,816	824,972	34,104	48,176	38,999	38,120	2,649,445

**Table of Contents**

<b>Subsidiary/Description</b>	<b>Total</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>Thereafter</b>
Saale Energie GmbH, Schkopau (capital lease)	342,469	75,944	78,580	43,858	33,075	27,039	83,973
Audrain Generating (capital lease)	239,930						239,930
NRG Processing Solutions, LLC (capital lease)	326	326					
<b>Subtotal Capital Leases</b>	<b>582,725</b>	<b>76,270</b>	<b>78,580</b>	<b>43,858</b>	<b>33,075</b>	<b>27,039</b>	<b>323,903</b>
Itiquira	19,019	19,019					
<b>Discontinued Operations</b>							
LSP Energy LP (Batesville)	307,175	7,575	9,600	11,925	12,525	12,825	252,725
Hsin Yu Energy Development	85,300	85,300					
PERC (Bonds)	26,265	1,735	1,820	1,910	2,005	2,110	16,685
Cobee	31,800	11,025	11,535	4,620	4,620		
McClain	156,509	156,509					
<b>Subtotal Discontinued Operations</b>	<b>607,049</b>	<b>262,144</b>	<b>22,955</b>	<b>18,455</b>	<b>19,150</b>	<b>14,935</b>	<b>269,410</b>
<b>Total Debt</b>	<b>\$4,842,609</b>	<b>\$1,182,405</b>	<b>\$135,639</b>	<b>\$110,489</b>	<b>\$91,224</b>	<b>\$80,094</b>	<b>\$3,242,758</b>

Principal payments for debt that have been deemed current for financial reporting purposes as of December 31, 2003 are reflected as short-term in the table above. Events may have occurred since December 31, 2003 that would allow such debt to be paid on a normal amortizing schedule. Prepayments, or additional borrowing under certain facilities, since December 31, 2003 are not reflected. See Item 15 Note 17 to the Consolidated Financial Statements for further discussion on events that may affect debt payment schedules.

If we decide not to provide any additional funding or credit support to our subsidiaries, the inability of any of our subsidiaries that are under construction or that have near-term debt payment obligations to obtain non-recourse project financing may result in such subsidiary's insolvency and the loss of our investment in such subsidiary. Additionally, the loss of a significant customer at any of our subsidiaries may result in the need to restructure the non-recourse project financing at that subsidiary, and the inability to successfully complete a restructuring of the non-recourse project financing may result in a loss of our investment in such subsidiary. Certain of our projects are subject to restrictions regarding the movement of cash. For additional information see Item 15 Note 17 to the Consolidated Financial Statements.

**Liquidity Estimates**

For 2004, we anticipate utilizing all of our \$250.0 million letter of credit sub-facility. In addition, we believe that approximately \$265.0 million to \$360.0 million of cash may be required for PMI to meet its potential margin requirements and to cover prepayments and fuel inventory builds. As part of our refinancing transactions, we have established a \$250.0 million revolving credit facility. The revolving credit facility was established to satisfy short-term working capital requirements, which may arise from time to time. It is not our current intention to draw funds under the revolving credit facility.

**Other Liquidity Matters**

We maintain cash deposits in order to assure the continuation of vendor trade terms. As of December 31, 2003, the total amount of cash deposits maintained for these purposes was approximately \$48.3 million.

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We expect our capital requirements to be met with existing cash balances, cash flows from operations, borrowings under our Second Priority Notes and New Credit Facility, and asset sales. We believe that our current level of cash availability and asset sales, along with our future anticipated cash flows from operations, will be sufficient to meet the existing operational and collateral needs of our business for the next 12 months.

## **Table of Contents**

Subject to restrictions in our Second Priority Notes and our New Credit Facility, if cash generated from operations is insufficient to satisfy our liquidity requirements, we may seek to sell assets, obtain additional credit facilities or other financings and/or issue additional equity or convertible instruments. We cannot assure you, however, that our business will generate sufficient cash flow from operations, that currently anticipated cost savings and operating improvements will be realized on schedule or that future borrowings will be available to us under our credit facilities in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness, on commercially reasonable terms or at all. To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

### *Net Operating Loss Carryforwards*

During 2002 and 2003 we generated a net operating loss carryforward of \$1.0 billion which will expire in 2023. We have assessed the likelihood that a substantial portion of the 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. Accordingly, 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 the 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 depreciation in future years.

### **Off Balance-Sheet Items**

As of December 31, 2003, we do not have any significant relationships with structured finance or special purpose entities that provide liquidity, financing or incremental market risk or credit risk.

We have numerous investments with an ownership interest percentage of 50% or less in energy and energy related entities that are accounted for under the equity method of accounting as disclosed in Item 15 Note 13 to the Consolidated Financial Statements. Our pro-rata share of non-recourse debt held by unconsolidated affiliates was approximately \$967.7 million as of December 31, 2003. In the normal course of business we may be asked to loan funds to these entities on both a long and short-term basis. Such transactions are generally accounted for as accounts payables and receivables to/from affiliates and notes payables/receivables to/from affiliates and if appropriate, bear market-based interest rates. See Item 15 Note 11 to the Consolidated Financial Statements for additional information regarding amounts accounted for as notes receivable affiliates.

### **Contractual Obligations and Commercial Commitments**

We have a variety of contractual obligations and other commercial commitments that represent prospective cash requirements in addition to our capital expenditure programs. The following is a summarized

**Table of Contents**

table of contractual obligations. See additional discussion in Item 15 Notes 17, 24 and 26 to the Consolidated Financial Statements.

Contractual Cash Obligations	Payments Due by Period as of December 31, 2003				
	Total	Short Term	1-3 Years	4-5 Years	After 5 Years
	(In thousands)				
Long-term debt**	\$3,633,816	\$ 824,972	\$ 82,280	\$ 77,119	\$2,649,445
Capital lease obligations	582,725	76,270	122,438	60,114	323,903
Operating leases***	45,625	8,760	14,799	7,132	14,934
Creditor payments*	540,000	540,000			
<b>Total contractual cash obligations</b>	<b>\$4,802,166</b>	<b>\$1,450,002</b>	<b>\$219,517</b>	<b>\$144,365</b>	<b>\$2,988,282</b>

\* These amounts represent creditor payments under NRG's plan of reorganization. Additionally, payments of up to \$275 million will be required pursuant to security interests held in certain assets by creditors when the related assets are sold.

\*\* Long-term debt excludes debt recorded at our McClain, PERC, Cobee, LSP and Hsin Yu projects in the amounts of \$156.5 million, \$26.3 million, \$31.8 million, \$307.2 million and \$85.3 million, respectively, which have been reclassified as discontinued operations.

\*\*\* Operating leases excludes obligations for operating leases at our Hsin Yu and Cobee projects in the amounts of \$1.8 million and \$0.1 million, respectively.

Other Commercial Commitments	Amount of Commitment Expiration per Period as of December 31, 2003				
	Total Amounts Committed	Short Term	1-3 Years	4-5 Years	After 5 Years
	(In thousands)				
Lines of credit	\$	\$	\$	\$	\$
Standby letters of credit	92,050	92,050			
Cash collateral calls	71,472	71,472			
Guarantees of Subsidiaries	506,935		19,490	778	486,667
Guarantees of PMI	57,179	5,000	52,179		
<b>Total commercial commitments</b>	<b>\$727,636</b>	<b>\$168,522</b>	<b>\$71,669</b>	<b>\$778</b>	<b>\$486,667</b>

**Interdependent Relationships**

We do not have any significant interdependent relationships. Since we formerly were an indirect wholly owned subsidiary of Xcel Energy, there were certain related party transactions that took place in the normal course of business. For additional information regarding our related party transactions, see Item 15 Note 22 to the Consolidated Financial Statements.

**Derivative Instruments**

We may enter into long-term power sales contracts, long-term gas purchase contracts and other energy related commodities financial instruments to mitigate variability in earnings due to fluctuations in spot market prices, hedge fuel requirements at generation facilities and

protect fuel inventories.

The tables below disclose the trading activities that include non-exchange traded contracts accounted for at fair value. Specifically, these tables disaggregate realized and unrealized changes in fair value; identify changes in fair value attributable to changes in valuation techniques; disaggregate estimated fair values at December 31, 2003 based on whether fair values are determined by quoted market prices or more subjective means; and indicate the maturities of contracts at December 31, 2003.

**Table of Contents***Trading Activity Gains/(Losses)*

	<u>Predecessor Company</u>	<u>Reorganized NRG</u>
	(In thousands)	
Fair value of contracts at December 31, 2001	\$ 72,236	
Contracts realized or otherwise settled during the period	(119,061)	
Other changes in fair value	77,465	
	<u>30,640</u>	
Fair value of contracts at December 31, 2002	30,640	
Contracts realized or otherwise settled during the period	(187,603)	
Other changes in fair value	112,865	
	<u>\$ (44,098)</u>	
Fair value of contracts at December 5, 2003	\$ (44,098)	
Fair value of contracts at December 6, 2003		\$ (44,098)
Contracts realized or otherwise settled during the period		(2,390)
Other changes in fair value		(3,426)
		<u>\$ (49,914)</u>
Fair value of contracts at December 31, 2003		<u>\$ (49,914)</u>

*Sources of Fair Value Gains/(Losses)*

**Reorganized NRG**  
Fair Value of Contracts at Period End as of December 6, 2003

	<u>Maturity Less than 1 Year</u>	<u>Maturity 1-3 Years</u>	<u>Maturity 4-5 Years</u>	<u>Maturity in excess of 5 Years</u>	<u>Total Fair Value</u>
	(In thousands)				
Prices actively quoted	\$42,107	\$(7,022)	\$(10,820)	\$(68,363)	\$(44,098)
	<u>\$42,107</u>	<u>\$(7,022)</u>	<u>\$(10,820)</u>	<u>\$(68,363)</u>	<u>\$(44,098)</u>

**Reorganized NRG**  
Fair Value of Contracts at Period End as of December 31, 2003

	<u>Maturity Less than 1 Year</u>	<u>Maturity 1-3 Years</u>	<u>Maturity 4-5 Years</u>	<u>Maturity in excess of 5 Years</u>	<u>Total Fair Value</u>
	(In thousands)				
Prices actively quoted	\$34,462	\$(6,860)	\$(8,570)	\$(68,946)	\$(49,914)
	<u>\$34,462</u>	<u>\$(6,860)</u>	<u>\$(8,570)</u>	<u>\$(68,946)</u>	<u>\$(49,914)</u>

We may use a variety of financial instruments to manage our exposure to fluctuations in foreign currency exchange rates on our international project cash flows, interest rates on our cost of borrowing and energy and energy related commodities prices.

**Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements and related disclosures in compliance with generally accepted accounting principles, or GAAP, requires the application of appropriate technical accounting rules and guidance as well as the use of estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. The application of these policies necessarily involves judgments regarding future events, including the likelihood of success of particular projects, legal and regulatory challenges. These judgments, in and of themselves, could materially impact the financial statements and disclosures based on varying assumptions, which may be appropriate to use. In addition, the financial and operating environment also may have a significant effect, not only on the operation of the business, but on the results reported through the

**Table of Contents**

application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies have not changed.

On an ongoing basis, we, evaluate our estimates, utilizing historic experience, consultation with experts and other methods we consider reasonable. In any case, actual results may differ significantly from our estimates. Any effects on our business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

Our significant accounting policies are summarized in Item 15 Note 2 to the Consolidated Financial Statements. The following table identifies certain of the significant accounting policies listed in Item 15 Note 2 to the Consolidated Financial Statements. The table also identifies the judgments required, uncertainties involved in the application of each and estimates that may have a material impact on our results of operations and statement of financial position. These policies, along with the underlying assumptions and judgments made by our management in their application, have a significant impact on our consolidated financial statements. We identify our most critical accounting policies as those that are the most pervasive and important to the portrayal of our financial position and results of operations, and that require the most difficult, subjective and/or complex judgments by management regarding estimates about matters that are inherently uncertain.

<b>Accounting Policy</b>	<b>Judgments/ Uncertainties Affecting Application</b>
Fresh Start Reporting	The determination of the enterprise value and the allocation to the underlying assets and liabilities are based on a number of estimates and assumptions, which are inherently subject to significant uncertainties and contingencies Determination of enterprise value Determination of Fresh Start date Consolidation of entities remaining in bankruptcy Valuation of emission credit allowances and power sales contracts Valuation of debt instruments Valuation of equity investments
Capitalization Practices/ Purchase Accounting	Determination of beginning and ending of capitalization periods Allocation of purchase prices to identified assets
Asset Valuation and Impairment	Recoverability of investment through future operations Regulatory and political environments and requirements Estimated useful lives of assets Environmental obligations and operational limitations Estimates of future cash flows Estimates of fair value (fresh start) Judgment about triggering events
Inventory	Valuation of inventory balances
Foreign Currency Translation	Recognition of changes in foreign currencies.
Revenue Recognition	Customer/counter-party dispute resolution practices Market maturity and economic conditions Contract interpretation

**Table of Contents**

<b>Accounting Policy</b>	<b>Judgments/ Uncertainties Affecting Application</b>
Uncollectible Receivables	Economic conditions affecting customers, counter parties, suppliers and market prices Regulatory environment and impact on customer financial condition
Derivative Financial Instruments	Outcome of litigation and bankruptcy proceedings Market conditions in the energy industry, especially the effects of price volatility on contractual commitments Assumptions used in valuation models Counter party credit risk Market conditions in foreign countries
Litigation Claims and Assessments	Regulatory and political environments and requirements Impacts of court decisions Estimates of ultimate liabilities arising from legal claims
Income Taxes and Valuation Allowance for Deferred Tax Assets	Ability of tax authority decisions to withstand legal challenges or appeals Anticipated future decisions of tax authorities Application of tax statutes and regulations to transactions. Ability to utilize tax benefits through carrybacks to prior periods and carryforwards to future periods.
Discontinued Operations	Consistent application Determination of fair value (recoverability) Recognition of expected gain or loss prior to disposition
Pension	Accuracy of management assumptions Accuracy of actuarial consultant assumptions
Stock-Based Compensation	Accuracy of management assumptions used to determine the fair value of the stock options

Of all of the accounting policies identified in the above table, we believe that the following policies and the application thereof to be those having the most direct impact on our financial position and results of operations.

**Fresh Start Reporting**

In connection with the emergence from bankruptcy, we adopted Fresh Start 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, the reorganization value of our company was allocated among our assets and liabilities on a basis substantially consistent with purchase accounting in accordance with SFAS No. 141 *Business Combinations*.

The bankruptcy court in its confirmation order approved our Plan of reorganization on November 24, 2003. Under the requirements of SOP 90-7, the Fresh Start date is determined to be the confirmation date unless significant uncertainties exist regarding the effectiveness of the bankruptcy order. Our Plan of reorganization required completion of the Xcel Energy settlement agreement prior to emergence from

**Table of Contents**

bankruptcy. We believe this settlement agreement was a significant contingency and thus delayed the Fresh Start date until the Xcel Energy settlement agreement was finalized on December 5, 2003.

Under the requirements of Fresh Start, we have adjusted our assets and liabilities, other than deferred income taxes, to their estimated fair values as of December 5, 2003. As a result of marking our assets and liabilities to their estimated fair values, we determined that there was no excess reorganization value to recognize as an intangible asset. Deferred taxes were determined in accordance with SFAS No. 109, *Accounting for Income Taxes*. The net effect of all Fresh Start adjustments resulted in a gain of \$3.9 billion (comprised of a \$4.1 billion gain from continuing operations and a \$0.2 billion loss from discontinued operations), which is reflected in the Predecessor Company's results for the period January 1, 2003 through December 5, 2003. The application of the Fresh Start provisions of SOP 90-7 created a new reporting entity having no retained earnings or accumulated deficit.

As part of the bankruptcy process we engaged an independent financial advisor to assist in the determination of the fair value of our reorganized enterprise value. The fair value calculation was based on management's forecast of our core assets. Management's forecast relied on forward market prices obtained from a third party consulting firm. A discounted cash flow calculation was used to develop the enterprise value of Reorganized NRG, determined in part by calculating the weighted average cost of capital of the Reorganized NRG. The Discounted Cash Flow, or DCF, valuation methodology equates the value of an asset or business to the present value of expected future economic benefits to be generated by that asset or business. The DCF methodology is a forward looking approach that discounts all expected future economic benefits by a theoretical or observed discount rate determined by calculating the weighted average cost of capital, or WACC, of Reorganized NRG. The enterprise calculation was based on management's forecast of our core assets. Management's forecast relied on forward market prices obtained from a third party consulting firm. For purposes of our Disclosure statement, the independent financial advisor estimated our reorganization enterprise value of our ongoing projects to range from \$5.5 billion to \$5.7 billion, less project level debt, and net of cash. Certain other adjustments were made to reflect the values of assets held for sale, excess cash and net of the Xcel Settlement and collateral requirements. These adjustments resulted in a reorganized NRG value, net of project debt, of between \$3.1 billion and \$3.5 billion. Additional adjustments were made to reflect cash payments expected as part of the implementation of the Plan of Reorganization, resulting in a final range of equity values of between \$2.2 billion and \$2.6 billion.

In constructing our Fresh Start balance sheet upon our emergence from bankruptcy we used a reorganization equity value of approximately \$2.4 billion, as we believe this value to be the best indication of the value of the ownership distributed to the new equity owners. Our reorganization value of approximately \$9.1 billion was determined by adding our reorganized equity value of \$2.4 billion, \$3.7 billion of interest bearing debt and our other liabilities of \$3.0 billion. The reorganization value represents the fair value of an entity before liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after restructuring. This value is consistent with the voting creditors and Court's approval of the Plan of Reorganization.

A separate plan of reorganization was filed for our Northeast Generating and South Central Generating entities that was confirmed by the bankruptcy court on November 25, 2003, and became effective on December 23, 2003, when the final conditions of the plan were completed. In connection with Fresh Start on December 5, 2003, we have accounted for these entities as if they had emerged from bankruptcy at the same time that we emerged, as we believe that we continued to maintain control over the Northeast Generating and South Central Generating facilities throughout the bankruptcy process.

Due to the adoption of Fresh Start upon our emergence from bankruptcy, the Reorganized NRG's post-fresh start 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 therefore not comparable in certain respects to the financial statements prior to the application of Fresh Start.

**Table of Contents**

*Capitalization Practices and Purchase Accounting*

***Predecessor Company***

For those assets that were being constructed by us, the carrying value reflects the application of our property, plant and equipment policies which incorporate estimates, assumptions and judgments by management relative to the capitalized costs and useful lives of our generating facilities. Interest incurred on funds borrowed to finance projects expected to require more than three months to complete is capitalized. Capitalization of interest is discontinued when the asset under construction is ready for our intended use or when construction is terminated. An insignificant amount of interest was capitalized during 2003. Development costs and capitalized project costs include third party professional services, permits and other costs that are incurred incidental to a particular project. Such costs are expensed as incurred until an acquisition agreement or letter of intent is signed, and our board of directors has approved the project. Additional costs incurred after this point are capitalized.

***Reorganized NRG***

In connection with the emergence from bankruptcy, we adopted Fresh Start 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, the reorganization value of our company was allocated to our assets and liabilities on a basis substantially consistent with purchase accounting in accordance with SFAS No. 141. We engaged a valuation specialist to help us determine the fair value of our fixed assets. The valuations were based on forecast power prices and operating costs determined by us. The valuation specialist also determined the estimated remaining useful lives of our fixed assets. The capitalization policy will be consistent with the predecessor company policy.

***Impairment of Long Lived Assets***

We evaluate property, plant and equipment and intangible assets for impairment whenever indicators of impairment exist. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the asset, through considering project specific assumptions for long-term power pool prices, escalated future project operating costs and expected plant operations. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets by factoring in the probability weighting of different courses of action available to us. Generally, fair value will be determined using valuation techniques such as the present value of expected future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the cost to sell. For the period January 1, 2003 through December 5, 2003, net income from continuing operations was reduced by \$228.9 million due to asset impairments. Asset impairment evaluations are by nature highly subjective.

***Revenue Recognition and Uncollectible Receivables***

We are primarily an electric generation company, operating a portfolio of majority-owned electric generating plants and certain plants in which our ownership is 50% or less which are accounted for under the equity method of accounting. We also produce thermal energy for sale to customers. Both physical and financial transactions are entered into to optimize the financial performance of our generating facilities. Electric energy revenue is recognized upon transmission to the customer. In certain markets, which are operated/controlled by an independent system operator and in which we have entered into a netting agreement with the ISO, which results in our receiving a netted invoice, we have recorded purchased energy as an offset against revenues received upon the sale of such energy. Capacity and ancillary revenue is recognized when contractually earned. Revenues from operations and maintenance services are recognized when the services are performed. We continually assess the collectibility of our receivables, and in the event we believe a receivable to be uncollectible, an allowance for doubtful accounts is recorded or, in the event of a contractual dispute, the receivable and corresponding revenue may be considered unlikely of recovery and not recorded in the financial statements until management is satisfied that it will be collected.

**Table of Contents**

***Derivative Financial Instruments***

In January 2001, we adopted FAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, or SFAS No. 133, as amended by SFAS No. 137, SFAS No. 138 and SFAS No. 149. SFAS No. 133 requires us to record all derivatives on the balance sheet at fair value. In some cases hedge accounting may apply. The criteria used to determine if hedge accounting treatment is appropriate are a) the designation of the hedge to an underlying exposure, b) whether or not the overall risk is being reduced and c) if there is correlation between the value of the derivative instrument and the underlying obligation. Formal documentation of the hedging relationship, the nature of the underlying risk, the risk management objective, and the means by which effectiveness will be assessed is created at the inception of the hedge. Changes in the fair value of non-hedge derivatives are immediately recognized in earnings. Changes in the fair value of derivatives accounted for as hedges are either recognized in earnings as an offset to the changes in the fair value of the related hedged assets, liabilities and firm commitments or for forecasted transactions, deferred and recorded as a component of accumulated other comprehensive income or OCI, until the hedged transactions occur and are recognized in earnings. We primarily account for derivatives under SFAS No. 133 such as long-term power sales contracts, long-term gas purchase contracts and other energy related commodities and financial instruments used to mitigate variability in earnings due to fluctuations in spot market prices, hedge fuel requirements at generation facilities and to protect investments in fuel inventories. SFAS No. 133 also applies to interest rate swaps and foreign currency exchange rate contracts. The application of SFAS No. 133 results in increased volatility in earnings due to the recognition of unrealized gains and losses. In determining the fair value of these derivative/financial instruments we use estimates, various assumptions, judgment of management and when considered appropriate third party experts in determining the fair value of these derivatives.

***Discontinued Operations***

We classify our results of operations that either have been disposed of or are classified as held for sale as discontinued operations if both of the following conditions are met: (a) the operations and cash flows have been (or will be) eliminated from our ongoing operations as a result of the disposal transaction and (b) we will not have any significant continuing involvement in the operations of the component after the disposal transaction. Prior periods are restated to report the operations as discontinued.

***Pensions***

The determination of our obligation and expenses for pension benefits is dependent on the selection of certain assumptions. These assumptions determined by management include the discount rate, the expected rate of return on plan assets and the rate of future compensation increases. Our actuarial consultants use assumptions for such items as retirement age. The assumptions used may differ materially from actual results, which may result in a significant impact to the amount of pension obligation or expense recorded by us.

***Stock-Based Compensation***

Effective January 1, 2003, we adopted the fair value recognition provisions of SFAS Statement No. 123, *Accounting for Stock-Based Compensation*, or SFAS No. 123. In accordance with SFAS Statement No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, or SFAS No. 148, we adopted SFAS No. 123 under the prospective transition method which requires the application of the recognition provisions to all employee awards granted, modified, or settled after the beginning of the fiscal year in which the recognition provisions are first applied.

***Recent Accounting Developments***

As part of the provisions of SOP 90-7, we are required to adopt, for the current reporting period, all accounting guidance that is effective within a twelve-month period. As a result, we have adopted all provisions of FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities*.

**Table of Contents**

**PART IV**

**Item 15 Exhibits, Financial Statement Schedules and Reports on Form 8-K**

(a)(1) Financial Statements

The following consolidated financial statements of NRG Energy and related notes thereto, together with the reports thereon of PricewaterhouseCoopers LLP are included herein:

Consolidated Statements of Operations Years ended December 31, 2001 and 2002 and for the period January 1, 2003 to December 5, 2003 (Predecessor Company) and the period December 6, 2003 to December 31, 2003 (Reorganized NRG)

Consolidated Balance Sheets December 31, 2002 (Predecessor Company), December 6, 2003 and December 31, 2003 (Reorganized NRG)

Consolidated Statements of Cash Flows Years ended December 31, 2001 and 2002 and for the period January 1, 2003 to December 5, 2003 (Predecessor Company) and the period December 6, 2003 to December 31, 2003 (Reorganized NRG)

Consolidated Statements of Stockholders (Deficit)/ Equity Years ended December 31, 2001 and 2002 and for the period January 1, 2003 to December 5, 2003 (Predecessor Company) and the period December 6, 2003 to December 31, 2003 (Reorganized NRG)

Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedule

The following Consolidated Financial Statement Schedule of NRG Energy is filed as part of Item 15(d) of this report and should be read in conjunction with the Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm on Financial Statement Schedule.

Schedule II Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore, have been omitted.

(a)(3) Exhibits: See Exhibit Index submitted as a separate section of this report.

(b) Reports on Form 8-K. We filed reports on Form 8-K on the following dates over the last fiscal year:

February 21, 2003, March 6, 2003, May 16, 2003, August 27, 2003, October 22, 2003, November 7, 2003, November 19, 2003, December 9, 2003, December 19, 2003, December 24, 2003.

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholder of NRG Energy, Inc.:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, cash flows and stockholders' equity (deficit) present fairly, in all material respects, the financial position of NRG Energy, Inc. and its subsidiaries (Predecessor Company) at December 31, 2002 and the results of their operations and their cash flows for the period from January 1, 2003 to December 5, 2003, and for each of the two years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company filed a petition on May 14, 2003 with the United States Bankruptcy Court for the Southern District of New York for reorganization under the provisions of Chapter 11 of the Bankruptcy Code. NRG Energy, Inc.'s Plan of Reorganization was substantially consummated on December 5, 2003 and Reorganized NRG emerged from bankruptcy. In connection with its emergence from bankruptcy, the Company adopted fresh start accounting.

As discussed in Note 2 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, as of January 1, 2002. As discussed in Notes 2 and 8 to the consolidated financial statements, the Company adopted Statements of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, on January 1, 2002.

As discussed in Note 6 to the consolidated financial statements, during the first quarter of 2004, PERC and Cobee met the criteria for discontinued operations, during the second quarter of 2004, LSP Energy and Hsin Yu met the criteria for discontinued operations and during the third quarter of 2004, NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha LLC and NEO Tajiguas LLC met the criteria for discontinued operations. Accordingly, all periods presented have been restated to present PERC, Cobee, LSP Energy, Hsin Yu and the four NEO Corporation projects as discontinued operations.

As discussed in Note 20 to the consolidated financial statements, the Company revised its segment reporting in 2004 to reflect the realignment of their management team. As a result of these changes, prior period segment disclosures have been recast in a consistent manner.

/s/ PRICEWATERHOUSECOOPERS LLP

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PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota

March 10, 2004, except as to Notes 6, 20, 30, and 31, which are as of December 6, 2004

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of NRG Energy, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows and stockholders' equity present fairly, in all material respects, the financial position of NRG Energy, Inc. and its subsidiaries (Reorganized NRG) at December 6, 2003 and December 31, 2003 and the results of their operations and their cash flows for the period from December 6, 2003 to December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the United States Bankruptcy Court for the Southern District of New York confirmed the NRG Energy, Inc. Plan of Reorganization on November 24, 2003. Confirmation of the plan resulted in the discharge of all claims against the Company that arose before May 14, 2003 and substantially alters rights and interests of equity security holders as provided for in the plan. The NRG Energy, Inc. Plan of Reorganization was substantially consummated on December 5, 2003, and NRG Energy, Inc. emerged from bankruptcy. In connection with its emergence from bankruptcy, NRG Energy, Inc. adopted fresh start accounting as of December 5, 2003.

As discussed in Note 6 to the consolidated financial statements, during the first quarter of 2004, PERC and Cobee met the criteria for discontinued operations, during the second quarter of 2004, LSP Energy and Hsin Yu met the criteria for discontinued operations and during the third quarter of 2004, NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha LLC and NEO Tajiguas LLC met the criteria for discontinued operations. Accordingly, all periods presented have been restated to present PERC, Cobee, LSP Energy, Hsin Yu and the four NEO Corporation projects as discontinued operations.

As discussed in Note 20 to the consolidated financial statements, the Company revised its segment reporting in 2004 to reflect the realignment of their management team. As a result of these changes, prior period segment disclosures have been recast in a consistent manner.

/S/ PRICEWATERHOUSECOOPERS LLP

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PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota

March 10, 2004, except as to Notes 6, 20, 30, and 31, which are as of December 6, 2004

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

	Predecessor Company		Reorganized NRG	
	Year Ended December 31,		January 1, 2003 Through December 5, 2003	
	2001	2002	December 6, 2003 Through December 31, 2003	
(In thousands, except per share amounts)				
<b>Operating Revenues</b>				
Revenues from majority-owned operations	\$ 2,085,350	\$ 1,938,293	\$ 1,798,387	\$ 138,490
<b>Operating Costs and Expenses</b>				
Cost of majority-owned operations	1,375,390	1,332,446	1,355,909	95,541
Depreciation and amortization	140,976	207,027	218,843	11,808
General, administrative and development	187,165	218,852	170,330	12,518
Other charges (credits)				
Legal settlement			462,631	
Fresh start reporting adjustments			(4,118,636)	
Reorganization items			197,825	2,461
Restructuring and impairment charges		2,563,060	237,575	
Total operating costs and expenses	1,703,531	4,321,385	(1,475,523)	122,328
<b>Operating Income/(Loss)</b>	<b>381,819</b>	<b>(2,383,092)</b>	<b>3,273,910</b>	<b>16,162</b>
<b>Other Income/(Expense)</b>				
Minority interest in earnings of consolidated subsidiaries				(134)
Equity in earnings of unconsolidated affiliates	210,032	68,996	170,901	13,521
Write downs and losses on sales of equity method investments		(200,472)	(147,124)	
Other income, net	22,983	11,431	19,209	97
Interest expense	(364,111)	(452,182)	(329,889)	(18,902)
Total other expense	(131,096)	(572,227)	(286,903)	(5,418)
<b>Income/(Loss) From Continuing Operations Before Income Taxes</b>				
Income Tax Expense/(Benefit)	250,723	(2,955,319)	2,987,007	10,744
	40,221	(166,867)	37,929	(661)
<b>Income/(Loss) From Continuing Operations</b>	<b>210,502</b>	<b>(2,788,452)</b>	<b>2,949,078</b>	<b>11,405</b>
<b>Income/(Loss) on Discontinued Operations, net of Income Taxes</b>	<b>54,702</b>	<b>(675,830)</b>	<b>(182,633)</b>	<b>(380)</b>
<b>Net Income/(Loss)</b>	<b>\$ 265,204</b>	<b>\$ (3,464,282)</b>	<b>\$ 2,766,445</b>	<b>\$ 11,025</b>
<b>Weighted Average Number of Common Shares Outstanding Basic</b>				
				<b>100,000</b>
<b>Income From Continuing Operations per Weighted Average Common Share Basic</b>				
				<b>\$ 0.11</b>

<b>Loss From Discontinued Operations per Weighted Average Common Share - Basic</b>	
<b>Net Income per Weighted Average Common Share - Basic</b>	<b>\$ 0.11</b>
<b>Weighted Average Number of Common Shares Outstanding - Diluted</b>	<b>100,060</b>
<b>Income From Continuing Operations per Weighted Average Common Share - Diluted</b>	<b>\$ 0.11</b>
<b>Loss From Discontinued Operations per Weighted Average Common Share - Diluted</b>	
<b>Net Income per Weighted Average Common Shares - Diluted</b>	<b>\$ 0.11</b>

See notes to consolidated financial statements.

**Table of Contents**

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**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	Predecessor Company	Reorganized NRG	
	December 31, 2002	December 6, 2003	December 31, 2003
(In thousands)			
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 360,860	\$ 395,982	\$ 551,223
Restricted cash	211,966	493,047	116,067
Accounts receivable-trade, less allowance for doubtful accounts of \$18,163, \$0 and \$0	257,620	213,479	201,921
Xcel Energy settlement receivable		640,000	640,000
Current portion of notes receivable affiliates	2,442		200
Current portion of notes receivable	52,269	66,628	65,141
Income tax receivable	8,388		
Inventory	254,012	196,236	194,926
Derivative instruments valuation	28,791	161	772
Prepayments and other current assets	133,635	210,541	222,138
Current deferred income tax			1,850
Current assets discontinued operations	238,514	126,576	119,601
<b>Total current assets</b>	<b>1,548,497</b>	<b>2,342,650</b>	<b>2,113,839</b>
<b>Property, Plant and Equipment</b>			
In service	5,692,019	3,876,795	3,885,465
Under construction	611,191	132,003	139,171
<b>Total property, plant and equipment</b>	<b>6,303,210</b>	<b>4,008,798</b>	<b>4,024,636</b>
Less accumulated depreciation	(501,935)		(11,800)
<b>Net property, plant and equipment</b>	<b>5,801,275</b>	<b>4,008,798</b>	<b>4,012,836</b>
<b>Other Assets</b>			
Equity investments in affiliates	884,263	733,862	737,998
Notes receivable, less current portion affiliates	151,552	125,651	130,152
Notes receivable, less current portion	784,432	674,931	691,444
Decommissioning fund investments	4,617	4,787	4,809
Intangible assets, net of accumulated amortization of \$21,618, \$0 and \$5,212	75,131	484,668	432,361
Debt issuance costs, net of accumulated amortization of \$42,411, \$0 and \$454	129,160		74,337
Derivative instruments valuation	90,766	66,442	59,907
Funded letter of credit			250,000
Other assets	14,164	108,744	114,131
Non-current assets discontinued operations	1,412,994	616,796	623,173
<b>Total other assets</b>	<b>3,547,079</b>	<b>2,815,881</b>	<b>3,118,312</b>
<b>Total Assets</b>	<b>\$10,896,851</b>	<b>\$9,167,329</b>	<b>\$9,244,987</b>

See notes to consolidated financial statements.

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

	Predecessor Company	Reorganized NRG	
	December 31, 2002	December 6, 2003	December 31, 2003
(In thousands)			
<b>LIABILITIES AND STOCKHOLDERS EQUITY/(DEFICIT)</b>			
<b>Current Liabilities</b>			
Current portion of long-term debt	\$ 7,001,134	\$ 2,496,754	\$ 801,229
Revolving line of credit	1,000,000		
Short-term debt	30,064	18,645	19,019
Accounts payable trade	539,996	202,402	158,646
Accounts payable affiliates	55,585	13,365	3,092
Accrued income tax		16,431	16,095
Accrued property, sales and other taxes	24,271	27,794	22,301
Accrued salaries, benefits and related costs	16,844	16,718	19,330
Accrued interest	277,116	75,773	8,982
Derivative instruments valuation	13,439	95	429
Creditor pool obligation		1,040,000	540,000
Other bankruptcy settlement		220,000	220,000
Other current liabilities	105,341	136,775	102,861
Current liabilities discontinued operations	765,621	112,688	114,197
Total current liabilities	9,829,411	4,377,440	2,026,181
<b>Other Liabilities</b>			
Long-term debt	781,514	879,686	3,327,782
Deferred income taxes	74,886	144,688	149,493
Postretirement and other benefit obligations	67,495	104,712	105,946
Derivative instruments valuation	91,039	155,709	153,503
Other long-term obligations	145,594	536,682	480,938
Non-current liabilities discontinued operations	602,600	559,560	558,884
Total non-current liabilities	1,763,128	2,381,037	4,776,546
Total liabilities	11,592,539	6,758,477	6,802,727
<b>Minority interest</b>	511	4,852	5,004
<b>Commitments and Contingencies</b>			
<b>Stockholders Equity/(Deficit)</b>			
Class A Common stock; \$.01 par value; 100 shares authorized in 2002; 3 shares issued and outstanding at December 31, 2002			
Common stock; \$.01 par value; 100 shares authorized in 2002; 1 share issued and outstanding at December 31, 2002			
Common stock; \$.01 par value; 500,000,000 shares authorized in 2003; 100,000,000 shares issued and outstanding at December 6, 2003 and December 31, 2003		1,000	1,000
Additional paid-in capital	2,227,692	2,403,000	2,403,429
Retained earnings/(deficit)	(2,828,933)		11,025
Accumulated other comprehensive income (loss)	(94,958)		21,802
Total stockholders equity/(deficit)	(696,199)	2,404,000	2,437,256

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<b>Total Liabilities and Stockholders</b>	<b>Equity/(Deficit)</b>	\$ 10,896,851	\$ 9,167,329	\$ 9,244,987
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See notes to consolidated financial statements.

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

	Predecessor Company		Reorganized NRG	
	Year Ended December 31	Year Ended December 31	January 1, 2003 Through December 5, 2003	December 6, 2003 Through December 31, 2003
	2001	2002		
(In thousands)				
<b>Cash Flows from Operating Activities</b>				
Net income/(loss)	\$ 265,204	\$(3,464,282)	\$ 2,766,445	\$ 11,025
Adjustments to reconcile net income/(loss) to net cash provided by operating activities				
Distributions in excess of (less than) equity earnings of unconsolidated affiliates	(119,002)	(22,252)	(41,472)	2,229
Depreciation and amortization	212,493	286,623	256,700	13,041
Amortization of deferred financing costs	10,668	28,367	17,640	517
Amortization of debt discount/(premium)				1,725
Write downs and losses on sales of equity method investments		196,192	146,938	
Deferred income taxes and investment tax credits	45,556	(230,134)	(1,893)	(3,262)
Unrealized (gains)/losses on derivatives	(13,257)	(2,743)	(34,616)	3,774
Minority interest	6,564	(19,325)	2,177	204
Amortization of out of market power contracts	(54,963)	(89,415)		(13,431)
Restructuring & impairment charges		3,144,509	408,377	
Fresh start reporting adjustments			(3,895,541)	
Gain on sale of discontinued operations		(2,814)	(186,331)	
Cash provided by (used in) changes in certain working capital items, net of effects from acquisitions and dispositions				
Accounts receivable, net	89,523	(15,487)	28,261	18,030
Accounts receivable-affiliates		2,271		
Inventory	(111,131)	42,596	14,128	11,054
Prepayments and other current assets	(36,530)	(58,368)	(36,812)	(9,504)
Accounts payable	(4,512)	278,900	693,663	(40,927)
Accounts payable-affiliates	4,989	47,049	(45,017)	832
Accrued income taxes	(75,132)	44,137	21,244	(1,207)
Accrued property and sales taxes	4,054	27,481	(3,159)	(4,590)
Accrued salaries, benefits, and related costs	15,785	(24,912)	40,690	3,150
Accrued interest	35,637	203,234	158,581	(64,026)
Other current liabilities	82,754	47,692	(22,797)	(510,867)
Other assets and liabilities	(82,686)	10,723	(48,697)	(6,642)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>276,014</b>	<b>430,042</b>	<b>238,509</b>	<b>(588,875)</b>
<b>Cash Flows from Investing Activities</b>				
Acquisitions, net of liabilities assumed	(2,813,117)			
Proceeds from sale of discontinued operations		160,791	18,612	
Proceeds from sale of investments	4,063	68,517	107,174	
Proceeds from sale of turbines			70,717	
(Increase) in trust funds			(13,971)	
Decrease/(increase) in restricted cash	(99,707)	(197,802)	(252,495)	375,272

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Decrease/(increase) in notes receivable	45,091	(209,244)	(1,653)	<b>1,182</b>
Capital expenditures	(1,322,130)	(1,439,733)	(113,502)	<b>(10,560)</b>
Investments in projects	(149,841)	(63,996)	(561)	<b>(2,522)</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>(4,335,641)</b>	<b>(1,681,467)</b>	<b>(185,679)</b>	<b>363,372</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Cash Flows from Financing Activities</b>				
Net borrowings under line of credit agreement	202,000	790,000		
Proceeds from issuance of stock	475,464	4,065		
Proceeds from issuance of corporate units (warrants)	4,080			
Proceeds from issuance of short term debt	622,156			
Capital contributions from parent		500,000		
Proceeds from issuance of long-term debt	3,268,017	1,086,770	39,988	<b>2,450,000</b>
Deferred debt issuance costs			(18,540)	<b>(74,795)</b>
Funded letter of credit				<b>(250,000)</b>
Principal payments on long-term debt	(418,171)	(931,505)	(51,392)	<b>(1,731,932)</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net Cash Provided (Used) by Financing Activities</b>	<b>4,153,546</b>	<b>1,449,330</b>	<b>(29,944)</b>	<b>393,273</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>(3,055)</b>	<b>24,950</b>	<b>(22,276)</b>	<b>(13,562)</b>
<b>Change in Cash from Discontinued Operations</b>	<b>(40,873)</b>	<b>51,267</b>	<b>34,512</b>	<b>1,033</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>49,991</b>	<b>274,122</b>	<b>35,122</b>	<b>155,241</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>36,747</b>	<b>86,738</b>	<b>360,860</b>	<b>395,982</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 86,738</b>	<b>\$ 360,860</b>	<b>\$ 395,982</b>	<b>\$ 551,223</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

See notes to consolidated financial statements.

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY/(DEFICIT)**

	Class A Common		Common		Additional Paid-In Capital	Retained Earnings/ (Deficit)	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders Equity/ (Deficit)
	Stock	Shares	Stock	Shares				
(In thousands)								
<b>Balances at December 31, 2000 (Predecessor Company)</b>	\$ 1,476	147,605	\$ 324	32,396	\$ 1,233,833	\$ 370,145	\$(143,690)	\$ 1,462,088
Net income						265,204		265,204
Foreign currency translation adjustments and other							(41,600)	(41,600)
Deferred unrealized gains, net on derivatives							71,101	71,101
Comprehensive income for 2001								294,705
Capital stock activity:								
Issuance of corporate units/ warrant					4,080			4,080
Tax benefits of stock option exercise					792			792
Issuance of common stock, net of issuance costs of \$23.5 million			185	18,543	475,279			475,464
<b>Balances at December 31, 2001 (Predecessor Company)</b>	\$ 1,476	147,605	\$ 509	50,939	\$ 1,713,984	\$ 635,349	\$(114,189)	\$ 2,237,129
Net loss						(3,464,282)		(3,464,282)
Foreign currency translation adjustments and other							64,054	64,054
Deferred unrealized loss, net on derivatives							(44,823)	(44,823)
Comprehensive loss for 2002								(3,445,051)
Contribution from parent					502,874			502,874
Issuance of common stock			6	591	8,843			8,849
Impact of exchange offer	(1,476)	(147,605)	(515)	(51,530)	1,991			
<b>Balances at December 31, 2002 (Predecessor Company)</b>	\$		\$		\$ 2,227,692	\$(2,828,933)	\$ (94,958)	\$ (696,199)
Net income						2,766,445		2,766,445
Foreign currency translation adjustments and other							127,754	127,754
Deferred unrealized loss, net on derivatives							(31,363)	(31,363)

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Comprehensive income for the period from January 1, 2003 through December 5, 2003								2,862,836
Effects of reorganization				(2,227,692)	62,488	(1,433)		(2,166,637)
Issuance of common stock		1,000	100,000	2,403,000				2,404,000
<b>Balances at December 5, 2003 (Predecessor Company)</b>	\$	\$ 1,000	100,000	\$ 2,403,000	\$	\$		\$ 2,404,000
<b>Net income</b>					11,025			11,025
<b>Foreign currency translation adjustments and other</b>						22,325		22,325
<b>Deferred unrealized loss, net on derivatives</b>						(523)		(523)
<b>Comprehensive income for the period from December 6, 2003 through December 31, 2003</b>								32,827
<b>Compensation expense related to stock option plan</b>				429				429
<b>Balances at December 31, 2003 (Reorganized NRG)</b>	\$	\$ 1,000	100,000	\$ 2,403,429	\$ 11,025	\$ 21,802		\$ 2,437,256

See notes to consolidated financial statements.

**Table of Contents**

**NRG ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Organization**

**General**

We are 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.

We were formed in 1992 as the non-regulated subsidiary of Northern States Power, or NSP, which was itself merged into New Century Energies, Inc. to form Xcel Energy, Inc., or Xcel Energy in 2000. While owned by NSP and later by Xcel Energy, we consistently pursued an aggressive high growth strategy focused on power plant acquisitions, high leverage and aggressive development, including site development and turbine orders. In 2002, a number of factors most notably the aggressive prices paid by us for our acquisitions of turbines, development projects and plants, combined with the overall downturn in the power generation industry, triggered a credit rating downgrade (below investment grade), which in turn, precipitated a severe liquidity situation. 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 our plan of reorganization and the plan became effective on December 5, 2003.

As part of the plan of reorganization, Xcel Energy relinquished its ownership interest 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, the Refinancing Transactions, 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 December 31, 2003, we owned interests in 72 power projects in seven countries having an aggregate generation capacity of approximately 18,200 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 700 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, or West Coast Power. 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. 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. We also own interests in plants having a generation capacity of approximately 3,000 MW in various international markets, including Australia, Europe and Latin America. Our energy marketing subsidiary, NRG Power Marketing, Inc., or PMI began operations in 1998 and is focused on maximizing the value of our North American assets by providing centralized contract origination and 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.

**Table of Contents**

**NRG ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

**The Bankruptcy Case**

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, or the bankruptcy court. During the bankruptcy proceedings, we continued to conduct our business and manage our properties as debtors in possession pursuant to sections 1107(a) and 1108 of the bankruptcy code. Our subsidiaries that own our international operations, and certain other subsidiaries, were not part of these chapter 11 cases or any of the subsequent bankruptcy filings. On November 24, 2003, the bankruptcy court entered an order confirming the NRG plan of reorganization, and the plan became effective on December 5, 2003.

***Events Leading to the Commencement of the Chapter 11 Filing***

Since the 1990 s, we pursued a strategy of growth through acquisitions and later the development of new construction projects. This strategy required significant capital, much of which was satisfied primarily with third party debt. Due to a number of reasons, particularly our aggressive pricing of acquisitions and the overall downturn in the power generation industry, our financial condition deteriorated significantly starting in 2001. During 2002, our senior unsecured debt and our project-level secured debt were downgraded multiple times by rating agencies. In September 2002, we failed to make payments due under certain unsecured bond obligations, which resulted in further downgrades.

As a result of the downgrades, the debt load incurred during the course of acquiring assets, declining power prices, increasing fuel prices, the overall downturn in the power generation industry and the overall downturn in the economy, we experienced severe financial difficulties. These difficulties caused us to, among other things, miss scheduled principal and interest payments due to our corporate lenders and bondholders, be required to prepay for fuel and other related delivery and transportation services and be required to provide performance collateral in certain instances. We also recorded asset impairment charges of approximately \$3.1 billion during 2002, while we were a wholly-owned subsidiary of Xcel Energy, related to various operating projects as well as for projects that were under construction which we had stopped funding and turbines we had purchased for which we no longer had a use.

In addition, our missed payments resulted in cross-defaults of numerous other non-recourse and limited recourse debt instruments and caused the acceleration of multiple debt instruments, rendering such debt immediately due and payable. In addition, as a result of the downgrades, we received demands under outstanding letters of credit to post collateral aggregating approximately \$1.2 billion.

In August 2002, we retained financial and legal restructuring advisors to assist our management in the preparation of a comprehensive financial and operational restructuring. In March 2003, Xcel Energy announced that its board of directors had approved a tentative settlement agreement with us, the holders of most of our long-term notes and the steering committee representing our bank lenders.

We filed two plans of reorganization in connection with our restructuring efforts. The first, filed on May 14, 2003, and referred to as the NRG plan of reorganization, relates to us and the other NRG plan debtors. The second plan, relating to our Northeast and South Central subsidiaries, which we refer to as the Northeast/ South Central plan of reorganization, was filed on September 17, 2003. On November 25, 2003,

**Table of Contents**

**NRG ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the bankruptcy court entered an order confirming the Northeast/ South Central plan of reorganization and the plan became effective on December 23, 2003.

On June 6, 2003, LSP-Nelson Energy LLC and NRG Nelson Turbines LLC filed for protection under chapter 11 of the bankruptcy code and on August 19, 2003, NRG McClain LLC filed for protection under chapter 11 of the bankruptcy code. This annual report does not address the plans of reorganization of these subsidiaries because they are not material to our operations and we expect to sell or otherwise dispose of our interest in each subsidiary subsequent to our reorganization.

The following description of the material terms of the NRG plan of reorganization and the Northeast/ South Central plan of reorganization is subject to, and qualified in its entirety by, reference to the detailed provisions of the NRG plan of reorganization and NRG disclosure statement, and the Northeast/ South Central plan of reorganization and Northeast/ South Central disclosure statement, all of which are available for review upon request.

***NRG Plan of Reorganization***

The NRG plan of reorganization is the result of several months of intense negotiations among us, Xcel Energy and the two principal committees representing our creditor groups, which we refer to as the Global Steering Committee and the Noteholder Committee. A principal component of the NRG plan of reorganization is a settlement with Xcel Energy in which Xcel Energy agreed to make a contribution consisting of cash (and, under certain circumstances, its stock) in the aggregate amount of up to \$640 million to be paid in three separate installments following the effective date of the NRG plan of reorganization. The Xcel Energy settlement agreement resolves any and all claims existing between Xcel Energy and us and/or our creditors and, in exchange for the Xcel Energy contribution, Xcel Energy is receiving a complete release of claims from us and our creditors, except for a limited number of creditors who have preserved their claims as set forth in the confirmation order entered on November 24, 2003.

Under the terms of the Xcel Energy settlement agreement, the Xcel Energy contribution will be or has been paid as follows:

An initial installment of \$238 million in cash was paid on February 20, 2004.

A second installment of \$50 million in cash was paid on February 20, 2004.

A third installment of \$352 million in cash, which Xcel Energy is required to pay on April 30, 2004.

On November 24, 2003, the bankruptcy court issued an order confirming the NRG plan of reorganization, and the plan became effective on December 5, 2003. To consummate the NRG plan of reorganization, we have or will, among other things:

Satisfy general unsecured claims by:

issuing new NRG Energy common stock to holders of certain classes of allowed general unsecured claims; and

making cash payments in the amount of up to \$1.04 billion to holders of certain classes of allowed general unsecured claims of which \$500 million was paid in December 2003, with proceeds of the Refinancing Transactions;

Satisfy certain secured claims by either:

distributing the collateral to the security holder,

selling the collateral and distributing the proceeds to the security holder or

other mutually agreeable treatment; and



**Table of Contents**

**NRG ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Issue to Xcel Energy a \$10 million non-amortizing promissory note which will:

accrue interest at a rate of 3% per annum, and

mature 2.5 years after the effective date of the NRG plan of reorganization.

***Northeast/ South Central Plan of Reorganization***

The Northeast/ South Central plan of reorganization was proposed on September 17, 2003 after we secured the necessary financing commitments. On November 25, 2003, the bankruptcy court issued an order confirming the Northeast/ South Central plan of reorganization and the plan became effective on December 23, 2003. In connection with the order confirming the Northeast/ South Central plan of reorganization, the court entered a separate order which provides that the allowed amount of the bondholders' claims shall equal in the aggregate the sum of (i) \$1.3 billion plus (ii) any accrued and unpaid interest at the applicable contract rates through the date of payment to the indenture trustee plus (iii) the reasonable fees, costs or expenses of the collateral agent and indenture trustee (other than reasonable professional fees incurred from October 1, 2003) plus (iv) \$19.6 million, ratably, for each holder of bonds based upon the current outstanding principal amount of the bonds and irrespective of (a) the date of maturity of the bonds, (b) the interest rate applicable to such bonds and (c) the issuer of the bonds. The settlement further provides that the Northeast/ South Central debtors shall reimburse the informal committee of secured bondholders, the indenture trustee, the collateral agent, and two additional bondholder groups, for any reasonable professional fees, costs or expenses incurred from October 1, 2003 through January 31, 2004 up to a maximum amount of \$2.5 million (including in such amount any post-October 1, 2003 fees already reimbursed), with the exception that the parties to the settlement reserved their respective rights with respect to any additional reasonable fees, costs or expenses incurred subsequent to November 25, 2003 related to matters not reasonably contemplated by the implementation of the settlement of the Northeast/ South Central plan of reorganization.

The creditors of Northeast and South Central subsidiaries are unimpaired by the Northeast/ South Central plan of reorganization. This means that holders of allowed general unsecured claims were paid in cash, in full on the effective date of the Northeast/ South Central plan of reorganization. Holders of allowed secured claims will receive or have received either (i) cash equal to the unpaid portion of their allowed unsecured claim, (ii) treatment that leaves unaltered the legal, equitable and contractual rights to which such unsecured claim entitles the holder of such claim, (iii) treatment that otherwise renders such unsecured claim unimpaired pursuant to section 1124 of the bankruptcy code or (iv) such other, less favorable treatment that is confirmed in writing as being acceptable to such holder and to the applicable debtor.

**Note 2 Summary of Significant Accounting Policies**

***Principles of Consolidation and Basis of Presentation***

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 Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*.

For financial reporting purposes, close of business on December 5, 2003, represents the date of our emergence from bankruptcy. As used herein, the following terms refer to the Company and its operations:

Predecessor Company	The Company, pre-emergence from bankruptcy The Company's operations, January 1, 2001 – December 5, 2003
Reorganized NRG	The Company, post-emergence from bankruptcy The Company's operations, December 6, 2003 – December 31, 2003

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*, or FIN No. 46. FIN No. 46 requires an enterprise's consolidated financial statements to include subsidiaries in which the enterprise has a controlling interest. Historically, that requirement has been applied to subsidiaries in which an enterprise has a majority voting interest, but in many circumstances the enterprise's consolidated financial statements do not include the consolidation of variable interest entities with which it has similar relationships but no majority voting interest. Under FIN No. 46, the voting interest approach is not the approach used to identify the controlling financial interest. The new rule requires that for entities to be consolidated that those assets be initially recorded at their carrying amounts at the date the requirements of the new rule first apply. If determining carrying amounts as required is impractical, then the assets are to be measured at fair value the first date the new rule applies. Any difference between the net amounts of any previously recognized interest in the newly consolidated entity should be recognized as the cumulative effect of an accounting change. In December 2003, the FASB has published a revision to Interpretation 46, or FIN 46R, to clarify some of the provisions of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*, and to exempt certain entities from its requirements. As required by SOP 90-7, we have adopted FIN No. 46R as of the adoption of Fresh Start. In connection with the adoption of FIN No. 46R, we have recorded total assets of \$54.7 million and total liabilities of \$47.5 million as of December 6, 2003 that were previously recorded through equity method investments. The nature of the operations consolidated consisted of hydro power facilities on the East Coast.

The consolidated financial statements include our accounts and operations and those of our subsidiaries in which we have a controlling interest. We account for the operations of LSP-Nelson Energy LLC and NRG Nelson Turbines LLC under the cost method as they are currently in bankruptcy. All significant intercompany transactions and balances have been eliminated in consolidation. Accounting policies for all of our operations are in accordance with accounting principles generally accepted in the United States of America. As discussed in Note 13, we have investments in partnerships, joint ventures and projects. Earnings from equity in international investments are recorded net of foreign income taxes.

***Fresh Start Reporting***

In accordance with Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*, certain companies qualify for fresh start reporting in connection with their emergence from bankruptcy. Fresh start reporting is appropriate on the emergence from chapter 11 if the reorganization value of the assets of the emerging entity immediately before the date of confirmation is less than the total of all post-petition liabilities and allowed claims, and if the holders of existing voting shares immediately before confirmation receive less than 50 percent of the voting shares of the emerging entity. We met these requirements and adopted Fresh Start reporting resulting in the creation of a new reporting entity designated as Reorganized NRG.

The bankruptcy court issued a confirmation order approving our Plan of reorganization on November 24, 2003. Under the requirements of SOP 90-7, the Fresh Start date is determined to be the confirmation date unless significant uncertainties exist regarding the effectiveness of the bankruptcy order. Our Plan of reorganization required completion of the Xcel Energy settlement agreement prior to emergence from bankruptcy. The Xcel Energy settlement agreement was entered into on December 5, 2003. We believe this settlement agreement was a significant contingency and thus delayed the Fresh Start date until the Xcel Energy settlement agreement was finalized on December 5, 2003.

Under the requirements of Fresh Start, we have adjusted our assets and liabilities, other than deferred income taxes, to their estimated fair values as of December 5, 2003. As a result of marking our assets and liabilities to their estimated fair values, we determined that there was a negative reorganization value that was reallocated back to our tangible and intangible assets. Deferred taxes were determined in accordance with SFAS No. 109, *Accounting for Income Taxes*. The net effect of all Fresh Start adjustments resulted in a

**Table of Contents**

**NRG ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

gain of \$3.9 billion (comprised of a \$4.1 billion gain from continuing operations and a \$0.2 billion loss from discontinued operations), which is reflected in the Predecessor Company's results for the period January 1, 2003 through December 5, 2003. The application of the Fresh Start provisions of SOP 90-7 created a new reporting entity having no retained earnings or accumulated deficit.

As part of the bankruptcy process we engaged an independent financial advisor to assist in the determination of our reorganized enterprise value. The fair value calculation was based on management's forecast of expected cash flows from our core assets. Management's forecast incorporated forward commodity market prices obtained from a third party consulting firm. A discounted cash flow calculation was used to develop the enterprise value of Reorganized NRG, determined in part by calculating the weighted average cost of capital of the Reorganized NRG. The Discounted Cash Flow, or "DCF", valuation methodology equates the value of an asset or business to the present value of expected future economic benefits to be generated by that asset or business. The DCF methodology is a forward looking approach that discounts expected future economic benefits by a theoretical or observed discount rate. The independent financial advisor prepared a 30-year cash flow forecast using a discount rate of approximately 11%. The resulting reorganization enterprise value as included in the Disclosure Statement ranged from \$5.5 billion to \$5.7 billion. The independent financial advisor then subtracted our project level debt and made several other adjustments to reflect the values of assets held for sale, excess cash and collateral requirements to estimate a range of Reorganized NRG equity value of between \$2.2 billion and \$2.6 billion.

In constructing our Fresh Start balance sheet upon our emergence from bankruptcy, we used a reorganization equity value of approximately \$2.4 billion, as we believe this value to be the best indication of the value of the ownership distributed to the new equity owners. Our NRG Plan of reorganization provided for the issuance of 100,000,000 shares of NRG common stock to the various creditors resulting in a calculated price per share of \$24.04. Our reorganization value of approximately \$9.1 billion was determined by adding our reorganized equity value of \$2.4 billion, \$3.7 billion of interest bearing debt and our other liabilities of \$3.0 billion. The reorganization value represents the fair value of an entity before liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after restructuring. This value is consistent with the voting creditors and Court's approval of the Plan of Reorganization.

Our Fresh Start adjustments consist primarily of the valuation of our existing fixed assets and liabilities, equity investments and recognition of the value of certain power sales contracts that were deemed to be significantly valuable or burdensome as either intangible assets or liabilities which will be amortized into income over the respective terms of each contract. A description of the adjustments and amounts is provided in Note 3 Emergence from Bankruptcy and Fresh Start Reporting.

A separate plan of reorganization was filed for our Northeast Generating and South Central Generating entities that was confirmed by the bankruptcy court on November 25, 2003, and became effective on December 23, 2003, when the final conditions of the plan were completed. In connection with Fresh Start on December 5, 2003, we continued to consolidate our Northeast Generating and South Central Generating entities, as we believe that we continued to maintain control over the Northeast Generating and South Central Generating facilities through out the bankruptcy process. As previously stated, the Northeast Generating and South Central Generating entities emerged from bankruptcy on December 23, 2003. However, since the creditors received full recovery, the liabilities are not recorded as subject to compromise in the December 6, 2003 balance sheet.

Due to the adoption of the Fresh Start upon our emergence from bankruptcy, the Reorganized NRG 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 therefore not comparable to the financial statements prior to the application of Fresh Start.

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Nature of Operations***

We are 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, which help us, mitigate risk. 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.

***Cash and Cash Equivalents***

Cash and cash equivalents include highly liquid investments (primarily commercial paper) with an original maturity of three months or less at the time of purchase.

***Restricted Cash***

Restricted cash consists primarily of funds held to satisfy the requirements of certain debt agreements and funds held within our projects that are restricted in their use.

***Inventory***

Inventory is valued at the lower of weighted average cost or market and consists principally of fuel oil, spare parts, coal, kerosene, emission allowance credits and raw materials used to generate steam.

***Property, Plant and Equipment***

Property, plant and equipment are stated at cost however impairment adjustments are recorded whenever events or changes in circumstances indicate carrying values may not be recoverable. On December 5, 2003, we recorded adjustments to the property, plant and equipment to reflect such items at fair value in accordance with Fresh Start reporting. A new cost basis was established with these adjustments. Significant additions or improvements extending asset lives are capitalized, while repairs and maintenance that do not improve or extend the life of the respective asset are charged to expense as incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Facilities and equipment	10-60 years
Office furnishings and equipment	3-15 years

The assets and related accumulated depreciation amounts are adjusted for asset retirements and disposals with the resulting gain or loss included in operations.

***Asset Impairments***

Long-lived assets that are held and used are reviewed for impairment whenever events or changes in circumstances indicate carrying values may not be recoverable. Such reviews are performed in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Asset*. An impairment loss is recognized if the total future estimated undiscounted cash flows expected from an asset are less than its carrying value. An impairment charge is measured by the difference between an asset's carrying amount and fair value. Fair values are determined by a variety of valuation methods, including appraisals, sales prices of similar assets and present value techniques.

Investments accounted for by the equity method are reviewed for impairment in accordance with APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. APB Opinion No. 18 requires that a loss in value of an investment that is other than a

temporary decline should be recognized. We

**Table of Contents**

**NRG ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

identify and measure losses in value of equity investments based upon a comparison of fair value to carrying value.

***Discontinued Operations***

Long-lived assets are classified as discontinued operations when all of the required criteria specified in SFAS No. 144 are met. These criteria include, among others, existence of a qualified plan to dispose of an asset, an assessment that completion of a sale within one year is probable and approval of the appropriate level of management and board of directors. Discontinued operations are reported at the lower of the asset's carrying amount or fair value less cost to sell.

***Capitalized Interest***

Interest incurred on funds borrowed to finance projects expected to require more than three months to complete is capitalized. Capitalization of interest is discontinued when the asset under construction is ready for its intended use or when a project is terminated or construction ceased. Capitalized interest was approximately \$27.2 million, \$64.8 million, \$15.9 thousand and \$1.5 thousand in 2001, 2002, 2003 Predecessor Company and 2003 Reorganized NRG, respectively.

***Capitalized Project Costs***

Development costs and capitalized project costs include third party professional services, permits, and other costs that are incurred incidental to a particular project. Such costs are expensed as incurred until an acquisition agreement or letter of intent is signed, and our Board of Directors has approved the project. Additional costs incurred after this point are capitalized. When a project begins operation, previously capitalized project costs are reclassified to equity investments in affiliates or property, plant and equipment and amortized on a straight-line basis over the lesser of the life of the project's related assets or revenue contract period. Capitalized costs are charged to expense if a project is abandoned or management otherwise determines the costs to be unrecoverable.

***Debt Issuance Costs***

Debt issuance costs are capitalized and amortized as interest expense on a basis, which approximates the effective interest method over the terms of the related debt.

***Goodwill and Intangible Assets***

Goodwill represents the excess of the purchase price of net tangible and intangible assets acquired in business combinations over their estimated fair value. Effective January 1, 2002, we implemented SFAS No. 142, *Goodwill and Other Intangible Assets* or SFAS No. 142. Pursuant to SFAS No. 142, goodwill is not amortized but is subject to periodic impairment testing. Prior to 2002, goodwill was amortized on a straight-line basis over 20 to 30 years.

Intangible assets represent contractual rights held by us. Intangible assets are amortized over their economic useful life and reviewed for impairment on a periodic basis. Non-amortized intangible assets, including goodwill, are tested for impairment annually and on an interim basis if an event or circumstance occurs between annual tests that might reduce the fair value of that asset.

***Income Taxes***

The Predecessor Company's income tax provision for the period January 1, 2003 through December 5, 2003 has been recorded on the basis that separate federal income tax returns will be filed. The Reorganized NRG's income tax provision for the period December 6, 2003 through December 31, 2003 has been recorded



**Table of Contents**

**NRG ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

on the basis that we and our U.S. subsidiaries will reconsolidate for federal income tax purposes as of December 6, 2003. The income tax provision for the year ended December 31, 2002 has been recorded on the basis that we and our U.S. subsidiaries have filed a consolidated federal income tax return for the period January 1, 2002 through June 3, 2002 and filed separate federal income tax returns for the remainder of 2002.

The Predecessor Company's income taxes have been recorded on the basis that Xcel Energy has not included us in its consolidated federal income tax return following Xcel Energy's acquisition of our public shares on June 3, 2002. Since we and our U.S. subsidiaries will not be included in the Xcel Energy consolidated tax group, each of our U.S. subsidiaries that is classified as a corporation for U.S. income tax purposes must file a separate federal income tax return for the periods ended December 31, 2002 and December 5, 2003.

The Reorganized NRG is no longer owned by Xcel Energy and thus, no longer included in the Xcel Energy affiliated group. The change in ownership allows us to file a consolidated federal income tax return with our U.S. subsidiaries starting on December 6, 2003.

Deferred income taxes are recognized for the tax consequences in future years of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Income tax expense is the tax payable for the period and the change during the period in deferred tax assets and liabilities. A valuation allowance is recorded to reduce deferred tax assets to the amount more likely than not to be realized.

***Revenue Recognition***

We are primarily an electric generation company, operating a portfolio of majority-owned electric generating plants and certain plants in which our ownership interest is 50% or less and which are accounted for under the equity method. In connection with our electric generation business, we also produce thermal energy for sale to customers, principally through steam and chilled water facilities. We also collect methane gas from landfill sites, which are used for the generation of electricity. In addition, we sell small amounts of natural gas and oil to third parties.

Electrical energy revenue is recognized upon delivery to the customer. In certain markets, which are operated/controlled by an independent system operator and in which we have entered into a netting agreement with the ISO, which results in our receiving a netted invoice, we have recorded purchased energy as an offset against revenues received upon the sale of such energy. Capacity and ancillary revenue is recognized when contractually earned. Disputed revenues are not recorded in the financial statements until disputes are resolved and collection is assured.

Revenue from long-term power sales contracts that provide for higher pricing in the early years of the contract are recognized in accordance with Emerging Issues Task Force Issue No. 91-6, *Revenue Recognition of Long Term Power Sales Contracts*. This results in revenue deferrals and recognition on a levelized basis over the term of the contract.

We provide contract operations and maintenance services to some of our non-consolidated affiliates. Revenue is recognized as contract services are performed.

We recognize other income for interest income on loans to our non-consolidated affiliates, as the interest is earned and realizable.

***Foreign Currency Translation and Transaction Gains and Losses***

The local currencies are generally the functional currency of our foreign operations. Foreign currency denominated assets and liabilities are translated at end-of-period rates of exchange. Revenues, expenses and

**Table of Contents**

**NRG ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

cash flows are translated at weighted-average rates of exchange for the period. The resulting currency translation adjustments are accumulated and reported as a separate component of stockholders' equity and are not included in the determination of the results of operations. Foreign currency transaction gains or losses are reported in results of operations. We recognized foreign currency transaction gains (losses) of \$1.8 million, \$(10.4) million, \$(19.8) million and \$0.4 million in 2001, 2002, 2003 Predecessor Company and 2003 Reorganized NRG, respectively.

***Concentrations of Credit Risk***

Financial instruments, which potentially subject us to concentrations of credit risk, consist primarily of cash, accounts receivable, notes receivable and investments in debt securities. Cash accounts are generally held in Federally insured banks. Accounts receivable, notes receivable and derivative instruments are concentrated within entities engaged in the energy industry. These industry concentrations may impact our overall exposure to credit risk, either positively or negatively, in that the customers may be similarly affected by changes in economic, industry or other conditions. Receivables are generally not collateralized; however, we believe the credit risk posed by industry concentration is offset by the diversification and creditworthiness of our customer base.

***Fair Value of Financial Instruments***

The carrying amount of cash and cash equivalents, receivables, accounts payables, and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying amounts of long-term receivables approximate fair value, as the effective rates for these instruments are comparable to market rates at year-end, including current portions. The fair value of long-term debt is estimated based on quoted market prices for those instruments which are traded or on a present value method using current interest rates for similar instruments with equivalent credit quality.

***Pensions***

The determination of our obligation and expenses for pension benefits is dependent on the selection of certain assumptions. These assumptions determined by management include the discount rate, the expected rate of return on plan assets and the rate of future compensation increases. Our actuarial consultants use assumptions for such items as retirement age. The assumptions used may differ materially from actual results, which may result in a significant impact to the amount of pension obligation or expense recorded by us.

***Stock Based Compensation***

During the fourth quarter of 2003, in accordance with SFAS Statement No. 148, *Accounting for Stock-Based Compensation: Transition and Disclosure*, we adopted SFAS No. 123 under the prospective transition method which requires the application of the recognition provisions to all employee awards granted, modified, or settled after the beginning of the fiscal year in which the recognition provisions are first applied. As a result, we applied the fair value recognition provisions of SFAS No. 123 as of January 1, 2003. As discussed in Note 18, we recognized compensation expense for the grants issued under the Long-Term Incentive Plan.

***Net Income Per Share***

Basic net income per share is calculated based on the weighted average of common shares outstanding during the period. Net income per share, assuming dilution is computed by dividing net income by the weighted average number of common and common equivalent shares outstanding. Our only common equivalent shares are those that result from dilutive common stock options and restricted stock.

**Table of Contents**

**NRG ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

In recording transactions and balances resulting from business operations, we use estimates based on the best information available. Estimates are used for such items as plant depreciable lives, tax provisions, un-collectible accounts, actuarially determined benefit costs and the valuation of long-term energy commodities contracts, among others. In addition, estimates are used to test long-lived assets for impairment and to determine fair value of impaired assets. As better information becomes available (or actual amounts are determinable), the recorded estimates are revised. Consequently, operating results can be affected by revisions to prior accounting estimates.

***Reclassifications***

Certain prior-year amounts have been reclassified for comparative purposes. These reclassifications had no effect on our net income or total stockholders' equity as previously reported.

***Recent Accounting Developments***

As part of the provisions of SOP 90-7, we are required to adopt, for the current reporting period, all accounting guidance that is effective within a twelve-month period. As a result, we have adopted all provisions of FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities*.

**Note 3 Emergence from Bankruptcy and Fresh Start Reporting**

In accordance with the requirements of SOP 90-7, we determined the reorganization value of NRG and subsidiaries emerging from bankruptcy to be approximately \$9.1 billion. Reorganization value generally approximates fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the restructuring. Several methods are used to determine the reorganization value; however, generally it is determined by discounting future cash flows for the reconstituted business that will emerge from chapter 11 bankruptcy. Our approach was consistent in that our independent financial advisor's estimated reorganization enterprise value of our ongoing projects using a discounted cash flow approach.

We allocated the reorganization value of \$9.1 billion to our assets in conformity with the procedures specified by SFAS No. 141. We used a third party to complete an independent appraisal of our tangible assets, equity investments and intangible assets and contracts. In completing the fair value allocation our assets were calculated to be greater than the reorganization value. As a result, we reallocated the negative reorganization value to our tangible and intangible assets in accordance with SFAS No. 141. In preparing our balance sheet we also recorded each liability existing at the plan confirmation date, other than deferred taxes, at the present value of amounts to be paid determined at appropriate current interest rates. Deferred taxes were reported in conformity with generally accepted accounting principles under SFAS No. 109. Our equity was recorded at approximately \$2.4 billion representing a price per share of \$24.04 for the issuance of 100,000,000 shares of common stock with bankruptcy emergence. We pushed down the effects of fresh start reporting to all of our subsidiaries.

In constructing our Fresh Start balance sheet using our reorganization value upon our emergence from bankruptcy we used a reorganization equity value of approximately \$2.4 billion, as we believe this value to be the best indication of the value of the ownership distributed to the new equity owners. Accordingly, our

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

reorganization value of \$9.1 billion was determined by adding our reorganized equity value of \$2.4 billion, \$3.7 billion of interest bearing debt and our other liabilities of \$3.0 billion. This value is consistent with the voting creditors and Court's approval of the Plan of Reorganization.

The determination of the enterprise value and the allocations to the underlying assets and liabilities were based on a number of estimates and assumptions, which are inherently subject to significant uncertainties and contingencies.

We recorded approximately \$3.9 billion of net reorganization income (comprised of a \$4.1 billion gain from continuing operations and a \$0.2 billion loss from discontinued operations) in the Predecessor Company's statement of operations for 2003, which includes the gain on the restructuring of debt and equity and the discharge of obligations subject to compromise for less than recorded amounts, as well as adjustments to the historical carrying values of our assets and liabilities to fair market value.

Due to the adoption of Fresh Start as of December 5, 2003, the Reorganized NRG 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 and the Predecessor Company. The effects of the reorganization and Fresh Start on our balance sheet as of December 5, 2003, were as follows (in thousands):

	<b>Predecessor Company December 5, 2003</b>	<b>Debt Discharge and Exchange of Stock</b>	<b>Fresh Start Adjustments</b>		<b>Consolidation</b>	<b>Reorganized NRG December 6, 2003</b>
<b>Current Assets</b>						
Cash and cash equivalents	\$ 396,018	\$ (1,728)(B)	\$	\$	\$ 1,692 (T)	\$ 395,982
Restricted cash	489,383	1,732 (B)			1,932 (T)	493,047
Accounts receivable trade, net	208,677		(2)(B)	3,627 (J)	1,177 (T)	213,479
Accounts receivable affiliates	41,259		819 (B)	(42,078)(J)		
Xcel Energy settlement receivable		640,000 (A)				640,000
Current portion of notes receivable	66,628					66,628
Inventory	233,185		(25,945)(K)	(11,004)(L)		196,236
Derivative instruments valuation	161					161
Prepayments and other current assets	156,785	(25,855)(B)	(7,309)(M)	85,873 (J)	1,047 (T)	210,541
Current assets discontinued operations	126,188		(1,241)(K)	1,629 (J)		126,576
<b>Total current assets</b>	<b>1,718,284</b>	<b>614,149</b>	<b>(33,678)</b>	<b>38,047</b>	<b>5,848</b>	<b>2,342,650</b>
<b>Property, Plant and Equipment</b>						
Net property, plant and equipment	5,247,375		(1,153,101)(I)	(132,128)(J)	46,652 (T)	4,008,798

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Predecessor Company December 5, 2003</b>	<b>Debt Discharge and Exchange of Stock</b>	<b>Fresh Start Adjustments</b>		<b>Consolidation</b>	<b>Reorganized NRG December 6, 2003</b>
<b>Other Assets</b>						
Equity investments in affiliates	956,757		(216,029)(C)	14 (J)	(6,880)(T)	733,862
Notes receivable, less current portion affiliates	164,987		(39,336)(P)			125,651
Notes receivable, less current portion	752,847	(155,477)(D)	77,862 (P)		(301)(T)	674,931
Decommissioning fund investments	4,787					4,787
Intangible assets, net	70,275		437,222 (O)	(22,829)(I)		484,668
Debt issuance costs, net	67,045		(67,045)(P)			
Derivative instruments valuation	66,442					66,442
Other assets	14,122		(37,891)(P)	98,857 (J)	2,170 (T)	108,744
				31,486 (J)		
Non-current assets discontinued operations	826,715		(209,919)(P)			616,796
<b>Total other assets</b>	<b>2,923,977</b>	<b>(155,477)</b>	<b>(55,136)</b>	<b>107,528</b>	<b>(5,011)</b>	<b>2,815,881</b>
<b>Total Assets</b>	<b>\$ 9,889,636</b>	<b>\$ 458,672</b>	<b>\$(1,241,915)</b>	<b>\$ 13,447</b>	<b>\$47,489</b>	<b>\$9,167,329</b>
<b>Current Liabilities</b>						
Current portion of long-term debt	\$ 1,433,551	\$ (155,477)(D)	\$ (89,182)(P)	\$ 1,307,249 (Q)	\$ 613 (T)	\$2,496,754
Short-term debt			18,645 (P)			18,645
Accounts payable trade	299,340	(101,632)(E)	(805)(N)	5,499 (J)		202,402
Accounts payable affiliates	17,834	(2,308)(B)	(5,192)(N)	2,995 (J)	36 (T)	13,365
Accrued income tax	19,303		(7,127)(M)	4,255 (J)		16,431
Accrued property, sales and other taxes	30,180		(5,942)(B)	3,556 (J)		27,794
Accrued salaries, benefits and related costs	14,194			2,519 (J)	5 (T)	16,718
Accrued interest	76,485	(2,464)(B)		1,631 (J)	121 (T)	75,773
Derivative instruments valuation	95					95
Creditor pool obligation		1,040,000 (F)				1,040,000
Other bankruptcy settlement		220,000 (F)				220,000
Other current liabilities	135,274	57 (F)	11,800 (O)	(10,770)(J)	413 (T)	136,774
Current liabilities discontinued operations	164,362		(51,679)(J)	6 (J)		112,689
<b>Total current liabilities</b>	<b>2,190,618</b>	<b>998,176</b>	<b>(129,482)</b>	<b>1,316,940</b>	<b>1,188</b>	<b>4,377,440</b>
<b>Other Liabilities</b>						
Long-term debt	849,192	10,000 (G)	(21,869)(P)	303 (J)	42,060 (T)	879,686
Deferred income taxes	146,120		(13,973)(M)	12,541 (J)		144,688

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Postretirement and other benefit obligations	44,601	(1,118)(B)	64,067 (R)	(2,838)(J)		104,712
Derivative instruments valuation	53,082			102,627 (J)		155,709
Other long-term obligations	146,761	763 (B)	488,218 (O)	(99,060)(J)		536,682
Non-current liabilities discontinued operations	558,194		1,366 (M)			559,560
<b>Total non-current liabilities</b>	<b>1,797,950</b>	<b>9,645</b>	<b>517,809</b>	<b>13,573</b>	<b>42,060</b>	<b>2,381,037</b>
<b>Total liabilities not subject to compromise</b>	<b>3,988,568</b>	<b>1,007,821</b>	<b>388,327</b>	<b>1,330,513</b>	<b>43,248</b>	<b>6,758,477</b>
<b>Total liabilities subject to compromise</b>	<b>7,658,071</b>	<b>(6,278,547)(H)</b>	<b>(1,367)(J)</b>	<b>(1,378,157)(Q)</b>		
<b>Total liabilities</b>	<b>11,646,639</b>	<b>(5,270,726)</b>	<b>386,960</b>	<b>(47,644)</b>	<b>43,248</b>	<b>6,758,477</b>
Minority interest	611				4,241 (T)	4,852

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Predecessor Company December 5, 2003</b>	<b>Debt Discharge and Exchange of Stock</b>	<b>Fresh Start Adjustments</b>		<b>Consolidation</b>	<b>Reorganized NRG December 6, 2003</b>
Commitments and Contingencies						
Stockholders' Equity/ Deficit						
Class A Common stock; \$.01 par value; 100 shares authorized in 2002; 3 shares issued and outstanding at December 31, 2002	1	(1)(S)				
Common stock; \$.01 par value; 100 authorized in 2002; 1 share issued and outstanding at December 31, 2002						
Common stock; \$.01 par value; 500,000,000 authorized in 2003; 100,000,000 shares issued and outstanding at December 6, 2003		1,000 (H)				1,000
Additional paid-in capital	2,227,691	2,403,000 (H)	(2,227,691)(S)			2,403,000
Retained earnings/deficit	(3,986,739)		3,924,215 (S)	62,524 (S)		
Accumulated other comprehensive income (loss)	1,433			(1,433)(S)		
<b>Total stockholders' equity/(deficit)</b>	<b>(1,757,614)</b>	<b>2,403,999</b>	<b>1,696,524</b>	<b>61,091</b>		<b>2,404,000</b>
<b>Total Liabilities and Stockholders' Equity/ Deficit</b>	<b>\$ 9,889,636</b>	<b>\$(2,866,727)</b>	<b>\$ 2,083,484</b>	<b>\$ 13,447</b>	<b>\$ 47,489</b>	<b>\$ 9,167,329</b>

(A) Represents a \$640.0 million receivable from Xcel Energy that relates to the Xcel Energy Settlement Agreement. \$288.0 million was paid on February 20, 2004 in cash and \$352.0 million will be paid on April 30, 2004.

(B) Adjustments to assets and liabilities resulting from the NRG Energy bankruptcy settlement.

(C) Includes the adjustment of carrying amount of Investments in Projects to fair market value as determined by independent appraisers.

(D) The NRG Energy bankruptcy settlement included the liquidation of NRG FinCo. As a result, the NRG FinCo creditors obtained a perfected first priority security interest in all of LSP Pike Energy LLC assets, making the Mississippi Industrial Revenue Bonds owed by LSP Pike Energy LLC worthless.

(E) Includes \$103.0 million discharge of obligations related to LSP Pike Energy LLC settlement with Shaw Constructors, Inc.

(F) Includes the establishment of a creditors pool and the FinCo lender settlement:

Creditor installment payments	\$ 515.0
Establishment of plan of reorganization liability	500.0
Contingency payment	25.0
FinCo lender settlement (see note 24)	220.0

Total other current liabilities

\$1,260.0

- (G) Represents NRG Energy Promissory Note owed to Xcel Energy, due June 5, 2006 with a stated interest rate of 3.0%
- (H) Represents the elimination of approximately \$5.2 billion of corporate level bank and bond debt and approximately \$1.1 billion of additional claims and disputes by distributing a combination of equity and up to \$1.04 billion in cash among our unsecured creditors. Upon reorganization we issued 100 million shares of NRG common stock at \$24.04 per share.

59

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**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (I) Result of allocating the reorganization value in conformity with the purchase method of accounting for business combinations. These allocations were based on valuations obtained from independent appraisers.
- (J) Adoption of Fresh Start Reporting and reinstatement of miscellaneous liabilities subject to compromise.
- (K) Accounting policy change upon adoption of fresh start reporting. Consumables are no longer included as inventory and are expensed as incurred.
- (L) Accounting policy change upon adoption of fresh start reporting. Capital spares were reclassified from inventory to Property Plant and Equipment.
- (M) Records income taxes of the Company based on the guidance provided in the Statement of Financial Accounting Standards No. 109 and SOP 90-7.
- (N) Adjust assets and liabilities to reflect management's estimate, with the assistance of independent specialists, of the fair value.
- (O) Reflects management's estimate, with the assistance of independent appraisers, of the fair value of power purchase agreements and SO(2) emission credits. Management identified certain power purchase agreements that were either significantly valuable or significantly burdensome as compared to our market expectations. The predecessor goodwill and intangibles were written off. Our guarantees were reviewed for the requirement to recognize a liability at inception. As a result, we recorded a \$15.0 million liability. In addition, our Asset Retirement Obligation or ARO was revalued.

SO(2) emission credits	\$ 373.5
Valuable contracts	111.2
Predecessor intangible	(47.5)
	<hr/>
Total Intangible	\$437.2
	<hr/>
Burdensome contracts	\$ 15.1
Other valuations adjustments	(3.3)
	<hr/>
Total other current liabilities	\$ 11.8
	<hr/>
Burdensome contracts	\$467.2
Other valuations adjustments	21.0
	<hr/>
Total other long-term obligations	\$488.2
	<hr/>

- (P) Reflects management's estimate, based on current market interest rates as of December 5, 2003, of the fair value of notes receivable, notes payable and other debt instruments.
- (Q) Reclassification of subject to compromise liabilities due to emergence from bankruptcy consists primarily of the debt held at our Northeast and South Central subsidiaries of \$1.3 billion. The remaining amounts were reclassified to current liabilities.
- (R) Adjustment to post-retirement and other benefit obligations in order to reflect the accumulated benefit obligation liability based on independent actuarial reports. The pension and welfare plans were assumed from Xcel Energy without the transfer of assets.

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- (S) Reflects the cancellation of the Predecessor Company's common stock and the elimination of the retained deficit and the accumulated other comprehensive loss.
- (T) As required by SOP 90-7, we have adopted FASB Interpretation No. 46 Consolidation of Variable Interest Entities, or FIN 46, as of the adoption of Fresh Start. The adoption of FIN 46 resulted in the consolidation of Northbrook New York, LLC and Northbrook Energy, LLC.

APB No. 18, *The Equity Method of Accounting for Investments in Common Stock*, requires us to effectively push down the effects of Fresh Start reporting to our unconsolidated equity method investments and to recognize an adjustment to our share of the earnings or losses of an investee as if the investee was a consolidated subsidiary. As a result of pushing down the impact of Fresh Start to our West Coast Power

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

affiliate we determined that a contract based intangible asset with a one year remaining life, consisting of the value of West Coast Power's California Department of Water Resources energy sales contract, must be established and recognized as a basis adjustment to our share of the future earnings generated by West Coast Power. This adjustment will reduce our equity earnings in the amount of approximately \$10.4 million per month during 2004 until the contract expires in December 2004.

**Note 4 Financial Instruments**

The estimated fair values of our recorded financial instruments are as follows:

	Predecessor Company		Reorganized NRG			
	December 31, 2002		December 6, 2003		December 31, 2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)					
Cash and cash equivalents	\$ 360,860	\$ 360,860	\$ 395,982	\$ 395,982	\$ 551,223	\$ 551,223
Restricted cash	211,966	211,966	493,047	493,047	116,067	116,067
Notes receivable, including current portion	990,695	990,695	867,210	867,210	886,937	886,937
Long-term debt, including current portion	7,782,648	5,491,081	3,376,440	3,376,440	4,129,011	4,186,136

For cash and cash equivalents and restricted cash, the carrying amount approximates fair value because of the short-term maturity of those instruments. The fair value of notes receivable is based on expected future cash flows discounted at market interest rates. The fair value of long-term debt is estimated based on quoted market prices for those instruments which are traded or on a present value method using current interest rates for similar instruments with equivalent credit quality.

**Note 5 Debtors Statements**

As stated above, we and certain of our subsidiaries filed voluntary petitions for reorganization under chapter 11 of the Bankruptcy Code during 2003. On December 5, 2003, we and five of our subsidiaries emerged from bankruptcy. As of the respective bankruptcy filing dates, the Debtors' financial records were closed for the Prepetition Period. As required by SOP 90-7 *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*, below are the condensed combined financial statements of our remaining Debtors since the date of the bankruptcy filings, the Debtors' Statements.

The Debtors' Statements consist of the following wholly-owned consolidated entities which remained in bankruptcy as of December 6, 2003: Arthur Kill Power LLC, Astoria Gas Turbine Power LLC, Berrians I Gas Turbine Power, LLC, Big Cajun II Unit 4 LLC, Connecticut Jet Power LLC, Devon Power LLC, Dunkirk Power LLC, Huntley Power LLC, Louisiana Generating LLC, LSP-Nelson Energy LLC, Middletown Power LLC, Montville Power LLC, Northeast Generation Holding LLC, Norwalk Power LLC, NRG Central US LLC, NRG Eastern LLC, NRG McClain LLC, NRG Nelson Energy LLC, NRG New Roads Holdings LLC, NRG Northeast Generating LLC, NRG South Central Generating LLC, Oswego Harbor Power LLC, Somerset Power LLC, and South Central Generation Holding LLC. As of December 31, 2003, three entities remain in bankruptcy. Two entities have been deconsolidated and accounted for under the cost method because we have effectively lost control of those entities including NRG Nelson Turbine, LLC and LSP-Nelson Energy LLC. The other entity, NRG McClain LLC, is shown as a discontinued operation since it was held for sale prior to filing for bankruptcy.

Table of Contents

## NRG ENERGY, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Debtors Condensed Combined Statement of Operations

	For the Period May 15, 2003 December 5, 2003
	<u>(In thousands)</u>
Operating revenue	\$ 731,413
Operating costs and expenses	620,199
Fresh start reporting adjustments asset write-downs, net	1,244,016
Reorganization items	27,158
Restructuring and impairment charges	23,359
	<u>                    </u>
Operating loss	(1,183,319)
Other expense	(160,246)
	<u>                    </u>
Net loss	\$ (1,343,565)
	<u>                    </u>

## Debtors Condensed Combined Balance Sheet

	December 6, 2003
	<u>(In thousands)</u>
<b>ASSETS</b>	
Cash	\$ 16,421
Accounts receivables-trade	38,018
Accounts receivables, non-Debtor affiliates	31,019
Inventory	150,618
Current portion of notes receivable	1,500
Other current assets	183,433
	<u>                    </u>
Total current assets	421,009
Property, plant and equipment, net	1,829,118
Investment in non-Debtors	573
Intangible assets, net	335,851
Other assets	191,257
	<u>                    </u>
Total assets	\$2,777,808
	<u>                    </u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>	
Accounts payable-trade	\$ 18,809
Debt Obligation	1,307,250
Other current liabilities	74,143
	<u>                    </u>
Total current liabilities	1,400,202
	<u>                    </u>
Other long-term obligations	715,454

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Total stockholders' equity	<u>662,152</u>
Total liabilities and stockholders' equity	<u>\$2,777,808</u>

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Debtors Condensed Combined Statement of Cash Flows**

	<b>For the Period May 15, 2003 December 5, 2003</b>
	<b>(In thousands)</b>
Net cash provided by operating activities	\$ 65,951
Net cash used by investing activities	(72,667)
Net cash used by financing activities	
Net increase in cash and cash equivalents	(6,716)
Cash and cash equivalents at beginning of period	23,137
	<hr/>
Cash and cash equivalents at end of period	\$ 16,421
	<hr/>

**Note 6 Discontinued Operations**

SFAS No. 144 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, bids and offers related to those assets and businesses. This amount is included in income/(loss) on discontinued operations, net of income taxes in the accompanying Statement of Operations. In accordance with the provisions of 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.

Summarized results of operations of the discontinued operations were as follows. For the years ended December 31, 2001 and December 31, 2002, discontinued results of operations included our Crockett Cogeneration, Bulo Bulu, Csepel, Entrade, Killingholme, NLGI, McClain, TERI, NEO Corporation projects, Cahua, Energia Pacasmayo, PERC, Cobee, LSP Energy and Hsin Yu. For the period from January 1, 2003 to December 5, 2003, discontinued results of operations include our Killingholme, McClain, NLGI, NEO Corporation projects, TERI, Cahua, Energia Pacasmayo, PERC, Cobee, LSP Energy and Hsin Yu projects. For the period December 6, 2003 to December 31, 2003, discontinued results of operations include our McClain, PERC, Cobee, LSP Energy and Hsin Yu projects. During the first quarter 2004 we determined that PERC and Cobee met the criteria for discontinued operations, accordingly all periods presented have been restated. During the second quarter 2004 we determined that LSP Energy and Hsin Yu met the criteria for discontinued operations, accordingly all periods presented have been restated. During the third quarter of 2004 we determined that NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha LLC and NEO

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Tajiguas LLC met the criteria for discontinued operations, accordingly all periods presented have been restated.

Description	Predecessor Company		Reorganized NRG	
	Year Ended December 31,		For the Period January 1 December 5,	For the Period December 6 December 31,
	2001	2002	2003	2003
	(In thousands)			
Operating revenues	\$ 713,258	\$ 982,263	\$ 263,404	\$ 19,195
Operating and other expenses	665,372	1,670,709	619,714	19,565
Pre-tax income/(loss) from operations of discontinued components	47,886	(688,446)	(356,310)	(370)
Income tax expense/(benefit)	(6,816)	(6,810)	(21,868)	10
Income/(loss) from operations of discontinued components	54,702	(681,636)	(334,442)	(380)
Disposal of discontinued components pre-tax gain (net)		2,814	151,809	
Income tax benefit		(2,992)		
Disposal of discontinued components gain (net)		5,806	151,809	
Net income/(loss) on discontinued operations	\$ 54,702	\$ (675,830)	\$ (182,633)	\$ (380)

Operating and other expenses for 2001 and 2002 shown in the table above included asset impairment charges of \$0 and approximately \$502.0 million, respectively. The 2002 charges are comprised of approximately \$477.9 million for the Killingholme project, \$121.9 million for the Hsin Yu project, \$64.7 million for the Batesville turbine project, \$12.4 million for the NEO Landfill Gas, Inc. project and \$11.7 million for the TERI project. Operating and other expenses for 2003 include asset impairment charges of approximately \$124.3 million, comprised of approximately \$100.7 million for McClain and \$23.6 million for NLGI.

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of income tax benefit attributable to discontinued operations were as follows:

Discontinued Operations:	Predecessor Company		Reorganized NRG
	Year Ended December 31,	For the Period January 1 December 5,	For the Period December 6 December 31,
	2001	2002	2003
(In thousands)			
Current			
U.S.	\$ 509	\$ 935	\$ (6)
Foreign	(2,876)	(5,126)	(831)
	(2,367)	(4,191)	(837)
Deferred			
U.S.	(45)	(1,947)	
Foreign	9,439	(672)	(21,031)
	9,394	(2,619)	(21,031)
Section 29 tax credits	(13,843)		
	(6,816)	(6,810)	(21,868)
Disposal of discontinued components gain (net)			
U.S.		(2,992)	
Foreign			
		(2,992)	
Total income tax expense/(benefit)	\$ (6,816)	\$ (9,802)	\$ (21,868)
	\$ 10		\$ 10

The assets and liabilities of the discontinued operations are reported in the December 31, 2003, December 6, 2003 and December 31, 2002 balance sheets as discontinued operations. The major classes of assets and liabilities are presented by geographic area in the following table. As of December 6, 2003 and December 31, 2003, within our Wholesale Power Generation Other North America segment, the PERC, McClain and LSP Energy projects are included, the Cobee and Hsin Yu projects are included in the All Other Wholesale Power Generation Other International category and the NEO Corporation projects are included in the All Other Alternative Energy category. As of December 31, 2002, within our Wholesale Power Generation Other North America segment, the PERC, McClain and LSP Energy projects are included, the Killingholme, Cahua, Pacasmayo, Cobee and Hsin Yu projects are included in the All Other Wholesale Power Generation

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Other International category and the NEO Corporation and TERI projects are included in the All Other Alternative Energy category.

**Reorganized NRG**

	December 6, 2003				December 31, 2003			
	Wholesale Power Generation	All Other			Wholesale Power Generation	All Other		
	Other North America	Wholesale Power Generation	Alternative Energy	Total	Other North America	Wholesale Power Generation	Alternative Energy	Total
		Other International				Other International		
	(In thousands)							
Cash and cash equivalents	\$ 4,994	\$ 8,597	\$	\$ 13,591	\$ 4,292	\$ 8,264	\$	\$ 12,556
Restricted cash	56,848			56,848	60,292			60,292
Receivables, net	13,193	13,111		26,304	12,676	11,259		23,935
Inventory	14,997	4,359		19,356	8,722	3,538		12,260
Other current assets	3,979	6,442	56	10,477	3,731	6,787	40	10,558
Current assets discontinued operations	\$ 94,011	\$ 32,509	\$ 56	\$ 126,576	\$ 89,713	\$ 29,848	\$ 40	\$ 119,601
Property, plant and equipment, net	\$481,929	\$ 74,714	\$	\$556,643	\$487,753	\$ 75,250	\$	\$563,003
Deferred income taxes		31,486		31,486		31,469		31,469
Other non-current assets	14,842	9,679	4,146	28,667	14,765	9,731	4,205	28,701
Non-current assets discontinued operations	\$496,771	\$ 115,879	\$4,146	\$ 616,796	\$502,518	\$ 116,450	\$4,205	\$ 623,173
Current portion of long-term debt	\$ 5,945	\$ 48,973	\$	\$ 54,918	\$ 6,206	\$ 49,744	\$	\$ 55,950
Accounts payable trade	9,237	24,715	3,692	37,644	3,057	23,037	3,998	30,092
Accrued interest	11,383	608		11,991	13,182	757		13,939
Other current liabilities	2,157	5,957	21	8,135	8,248	5,946	22	14,216
Current liabilities discontinued operations	\$ 28,722	\$ 80,253	\$3,713	\$ 112,688	\$ 30,693	\$ 79,484	\$4,020	\$ 114,197
Long-term debt	\$313,738	\$ 19,779	\$	\$333,517	\$313,738	\$ 19,779	\$	\$333,517
Minority interest	31,640	422		32,062	31,879	406		32,285
Other non-current liabilities	184,779	9,202		193,981	184,972	8,110		193,082
Non-current liabilities discontinued operations	\$530,157	\$ 29,403	\$	\$559,560	\$530,589	\$ 28,295	\$	\$558,884



**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Predecessor Company December 31, 2002			
	Wholesale Power Generation	All Other		
	Other North America	Wholesale Power Generation	Alternative Energy	Total
		Other International		
	(In thousands)			
Cash and cash equivalents	\$ 6,933	\$ 40,740	\$ 430	\$ 48,103
Restricted cash	69,224	1,396		70,620
Receivables, net	17,645	29,693	296	47,634
Inventory	11,980	17,072	301	29,353
Derivative instruments valuation		29,795		29,795
Other current assets	2,107	10,526	376	13,009
Current assets discontinued operations	\$ 107,889	\$ 129,222	\$ 1,403	\$ 238,514
Property, plant and equipment, net	\$ 720,458	\$ 535,695	\$ 15,039	\$ 1,271,192
Derivative instruments valuation		87,803		87,803
Other non-current assets	12,015	20,118	21,866	53,999
Non-current assets discontinued operations	\$ 732,473	\$ 643,616	\$ 36,905	\$ 1,412,994
Current portion of long-term debt	\$ 166,083	\$ 462,570	\$ 7,658	\$ 636,311
Accounts payable trade	19,321	47,359	1,141	67,821
Accrued income tax	4	22,422	(166)	22,260
Other current liabilities	18,201	14,689	6,339	39,229
Current liabilities discontinued operations	\$ 203,609	\$ 547,040	\$ 14,972	\$ 765,621
Long-term debt	\$ 334,200	\$ 68,572	\$	\$ 402,772
Deferred income taxes	121	113,035	(2,102)	111,054
Derivative instruments valuation		43,891		43,891
Minority interest	28,791	1,344	216	30,351
Other non-current liabilities	769	13,763		14,532
Non-current liabilities discontinued operations	\$ 363,881	\$ 240,605	\$ (1,886)	\$ 602,600

*Bulo Bulo* In June 2002, we began negotiations to sell our 60% interest in Compania Electrica Central Bulo Bulo S.A. (Bulo Bulo), a Bolivian corporation. The transaction reached financial close in the fourth quarter of 2002 resulting in cash proceeds of \$10.9 million (net of cash transferred of \$8.6 million) and a loss of \$10.6 million.

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*Crockett Cogeneration Project* In September 2002, we announced that we had reached an agreement to sell our 57.7% interest in the Crockett Cogeneration Project, a 240 MW natural gas fueled cogeneration plant near San Francisco, California, to Energy Investment Fund Group, an existing LP, and a unit of GE Capital. In November 2002, the sale closed and we realized net cash proceeds of approximately \$52.1 million (net of cash transferred of \$0.2 million) and a loss on disposal of approximately \$11.5 million.

*Csepel and Entrade* In September 2002, we announced that we had reached agreements to sell our Csepel power generating facilities (located in Budapest, Hungary) and our interest in Entrade (an electricity

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

trading business headquartered in Prague) to Atel, an independent energy group headquartered in Switzerland. The sales of Csepel and Entrade closed before year-end and resulted in cash proceeds of \$92.6 million (net of cash transferred of \$44.1 million) and a gain of approximately \$24.0 million. We accounted for the results of operations of Csepel and Entrade as part of our power generation segment within Europe.

*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 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 LLC foreclosed on our membership interest in the NLGI subsidiaries and our equity interest in Minnesota Methane LLC. There was no material gain or loss recognized as a result of the foreclosure.

*TERI* During 2002, we recorded an impairment charge of \$11.7 million based on a revised project outlook. In September 2003, we completed the sale of TERI, a biomass waste-fuel power plant located in Florida and a wood processing facility located in Georgia, to DG Telogia Power, LLC. The sale resulted in net proceeds of approximately \$1.0 million. We entered into an agreement to sell the wood processing facility on behalf of DG Telogia Power, LLC. This sale was completed during fourth quarter 2003 and we received cash consideration of approximately \$1.0 million, resulting in a net gain on sale of approximately \$1.0 million.

*Peru Projects* In November 2003, we completed the sale of the Cahua and Pacasmayo (Peruvian Assets) resulting in net cash proceeds of approximately \$16.2 million and a loss of \$36.9 million. In addition, we expect to receive an additional consideration adjustment of approximately \$2 million during 2004.

*NEO Corporation* In August of 1995, we entered into a Marketing, Development and Joint Proposing Agreement, or the Marketing Agreement, with Cambrian Energy Development LLC, or Cambrian. Various claims had arisen in connection with this Marketing Agreement. In November 2003, we entered into a Settlement Agreement with Cambrian where we agreed to transfer our 100% interest in three gasco projects (NEO Ft. Smith, NEO Phoenix and NEO Woodville). During the third quarter of 2004, we completed the sale of four wholly owned entities NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha LLC and NEO Tajiguas LLC, as well as the sale of several NEO investments Four Hills LLC, Minnesota Methane II LLC, NEO Montauk Genco LLC and NEO Montauk Gasco LLC to Algonquin Power of Canada. Upon completion of the transaction, we received cash proceeds of \$5.8 million, resulting in a \$6.0 million gain associated with the four wholly owned entities sold and received cash proceeds of \$6.1 million resulting in a loss of approximately \$3.8 million attributable to the equity investments sold. The sale of these equity investments do not qualify for reporting purposes as discontinued operations.

*McClain* We reviewed the recoverability of our McClain assets pursuant to SFAS No. 144 and recorded a charge of \$100.7 million in the second quarter of 2003. On August 14, 2003, NRG's Board of Directors approved a plan to sell its 77% interest in McClain Generating Station, a 520 MW combined-cycle, natural gas-fired facility located in New Castle, Oklahoma. On August 18, 2003, we entered into an Asset Purchase Agreement with Oklahoma Gas & Electric Company pursuant to which we would, subject to the satisfaction of certain conditions, sell all of the McClain assets in a sale pursuant to Section 363 of the

**Table of Contents**

**NRG ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Bankruptcy Codes as part of McClain's Chapter 11 proceeding that was subsequently filed on August 19, 2003. In accordance with Section 363 of the Bankruptcy Code and the terms of the Asset Purchase Agreement, we continued to seek alternative transactions that would provide greater value to us and our creditors than the transaction contemplated by the Asset Purchase Agreement.

As a result of the formalization of the plan to sell the McClain assets and the filing of petition under the Bankruptcy Code by McClain, McClain is being accounted for as a discontinued operation.

As part of our effort to seek alternative transactions that would provide greater value and in accordance with the bidding procedures approved by the Bankruptcy Court, we conducted an auction for the sale of McClain's assets, however no bids were submitted for the purchase of the assets. The Bankruptcy Court entered an order approving the terms of the sale with Oklahoma Gas & Electric free and clear of all liens. The closing of the sale is subject to various closing conditions including approval by the Federal Energy Regulatory Commission. Upon consummation of the asset sale, we anticipate that all proceeds from the sale will be used to repay outstanding project debt under the secured term loan and working capital facility. 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.

*Penobscot Energy Recovery Company (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.

**Note 7 Write Downs and (Gains)/ Losses on Sales of Equity Method Investments**

Investments accounted for by the equity method are reviewed for impairment in accordance with APB Opinion No. 18. APB Opinion 18 requires that a loss in value of an investment that is other than a temporary decline should be recognized. Gains are recognized on completion of the sale. Write downs and (gains)/

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

losses on sales of equity method investments recorded in operating expenses in the consolidated statement of operations includes the following:

	<b>Predecessor Company</b>	
	<b>Year Ended December 31, 2002</b>	<b>For the Period January 1 December 5, 2003</b>
	<b>(In thousands)</b>	
NEO Corporation Minnesota Methane	\$ 12,292	\$ 12,257
NEO Corporation MM Biogas	3,251	2,613
Kondapalli	12,751	(519)
ECKG		(2,871)
Loy Yang	111,383	146,354
Mustang		(12,124)
Energy Development Limited (EDL)	14,220	
Sabine River Works	48,375	
Kingston	(9,876)	
Mt. Poso	1,049	
Powersmith	3,441	
Collinsville Power Station	3,586	
Other		1,414
	<b>_____</b>	<b>_____</b>
Total write downs and (gains) losses of equity method investments	<b>\$200,472</b>	<b>\$147,124</b>
	<b>_____</b>	<b>_____</b>

**Write Downs of Equity Method Investments**

*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 LLC foreclosed on our membership interest in the NEO Landfill Gas, Inc. subsidiaries and our equity interest in Minnesota Methane LLC. Upon completion of the foreclosure, we recorded a gain of \$2.2 million. This gain resulted from the release of certain obligations.

*NEO Corporation MM Biogas* We recorded an impairment charge of \$3.2 million during 2002 to write-down our 50% investment in MM Biogas. This charge was related to revised project outlook and management's belief that the decline in fair value was other than temporary. In November 2003, we entered into a sales agreement with Cambrian Energy Development to sell our 50% interest in MM Biogas. We recorded an additional impairment charge of \$2.6 million during the fourth quarter of 2003 due to developments related to the sale that indicated an impairment of our book value that was considered to be other than temporary.

*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 sale agreement with the Genting Group of Malaysia, or Genting, to sell our 30% interest in Lanco Kondapalli Power Pvt Ltd, or Kondapalli, and a 74% interest in Eastern Generation Services (India) Pvt Ltd (the O&M company). 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

**Table of Contents**

**NRG ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

\$1.3 million based on the final sale 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. 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 loss of less than \$1.0 million. In accordance with the purchase agreement, we were to receive additional consideration if Atel purchased shares held by our partner. During the second quarter of 2003, we received approximately \$3.7 million of additional consideration.

*Loy Yang* Based on a third party market valuation and bids received in response to marketing Loy Yang for possible sale, we recorded a write down of our investment of approximately \$111.4 million during 2002 (\$53.6 million during the third quarter and an additional \$57.8 million during the fourth quarter). This write-down reflected management's belief that the decline in fair value of the investment was other than temporary. Accumulated other comprehensive loss at December 31, 2002 included foreign currency translation losses of approximately \$76.7 million related to Loy Yang.

In May 2003, we entered into negotiations that culminated in the completion of a Share Purchase Agreement to sell 100% of the Loy Yang project. Completion of the sale is subject to various conditions. Upon completion, the sale will result in proceeds of approximately \$25.0 million to \$31.0 million to us; however, the final sale proceeds will vary depending on the foreign exchange rate and purchase price adjustments. Consequently, we recorded an additional impairment charge of approximately \$146.4 million during 2003.

*Mustang Station* On July 7, 2003, we completed the sale of our 50% interest in Mustang Station, a gas-fired combined cycle power generating plant located in Denver City, Texas, to EIF Mustang Holdings I, LLC. The sale resulted in net cash proceeds of approximately \$13.3 million and a net gain of approximately \$12.1 million.

*Energy Development Limited* On July 25, 2002, we announced that we completed the sale of our ownership interests in an Australian energy company, Energy Development Limited, or EDL. EDL is a listed Australian energy company engaged in the development and management of an international portfolio of projects with a particular focus on renewable and waste fuels. In October 2002, we received proceeds of \$78.5 million (AUS), or approximately \$43.9 million (USD), in exchange for our ownership interest in EDL with the closing of the transaction. During the third quarter of 2002, we recorded a write-down of the investment of approximately \$14.2 million to write down the carrying value of our equity investment due to the pending sale.

*Sabine River* In September 2002, we agreed to transfer our indirect 50% interest in SRW Cogeneration LP, or SRW, to our partner in SRW, Conoco, Inc. in consideration for Conoco's agreement to terminate or assume all of our obligations, in relation to SRW. SRW owns a cogeneration facility in Orange County, Texas. We recorded a charge of approximately \$48.4 million during the quarter ended September 30, 2002 to write down the carrying value of our investment due to the pending sale. The transaction closed on November 5, 2002.

*Kingston* In December 2002, we completed the sale of our 25% interest in Kingston Cogeneration LP, based near Toronto, Canada to Northland Power Income Fund. We received net proceeds of \$15.0 million resulting in a gain on sale of approximately \$9.9 million.

*Mt. Poso* In September 2002, we agreed to sell our 39.5% indirect partnership interest in the Mt. Poso Cogeneration Company, a California limited partnership, or Mt. Poso, for approximately \$10 million to Red Hawk Energy, LLC. Mt. Poso owns a 49.5 MW coal-fired cogeneration power plant and thermally

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

enhanced oil recovery facility located 20 miles north of Bakersfield, California. The sale closed in November 2002 resulting in a loss of approximately \$1.0 million.

*Powersmith* During the fourth quarter of 2002, we wrote down our investment in Powersmith in the amount of approximately \$3.4 million due to recent developments, which indicated impairment of our book value that is considered to be other than temporary.

*Collinsville Power Station* Based on third party market valuation and bids received in response to marketing the investment for possible sale, we recorded a write down of our investment of approximately \$4.1 million during the second quarter of 2002. In August 2002, we announced that we had completed the sale of our 50% interest in the 192 MW Collinsville Power Station in Australia, to our partner, a subsidiary of Transfield Services Limited for \$8.6 million (AUS), or approximately \$4.8 million (USD). Our ultimate loss on the sale of Collinsville Power Station was approximately \$3.6 million.

**Note 8 Other Charges (Credits)**

Restructuring, impairment charges, legal settlement costs and fresh start adjustments included in operating expenses in the Consolidated Statement of Operations include the following:

	Predecessor Company	Reorganized NRG	
	Year Ended December 31, 2002	For the Period January 1 December 5, 2003	For the Period December 6 December 31, 2003
	(In thousands)		
Impairment charges	\$2,638,315	\$ 228,896	\$
Reorganization items		197,825	<b>2,461</b>
Restructuring charges	111,315	8,679	
Legal settlement		462,631	
Fresh Start adjustments		(3,895,541)	
	Total	\$(2,997,510)	<b>\$2,461</b>
	Less discontinued operations	223,095(2)	
	Total continuing operations	\$(3,220,605)	<b>\$2,461</b>

(1) Consists of impairment charges.

(2) Consists of Fresh Start adjustments.

**Impairment Charges**

We review the recoverability of our long-lived assets in accordance with the guidelines of SFAS No. 144. As a result of this review, we recorded impairment charges of \$2.5 billion and \$228.9 million for the year ended December 31, 2002 and the period from January 1, 2003 through December 5, 2003 respectively, as shown in the table below.

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To determine whether an asset was impaired, we compared asset carrying values to total future estimated undiscounted cash flows. Separate analyses were completed for assets or groups of assets at the lowest level for which identifiable cash flows were largely independent of the cash flows of other assets and liabilities. The estimates of future cash flows included only future cash flows, net of associated cash outflows, directly associated with and expected to arise as a result of our assumed use and eventual disposition of the asset. Cash flow estimates associated with assets in service were based on the asset's existing service potential. The cash

**Table of Contents**

**NRG ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

flow estimates may include probability weightings to consider possible alternative courses of action and outcomes, given the uncertainty of available information and prospective market conditions.

If an asset was determined to be impaired based on the cash flow testing performed, an impairment loss was recorded to write down the asset to its fair value. Estimates of fair value were based on prices for similar assets and present value techniques. Fair values determined by similar asset prices reflect our current estimate of recoverability from expected marketing of project assets. For fair values determined by projected cash flows, the fair value represents a discounted cash flow amount over the remaining life of each project that reflects project-specific assumptions for long-term power pool prices, escalated future project operating costs, and expected plant operation given assumed market conditions.

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Impairment charges (credits) included the following asset impairments (realized gains) for the year ended December 31, 2002 and for the period January 1, 2002 to December 5, 2003:

Project Name	Project Status	Predecessor Company		Fair Value Basis
		Year Ended December 31, 2002	For the Period January 1 - December 5, 2003	
(In thousands)				
Devon Power LLC	Operating at a loss	\$	\$ 64,198	Projected cash flows
Middletown Power LLC	Operating at a loss		157,323	Projected cash flows
Arthur Kill Power, LLC	Terminated construction project		9,049	Projected cash flows
Langage (UK)				Estimated market price/Realized gain
	Terminated	42,333	(3,091)	
Turbine	Sold		(21,910)	Realized gain
Berrians Project	Terminated		14,310	Realized loss
Termo Rio	Terminated		6,400	Realized loss
Nelson	Terminated	467,523		Similar asset prices
Pike	Terminated	402,355		Similar asset prices
Bourbonnais	Terminated	264,640		Similar asset prices
Meriden	Terminated	144,431		Similar asset prices
Brazos Valley	Foreclosure completed in January 2003	102,900		Projected cash flows
Kendall, Batesville & other expansion projects	Terminated	120,006		Projected cash flows
Turbines & equipment	Equipment being marketed	701,573		Similar asset prices
Audrain	Operating at a loss	66,022		Projected cash flows
Somerset	Operating at a loss	49,289		Projected cash flows
Bayou Cove	Operating at a loss	126,528		Projected cash flows
Hsin Yu	Operating at a loss	121,864		Projected cash flows
Other		28,851	2,617	
Total impairment charges (credits)		2,638,315	228,896	
Less Discontinued Operations				
Hsin Yu		121,864		Projected cash flows
Batesville		64,706		Projected cash flows
Impairment charges		\$2,451,745	\$228,896	

Credit rating downgrades, defaults under certain credit agreements, increased collateral requirements and reduced liquidity experienced during the third quarter of 2002 were triggering events which required us to review the recoverability of our long-lived assets. Adverse economic conditions resulted in declining energy prices. Consequently, we determined that many of our construction projects and operational projects were impaired during the third quarter of 2002 and should be written down to fair market value.

**Table of Contents**

**NRG ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Connecticut Facilities* As a result of regulatory developments and changing circumstances in the second quarter of 2003, we updated the facilities cash flow models to incorporate changes to reflect the impact of the April 25, 2003 FERC's orders on regional and locational pricing, and to update the estimated impact of future locational capacity or deliverability requirements. Based on these revised cash flow models, management determined that the new estimates of pricing and cost recovery levels were not projected to return sufficient revenue to cover the fixed costs at Devon Power LLC and Middletown Power LLC. As a consequence, during the second quarter of 2003 we recorded \$64.2 million and \$157.3 million as impairment charges for Devon Power LLC and Middletown Power LLC, respectively.

*Langage (UK)* During the third quarter of 2002, we reviewed the recoverability of our Langage assets pursuant to SFAS No. 144 and recorded a charge of \$42.3 million. In August 2003 we closed on the sale of Langage to Carlton Power Limited resulting in net cash proceeds of approximately \$1.5 million, of which \$1.0 million was received in 2003 and \$0.5 million during the first quarter of 2004, and a net gain of approximately \$3.1 million.

*Arthur Kill Power, LLC* During the third quarter of 2003, we cancelled our plans to re-establish fuel oil capacity at our Arthur Kill plant. This resulted in a charge of approximately \$9.0 million to write-off assets under development.

*Turbines* In October 2003, we closed on the sale of three turbines and related equipment. The sale resulted in net cash proceeds of \$70.7 million and a gain of approximately \$21.9 million.

*Berrians Project* During the fourth quarter of 2003, we cancelled plans to construct the Berrians peaking facility on the land adjacent to our Astoria facility. Berrians was originally scheduled to commence operations in the summer of 2005; however, based on the remaining costs to complete and the current risk profile of merchant peaking units, the construction project was terminated. This resulted in a charge of approximately \$14.3 million to write off the project's assets.

*Termo Rio* Termo Rio is a 1040 green field cogeneration project located in the state of Rio de Janeiro, Brazil. Based on the project's failure to meet certain key milestones, we exercised our rights under the project agreements to sell our debt and equity interests in the project to our partner. We are in arbitration over the amount of compensation we are to receive for our interests in the project. Based on continued negotiations aimed at settling the case and the positions of the parties in the arbitration we recorded an impairment charge of \$6.4 million to reflect our investment interest at the amount expected to be recovered through a sale. On March 8, 2003, the arbitral tribunal decided most, but not all, of the issues in our favor. The final amount of the arbitral award to NRG has not been conclusively determined and the parties may seek to modify or challenge the award. We believe we will recover the amount we have recorded on our balance sheet.

There were no impairment charges for the period December 6, 2003 through December 31, 2003.

***Reorganization Items***

For the period from January 1, 2003 to December 5, 2003, we incurred \$197.8 million in reorganization costs and for the period from December 6, 2003 to December 31, 2003 we incurred \$2.5 million in

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

reorganization costs. All reorganization costs have been incurred since we filed for bankruptcy in May 2003. The following table provides the detail of the types of costs incurred:

	<b>Predecessor Company</b>	<b>Reorganized NRG</b>
	<b>For the Period January 1- December 5, 2003</b>	<b>For the Period December 6- December 31, 2003</b>
(In thousands)		
Reorganization items		
Professional fees	\$ 82,186	\$ 2,461
Deferred financing costs	55,374	
Pre-payment settlement	19,609	
Interest earned on accumulated cash	(1,059)	
Contingent equity obligation	41,715	
	<hr/>	<hr/>
Total reorganization items	\$ 197,825	\$ 2,461
	<hr/>	<hr/>

**Restructuring Charges**

We incurred total restructuring charges of approximately \$111.3 million for the year ended December 31, 2002. These costs consisted of employee separation costs and advisor fees. We incurred an additional \$8.7 million of employee separation costs and advisor fees during 2003 until we filed for bankruptcy in May 2003. Subsequent to that date we recorded all advisor fees as reorganization costs.

**Legal Settlement**

During the third quarter of 2003, we recorded \$396.0 million in connection with the resolution of the FirstEnergy Arbitration Claim. As a result of this resolution, FirstEnergy retained ownership of the Lake Plant Assets and received an allowed general unsecured claim of \$396.0 million under the NRG plan of reorganization submitted to the Bankruptcy Court.

In November 2003, we settled various litigation with Fortistar Capital in which Fortistar Capital released us from all litigation claims in exchange for a \$60.0 million pre-petition claim and an \$8.0 million post-petition claim. We had previously recorded \$10.8 million in connection with various legal disputes with Fortistar Capital; accordingly, we recorded an additional \$57.2 million during November 2003.

In August of 1995, we entered into a Marketing, Development and Joint Proposing Agreement, the Marketing Agreement, with Cambrian Energy Development LLC, or Cambrian. Various claims had arisen in connection with this Marketing Agreement. In November 2003, we entered into a Settlement Agreement with Cambrian where we agreed to transfer our 100% interest in three gasco

projects (NEO Ft. Smith, NEO Phoenix and NEO Woodville) and our 50% interest in two genco projects (MM Phoenix and MM Woodville) to Cambrian. In addition, we agreed to pay approximately \$1.8 million in settlement of royalties incurred in connection with the Marketing Agreement. We had previously recorded a liability for royalties owed to Cambrian therefore we recorded an additional \$1.4 million during November 2003.

In November 2003, we settled our dispute with Dick Corporation in connection with Meriden Gas Turbines, which resulted in our recording an additional liability of \$8.0 million in November 2003.



**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Fresh Start Adjustments***

During the fourth quarter of 2003, we recorded a net credit of \$3.9 billion (comprised of a \$4.1 billion gain from continuing operations and a \$0.2 billion loss from discontinued operations) in connection with fresh start adjustments as discussed in Note 3. Following is a summary of the significant effects of the reorganization and Fresh Start:

	<b>(In millions)</b>
Discharge of corporate level debt	\$ 5,162
Discharge of other liabilities	811
Establishment of creditor pool	(1,040)
Receivable from Xcel	640
Revaluation of fixed assets	(1,392)
Revaluation of equity investments	(207)
Valuation of SO(2) emission credits	374
Valuation of out of market contracts, net	(400)
Fair market valuation of debt	108
Valuation of pension liabilities	(61)
Other valuation adjustments	(100)
	<hr/>
Total Fresh Start adjustments	3,895
Less discontinued operations	224
	<hr/>
Total Fresh Start adjustments continuing operations	\$ 4,119
	<hr/>

**Note 9 Asset Retirement Obligation**

Effective January 1, 2003, we adopted SFAS No. 143, *Accounting for Asset Retirement Obligations* or SFAS No. 143. 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 each period, 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 and written or oral contracts, including obligations arising under the doctrine of promissory estoppel.

We identified certain retirement obligations within our power generation operations related to our North America projects in the South Central region, the Northeast region, Australia, our Alternative Energy projects and our Thermal projects. These asset retirement obligations are related primarily to the future dismantlement of equipment on leased property and environment obligations related to ash disposal site closures. We also identified other asset retirement obligations including plant dismantlement that could not be calculated because the assets associated with the retirement obligations were determined to have an indeterminate life. The adoption of SFAS No. 143 resulted in recording a \$2.6 million increase to property, plant and equipment and a \$4.2 million increase to other long-term obligations. The cumulative effect of adopting SFAS No. 143 was recorded as a \$0.6 million increase to depreciation expense and a \$1.6 million increase to cost of majority-owned operations in the period from January 1, 2003 to December 5, 2003 as we considered the cumulative effect to be immaterial.

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following represents the balances of the asset retirement obligation as of January 1, 2003 and the additions and accretion of the asset retirement obligation for the periods January 1, 2003 through December 5, 2003 and the period of December 6, 2003 through December 31, 2003, which is included in other long-term obligations in the consolidated balance sheet. Prior to December 5, 2003, we completed our annual review of asset retirement obligations. As part of that review we made revisions to our previously recorded obligation in the amount of \$4.0 million. The revisions included identification of new obligations as well as changes in costs or procedures required at retirement date. As a result of adopting Fresh Start we revalued our asset retirement obligations on December 6, 2003. We recorded an additional asset retirement obligation of \$7.3 million in connection with fresh start reporting. This amount results from a change in the discount rate used between adoption and fresh starting reporting as of December 5, 2003, equal to 500 to 600 basis points.

Description	Predecessor Company				Reorganized NRG			
	Beginning		Accretion for		Beginning		Accretion for	
	Balance		Period Ended		Balance		Period	
	January 1, 2003	Revisions to Estimate	December 5, 2003	Adjustment for Fresh Start Reporting	December 5, 2003	December 6, 2003	December 31, 2003	December 31, 2003
	(In thousands)							
South Central Region	\$ 396		\$ 57	\$2,170	\$ 2,623	\$ 2,623	\$ 15	\$ 2,638
Northeast Region	2,045	4,034	634	4,978	11,691	11,691	59	11,750
Australia	5,834		3,282		9,116	9,116	322	9,438
Alternative Energy	629		73	128	830	830	5	835
Thermal	1,171	9	93	53	1,326	1,326	7	1,333
Total asset retirement obligation	\$ 10,075	\$ 4,043	\$ 4,139	\$ 7,329	\$ 25,586	\$ 25,586	\$ 408	\$ 25,994

The following represents the pro-forma effect on our net income for the twelve months ended December 31, 2001 and 2002, as if we had adopted SFAS No. 143 as of January 1, 2001:

	Predecessor Company		
	Twelve Months Ended December 31, 2001	Twelve Months Ended December 31, 2002	For the Period January 1 - December 5, 2003
	(In thousands)		
Income (loss) from continuing operations as reported	\$ 210,502	\$ (2,788,452)	\$ 2,949,078
Pro-forma adjustment to reflect retroactive adoption of SFAS No. 143	(1,564)	(677)	2,154
Pro-forma income (loss) from continuing operations	\$ 208,938	\$ (2,789,129)	\$ 2,951,232
Net income (loss) as reported	\$ 265,204	\$ (3,464,282)	\$ 2,766,445

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Pro-forma adjustment to reflect retroactive adoption of SFAS No. 143	(1,564)	(677)	2,154
Pro-forma net income (loss)	\$263,640	\$(3,464,959)	\$2,768,599

On a pro forma basis an Asset Retirement obligation of \$8.4 million and \$10.1 million would have been recorded as an other long-term obligation as of January 1, 2002 and December 31, 2002, based on similar assumptions used to determine the amounts on our balance sheet as of December 6, 2003 and December 31, 2003.

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 10 Inventory**

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

	Predecessor Company	Reorganized NRG	
	December 31, 2002	December 6, 2003	December 31, 2003
		(In thousands)	
Fuel oil	\$ 51,443	\$ 69,799	\$ 71,861
Coal	82,554	63,641	59,555
Natural gas	153	377	856
Other fuels	2,852	9,874	10,156
Spare parts	109,311	66,024	58,863
Emission credits	14,742	4,478	4,478
Other	6,301	203	207
Total inventory	267,356	214,396	205,976
Less discontinued operations	13,344	18,160	11,050
Total inventory continuing operations	\$254,012	\$196,236	\$194,926

**Note 11 Notes Receivable**

Notes receivable consists primarily of fixed and variable rate notes secured by equity interests in partnerships and joint ventures. The notes receivable are as follows:

	Predecessor Company	Reorganized NRG	
	December 31, 2002	December 6, 2003	December 31, 2003
		(In thousands)	
<b>Investment in Bonds</b>			
Audrain County, due December 2023, 10%	\$239,930	<b>\$239,930</b>	<b>\$239,930</b>
NRG Pike LLC Mississippi Industrial Revenue Bonds due May 2010, 7.1%	155,477		
Investment in bonds	395,407	<b>239,930</b>	<b>239,930</b>

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Predecessor Company	Reorganized NRG	
	December 31, 2002	December 6, 2003	December 31, 2003
		(In thousands)	
<b>Notes Receivables</b>			
Triton Coal Co., note due December 2003, non-interest bearing	3,000	1,500	
O'Brien Cogen II note, due 2008, non-interest bearing	627	686	692
Southern Minnesota-Prairieland Solid Waste, note due 2003, 7%	12		
Omega Energy, LLC, due 2004, 12.5%	4,145	3,708	3,708
Omega Energy, LLC, due 2009, 11%	1,533	1,583	1,583
Northbrook Carolina Hydro II, LLC, due November 2005, 8.5%		86	84
Elk River GRE, due December 31, 2008, non-interest bearing	1,837	1,564	1,564
NRG Processing Solutions		134	134
Audrain Generating LLC			118
Termo Rio (via NRGenerating Luxembourg (No. 2) S.a.r.l, due 20 years after plant becomes operational, 19.5%	63,723	57,323	57,323
SET PERC Investment, LLC, due December 31, 2005, 7%	7,320		
	<u>477,604</u>	<u>306,514</u>	<u>305,136</u>
NEO notes to various affiliates due primarily 2012, prime +2%	9,538	9,419	9,419
NRG (LSP Nelson)			200
Kladno Power (No. 1) B.V.	2,442		
Kladno Power (No. 2) B.V. notes to various affiliates, non-interest bearing	46,801		
Saale Energie Gmbh, indefinite maturity date, 4.75%-7.79%	86,246	107,391	111,892
Northbrook Texas LLC, due February 2024, 9.25%	8,967	8,841	8,841
	<u>153,994</u>	<u>125,651</u>	<u>130,352</u>
Reserve for Uncollectible Notes Receivable	(7,320)		

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Predecessor Company	Reorganized NRG	
	December 31, 2002	December 6, 2003	December 31, 2003
(In thousands)			
<b>Other</b>			
Saale Energia GmbH, due August 31, 2021, 13.88% (direct financing lease)	366,417	435,045	451,449
Subtotal	990,695	867,210	886,937
Less current maturities	54,711	66,628	65,341
Total	\$935,984	\$800,582	\$821,596

Investment in bonds is comprised of marketable debt securities. These securities consist of municipal bonds of Audrain County, Missouri and Mississippi Industrial Revenue Bonds. The Audrain County bonds mature in 2023 and the Mississippi Industrial bonds mature in 2010. These investments in bonds are classified as held to maturity and are recorded at amortized cost. The carrying value of these bonds approximates fair value. Both the Audrain County bonds and the Mississippi Industrial Revenue Bonds are pledged as collateral for the related debt owed to each county. As further described in Note 17, each of these transactions have offsetting obligations.

**Note 12 Property, Plant and Equipment**

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

	Depreciable Lives	Predecessor Company	Reorganized NRG		Average Remaining Useful Life
		December 31, 2002	December 6, 2003	December 31, 2003	
(In thousands)					
Facilities and equipment	10-60 Years	\$6,258,744	\$4,125,308	\$4,141,711	26
Land and improvements		102,624	101,577	101,577	
Office furnishings and equipment	3-15 Years	67,030	34,676	34,673	3
Construction in progress		633,307	144,426	151,467	
Total property, plant and equipment		7,061,705	4,405,987	4,429,428	
Accumulated depreciation		(596,403)		(13,041)	
Net property, plant and equipment		6,465,302	4,405,987	4,416,387	
Less discontinued operations		664,027	397,189	403,551	
		\$5,801,275	\$4,008,798	\$4,012,836	

Net property, plant and  
equipment

\_\_\_\_\_

Included in construction in progress at December 31, 2002 is approximately \$248.9 million related to turbines associated with cancelled projects. As of December 5, 2003 and December 31, 2003, \$88.6 million of turbine cost associated with cancelled projects has been reclassified to the other asset line in the accompanying balance sheet.

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 13 Investments Accounted for by the Equity Method**

We had investments in various international and domestic energy projects. The equity method of accounting is applied to such investments in affiliates, which include joint ventures and partnerships, because the ownership structure prevents us from exercising a controlling influence over operating and financial policies of the projects. Under this method, equity in pretax income or losses of domestic partnerships and, generally, in the net income or losses of international projects, are reflected as equity in earnings of unconsolidated affiliates.

A summary of certain of our more significant equity-method investments, which were in operation at December 31, 2003, is as follows:

Name	Geographic Area	Economic Interest
<b>West Coast Power</b>		
El Segundo Power	USA	50%
Long Beach Generating	USA	50%
Encina	USA	50%
San Diego Combustion Turbines	USA	50%
<b>Other</b>		
Gladstone Power Station	Australia	38%
Loy Yang Power A	Australia	25%
MIBRAG GmbH	Europe	50%
Enfield	Europe	25%
Scudder LA Power Fund I	Latin America	25%
Rocky Road Power	USA	50%
Commonwealth Atlantic	USA	50%
NRG Saguaro LLC	USA	50%
James River Cogen	USA	50%

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Summarized financial information for investments in unconsolidated affiliates accounted for under the equity method is as follows:

	Predecessor Company		Reorganized NRG	
	Year Ended December 31,		For the Period	
	2001	2002	January 1 December 5, 2003	December 6 December 31, 2003
	(In thousands)			
Operating revenues	\$ 3,070,078	\$ 2,394,256	\$ 2,212,280	\$ 268,348
Costs and expenses	2,658,168	2,284,582	2,035,812	202,725
Net income	\$ 411,910	\$ 109,674	\$ 176,468	\$ 65,623
Current assets	\$ 1,425,175	\$ 1,069,239	\$ 783,669	\$ 829,525
Noncurrent assets	7,009,862	6,853,250	6,452,014	6,541,003
Total assets	\$ 8,435,037	\$ 7,922,489	\$ 7,235,683	\$ 7,370,528
Current liabilities	\$ 1,192,630	\$ 1,075,785	\$ 1,215,827	\$ 1,275,724
Noncurrent liabilities	4,533,168	3,861,285	3,528,600	3,592,342
Equity	2,709,239	2,985,419	2,491,256	2,502,462
Total liabilities and equity	\$ 8,435,037	\$ 7,922,489	\$ 7,235,683	\$ 7,370,528
NRG's share of equity	\$ 1,050,510	\$ 1,171,726	\$ 1,079,336	\$ 1,051,959
NRG's share of net income	\$ 210,032	\$ 68,996	\$ 170,901	\$ 13,521

**West Coast Power LLC Summarized Financial Information**

We have a 50% interest in one company (West Coast Power LLC) that was considered significant as of December 31, 2003, as defined by applicable SEC regulations, we account for our investment using the equity method. Upon adoption of Fresh Start we adjusted our investment in West Coast Power to fair value as of December 6, 2003. In accordance with APB Opinion 18, we have reconciled the value of our investment as of December 6, 2003 to our share of West Coast Powers partner's equity. As a result of pushing down the impact of Fresh Start to the projects balance sheet we determined that a contract based intangible asset with a one year remaining life, consisting of the value of West Coast Power's CDWR energy sales contract, must be established and recognized as a basis adjustment to our share of the future earnings generated by West Coast Power. This adjustment will reduce our equity earnings in the amount of approximately \$10.4 million per month during 2004 until the contract expires in December 2004. Offsetting this reduction in earnings is a favorable adjustment to reflect a lower depreciation expense resulting from the corresponding reduced value of the project's fixed assets from Fresh Start reporting. During the period December 6, 2003 through December 31, 2003 we recorded equity earnings of \$9.4 million for West Coast Power after adjustments for the reversal of \$2.6 million project level depreciation expense, offset by a decrease in earnings related to \$8.8 million amortization of the intangible asset for the CDWR contract. The following table summarizes

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

financial information for West Coast Power LLC, including interests owned by us and other parties for the periods shown below:

**Results of Operations**

	Year Ended December 31,		For the Period January 1 December 5, 2003	For the Period December 6 December 31, 2003
	2001	2002	2003	2003
	(In millions)			
Operating revenues	\$ 1,562	\$ 585	\$ 643	\$ 53
Operating income	345	48	201	31
Net income (pre-tax)	326	34	202	31

**Financial Position**

	December 31, 2002	December 6, 2003	December 31, 2003
	(In millions)		
Current assets	\$ 255	\$ 247	\$ 257
Other assets	532	454	454
<b>Total assets</b>	<b>\$ 787</b>	<b>\$ 701</b>	<b>\$ 711</b>
Current liabilities	\$ 112	\$ 58	\$ 55
Other liabilities	34	1	8
Equity	641	642	648
<b>Total liabilities and equity</b>	<b>\$ 787</b>	<b>\$ 701</b>	<b>\$ 711</b>

**Note 14 Decommissioning Funds**

We are required by the State of Louisiana Department of Environmental Quality, or DEQ, to rehabilitate our Big Cajun II ash and wastewater impoundment areas, subsequent to the Big Cajun II facilities removal from service. On July 1, 1989, a guarantor trust fund, or the Solid Waste Disposal Trust Fund, was established to accumulate the estimated funds necessary for such purpose. Approximately \$1.1 million was initially deposited in the Solid Waste Disposal Trust Fund in 1989, and \$116,000 has been funded annually thereafter, based upon an estimated future rehabilitation cost (in 1989 dollars) of approximately \$3.5 million and the remaining estimated useful life of the Big Cajun II facilities. At December 31, 2002, December 6, 2003 and December 31, 2003, the carrying value of the trust fund investments was approximately \$4.6 million, \$4.8 million and \$4.8 million, respectively. The trust fund investments are comprised of various debt securities of the United States and are carried at amortized cost, which approximates their fair value. The amounts required to be deposited in this trust fund are separate from our calculation of the asset retirement obligation recorded for the Big Cajun II ash and wastewater impoundment areas discussed in Note No. 9.

**Note 15 Goodwill and Other Intangible Assets**

During the first quarter of 2002, we adopted SFAS No. 142 *Goodwill and Other Intangible Assets* or SFAS No. 142, which requires new accounting for intangible assets, including goodwill. Intangible assets with finite lives will be amortized over their economic useful lives and

periodically reviewed for impairment. Goodwill will no longer be amortized, but will be tested for impairment annually and on an interim basis if an event occurs or a circumstance changes between annual tests that may reduce the fair value of a reporting unit

**Table of Contents****NRG ENERGY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

below its carrying value. Upon the adoption of Fresh Start, we re-evaluated the recoverability of our goodwill and intangibles. As a result, we have written off all goodwill amounts as of December 5, 2003. We have also established certain other contract based intangibles, which will be amortized over their respective contractual lives.

**Predecessor Company**

We had intangible assets with a net carrying value of \$75.1 million at December 31, 2002. The Aggregate amortization expense recognized for the years ended December 31, 2002 and 2001 was approximately \$2.7 million and \$4.1 million, respectively. The amortization expense for the period January 1, 2003 through December 5, 2003 was \$3.8 million.

**Reorganized NRG**

We had intangible assets with a net carrying value of \$484.7 million and \$432.4 million at December 6, 2003 and December 31, 2003. The power purchase agreements will be amortized as a reduction to revenue over the terms and conditions of each contract. The weighted average amortization period is 7 years for the power purchase agreements. Emission allowances will be amortized as additional fuel expense based upon the actual level of emissions from the respective plant through 2023. The amortization expense for the period December 6, 2003 through December 31, 2003 was \$5.2 million related to power purchase agreements. The annual aggregate amortization expense for each of the five succeeding years is expected to approximate \$57.2 million in year one, \$37.2 million in year two, \$30.0 million in years three and four, and \$23.1 million in year five for both the power purchase agreements and emission allowances. Intangible assets consisted of the following:

Description	Predecessor Company		Reorganized NRG			
	At December 31, 2002		At December 6, 2003		At December 31, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Amortization Accumulated
	(In thousands)					
Goodwill*	\$ 32,958	\$ 6,123	\$		\$	\$
Intangibles:						
Service contracts*	65,791	15,987				
Less discontinued operations	2,000	492				
	63,791	15,495				
Power purchase agreements			113,209		66,114	5,230
Less discontinued operations			2,059			