

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

FORM 10-K/A

- (X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997.
- () 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. 333-33397

NRG ENERGY, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE

41-1724239

(STATE OR OTHER JURISDICTION
OF INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER
IDENTIFICATION NO.)

1221 NICOLLET MALL, SUITE 700
MINNEAPOLIS, MINNESOTA

55403

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(ZIP CODE)

(612) 373-5300

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Indicated 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 X No
--- ---

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations 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/A or any amendment to this Form 10-K/A. Yes X No
--- ---

As of June 29, 1998, there were 1,000 shares of common stock, \$1.00 par value, outstanding, all of which were owned by Northern States Power Company. No other voting or non-voting common equity is held by non-affiliates of the Registrant.

The Registrant meets the conditions set forth in General Instruction I (1) (a) and (b) of Form 10-K and is therefore filing this Form with the reduced disclosure format.

Documents Incorporated by Reference: None

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on June 29, 1998.

NRG ENERGY, INC.

By: /s/ Leonard A. Bluhm

Leonard A. Bluhm
Executive Vice President and
Chief Financial Officer

SUPPLEMENTAL INFORMATION TO BE FURNISHED WITH REPORTS FILED PURSUANT TO SECTION 15 (d) OF THE ACT BY REGISTRANTS WHICH HAVE NOT REGISTERED SECURITIES PURSUANT TO SECTION 12 OF THE ACT.

An annual report has been sent to security holders and was supplementally filed with the Commission. Such annual report to security holders shall not be deemed "filed" with the Commission or otherwise subject to the liabilities of Section 18 of the Securities Exchange Act of 1934. No proxy material will be sent to security holders.

Halle, May 14, 1998

Saale Energie GmbH,
Schkopau

Report on the audit of
the financial
statements for the years
ended December 31, 1997
and 1996 in accordance
with German GAAP and on
the audit of the
respective US GAAP
reconciliation

SAALE ENERGIE GmbH
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Saale Energie GmbH
Schkopau, Germany

We have audited the accompanying balance sheet of Saale Energie GmbH (SEG) as of December 31, 1997 and 1996, and the related statements of income and cash flows for the years in the two-year period then ended. These financial statements are the responsibility of SEG's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Germany and the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above fairly present, in all material respects, the financial position of Saale Energie GmbH as of December 31, 1997 and 1996, and the results of its operations and its cash flows for the two-year period then ended, in conformity with accounting principles generally accepted in Germany.

Generally accepted accounting principles in Germany vary in certain significant respects from generally accepted accounting principles in the United States of America. Application of generally accepted accounting principles in the United States of America would have affected the results of operations for the two-year period ended December 31, 1997 and shareholders' equity as of December 31, 1997 and 1996 to the extent summarized in Note C to the financial statements.

Halle, Germany
May 14, 1998

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SAALE ENERGIE GmbH
STATEMENT OF INCOME
(In Thousands DM)

	NOTES	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996
	-----	-----	-----
Sales	D	224,502	161,309
Other operating income		21	3
		-----	-----
Total revenue		224,523	161,312
Cost of materials	D/K	225,669	170,897
Depreciation of tangible fixed assets		1	1
Other operating expenses		1,122	1,060
		-----	-----
Total operating expenses		226,792	171,958
		-----	-----
Result of operations		-2,269	-10,646
Income from companies in which participations are held		7,162	6,581
Interest expense (net)	I	-3,152	-3,845
		-----	-----
Results of ordinary activities		1,741	-7,910
Taxes on income		0	-40
		-----	-----
Net profit for the year		1,741	-7,870
		=====	=====

See accompanying Notes to the Financial Statements

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SAALE ENERGIE GmbH
BALANCE SHEET
(In Thousands DM)

NOTES	AT DECEMBER 31, 1997	AT DECEMBER 31, 1996
-----	-----	-----

ASSETS			
Outstanding contributions		713	713
NON-CURRENT ASSETS			
Fixed assets			
Tangible assets			
Factory and office equipment	B	1	2
Financial assets			
1. Shares in affiliated companies	B, E	49	49
2. Participations	B, E	200,677	200,677
3. Loans to participations	B, F	82,200	82,200
		-----	-----
TOTAL NON-CURRENT ASSETS		282,927	282,928
CURRENT ASSETS			
Inventories			
Raw materials and supplies	B	714	325
Receivables and other assets			
1. Trade receivables	B, D, G	18,860	24,764
2. Other assets	B, G	3,541	14,549
Bank balances	B	16,522	28,748
		-----	-----
TOTAL CURRENT ASSETS		39,637	68,386
		-----	-----
TOTAL ASSETS		323,277	352,027
		=====	=====
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	H		
Subscribed capital		1,000	1,000
Capital reserve		48,041	48,041
Net income for the year		-11,383	-7,870
Accumulated losses brought forward		1,741	-3,513
		-----	-----
TOTAL SHAREHOLDERS' EQUITY		39,399	37,658
Accruals			
Other accruals	B	80	40
Liabilities			
1. Trade payables	B, I	3,541	8,836
2. Payables to shareholding companies	B, I	69	92,084
3. Payables to affiliated companies	B, I	3,140	4,375
4. Payables to participations	B, I	234,837	174,884
5. Other payables	B, I	42,211	34,150
		-----	-----
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		323,277	352,027
		=====	=====

See accompanying Notes to the Financial Statements

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SAALE ENERGIE GmbH
STATEMENT OF CASH FLOWS
(In Thousands DM)

	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996
	-----	-----
Cash generated by operations:		
Net income for the year	1,741	-7,870
Adjustments to reconcile the net profit to the cash generated by operations:		
Depreciation on tangible assets and current asset write-offs	1	4

Change in assets and liabilities:		
Inventories	-389	384
Short-term trade receivables	5,904	-24,647
Other assets	11,009	-14,415
Accruals	40	-1,535
Short-term trade payables	-5,295	8,218
Interest payable	0	3,583
Other liabilities	65,579	114,597
	-----	-----
CASH RETAINED FROM OPERATING ACTIVITIES	78,590	78,319
	-----	-----
Cash flows from investing activities:		
Capital expenditures	0	-82,658
	-----	-----
CASH UTILIZED IN INVESTING ACTIVITIES	0	-82,658
	-----	-----
Cash flows from financing activities:		
Repayment of loans	0	34,568
Proceeds from loans	-90,816	-3,368
	-----	-----
CASH UTILIZED IN FINANCING ACTIVITIES	-90,816	31,200
	-----	-----
NET DECREASE IN CASH	-12,226	26,861
CASH AT BEGINNING OF YEAR	28,748	1,887
	-----	-----
CASH AT END OF YEAR	16,522	28,748
	=====	=====

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SAALE ENERGIE GMBH

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS DM)

NOTE A ORIGINATION AND NATURE OF BUSINESS

ORIGINATION: According to the Articles of Association, Saale Energie GmbH ("SEG") was established on November 11, 1993. The Company's shares are held at 50 % by NREnergizing International B.V., Amsterdam and at 50 % by PowerGen Holdings B.V., Rotterdam.

NATURE OF BUSINESS: The operations of SEG include all activities relating to the direct and indirect acquisition, ownership, administration and operation of power generating facilities located in Schkopau, including the purchase of fuel and the sale of energy produced in the facilities. The business of the Company further constitutes all activities relating to the supply of management, maintenance and consulting services in respect of power stations and related plants. The Company is authorized to take all other actions and engage in all other businesses which appear to be necessary and useful in order to carry into effect the purpose of the Company. In particular it is authorized to hold, acquire and create subsidiaries, branches, companies and interests in other enterprises.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of SEG have been prepared in accordance with the German Commercial Code, which represents accounting principles generally accepted in Germany ("German GAAP"). German GAAP vary in certain significant respects from accounting principles generally accepted in the United States of America ("US GAAP"). Application of US GAAP would have affected the results of operations for the year ended December 31, 1997 to the extent summarized in Note C to the

financial statements. All amounts herein are shown in thousands of Deutsche Mark ("TDM") unless otherwise stated.

SEG is exempt from the duty to prepare consolidated financial statements in terms of section 291 of the German Commercial Code. SEG owns a 98 % share of its affiliated company (subsidiary) Saale Energie Service GmbH ("SES"). The investment in SES is included at cost in SEG's financial statements. Furthermore, SEG holds a 41.1 % share in the Kraftwerk Schkopau GbR ("GbR") and a 44.4 % share in the Kraftwerk Schkopau Betriebsgesellschaft mbH. These companies are included at cost and referred to as participations in these financial statements.

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SAALE ENERGIE GMBH

NOTES TO THE FINANCIAL STATEMENTS
(IN THOUSANDS DM)

USE OF ESTIMATES: The preparation of financial statements in conformity with generally accepted accounting principles necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

TOTAL COST METHOD: The statement of operations is presented according to the total cost (or type of expenditure) format as commonly used in Germany. According to this format, production and all other expenses incurred during the period are classified by type of expenses.

REVENUE RECOGNITION: Revenue is recognized when title passes or services are rendered, net of discounts, customer bonuses and rebates granted.

FIXED ASSETS: Fixed tangible assets are recorded on the basis of acquisition or manufacturing cost and subsequently reduced by scheduled depreciation charges over the assets' useful lives.

FINANCIAL ASSETS: The long-term loans and investments are recorded at cost.

INVENTORIES: Inventories are accounted for at historical purchase cost.

RECEIVABLES AND OTHER ASSETS: All receivables are recorded at nominal value. No provision for doubtful accounts has been recorded.

BANK BALANCES: Bank balances include current accounts and fixed deposits.

ACCRUALS AND LIABILITIES: Accruals have been recorded for known obligations at the balance sheet date at the amounts of the estimated liabilities. Liabilities are valued at the amounts outstanding.

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SAALE ENERGIE GMBH

NOTES TO THE FINANCIAL STATEMENTS
(IN THOUSANDS DM)

NOTE C SIGNIFICANT DIFFERENCES BETWEEN GERMAN AND UNITED STATES GENERALLY
ACCEPTED ACCOUNTING PRINCIPLES

SEG's financial statements comply with German GAAP, which differs in certain significant respects from US GAAP. The differences that would have a significant effect on net income and shareholders' equity are set out below.

1. Consolidation

SEG is not required to prepare consolidated financial statements in terms of section 291 of the German Commercial Code. If US GAAP is applied, SEG would be required to prepare consolidated financial statements, which would include the financial statements of SES.

US GAAP financial statements would therefore include the current year's operating results of SES, net of minority interests, and would exclude the dividend income received by SEG.

2. Accounting for long term service and supply agreements

For German GAAP purposes the amounts billed to SEG resulting from the use and benefit agreement between SEG and GbR were recorded as expenses of the period. Parallel, the amounts attributable to the long-term electricity supply contract with the Company's sole customer were recorded as revenue in the period they were invoiced. See Note D.

In accordance with US GAAP, these agreements would be considered as leasing agreements. The use and benefit agreement would be considered a capital lease and the long-term sales agreement, as it relates to capacity availability, would be treated as a direct financing lease arrangement. The revenues and expenses recorded based upon current billings would be replaced by the amortization of unearned direct finance lease income and interest expense on lease obligations in accordance with US GAAP.

The net present value of the minimum lease payments to be received by SEG under the terms of the agreement amounts to TDM 850,722, whereas the net present value of the lease obligation payable by SEG over the minimum period of 25 years is TDM 635,541 as of December 31, 1997.

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SAALE ENERGIE GMBH

NOTES TO THE FINANCIAL STATEMENTS
(IN THOUSANDS DM)

3. Outstanding contributions from the shareholders

As of December 31, 1997 outstanding contributions from shareholders amounted to TDM 713, which were not deducted from shareholders' equity in the German financial statements. The shareholders' equity for US GAAP purposes has to be reduced by the outstanding contributions.

4. Deferred taxes

Under German GAAP, SEG did not accrue for income tax, because the accumulated tax losses of prior years exceed the net profit for the 1997 financial year.

Deferred tax assets and liabilities have not been recorded, because under German GAAP, they are only required to be recognized to the extent that the deferred tax liabilities exceed the deferred tax assets. Deferred tax assets are not recorded for accumulated tax losses brought forward.

For purposes of US GAAP accounting the financial values differ significantly from the tax basis mainly due to the application of lease accounting.

Significant components of SEG's deferred tax liabilities and assets as of December 31, 1997, that would have resulted from accumulated tax losses and temporary differences between the US GAAP financial statement basis and tax basis of assets and liabilities are summarized as follows:

	December 31, 1997 -----	December 31, 1996 -----
Deferred tax liability		
lease accounting	109,539 -----	82,155 -----
Total deferred liability	109,539 -----	82,155 -----
Deferred tax assets		
accumulated tax losses	51,457	54,787
investment in GbR	4,443 -----	14,282 -----
Total deferred asset	55,900 =====	69,069 =====
Net deferred tax liability	53,639 =====	13,087 =====

SAALE ENERGIE GMBH

NOTES TO THE FINANCIAL STATEMENTS
(IN THOUSANDS DM)

RECONCILIATION TO US GAAP

The following is a summary of the significant adjustments to net income for the year which would have been required if US GAAP had been applied instead of German GAAP.

Notes -----	Year ended December 31, 1997 -----	Year ended December 31, 1996 -----
Net income as reported in the statement of income under German GAAP	1,741	-7,870

Adjustments required to conform with US GAAP:			
Consolidation of SES	(1)	-1,578	-40
Lease adjustment	(2)	71,766	31,536
Deferred taxes	(4)	-40,552	-14,101
		-----	-----
Net profit in accordance with US GAAP		31,377	9,525
		=====	=====

SAALE ENERGIE GMBH

NOTES TO THE FINANCIAL STATEMENTS
(IN THOUSANDS DM)

The following is a summary of the significant adjustments to shareholders' equity as of December 31, 1997 which would have been required if US GAAP had been applied instead of German GAAP.

	Notes	December 31, 1997	December 31, 1996
	-----	-----	-----
Shareholders' equity as reported in the balance sheet under German GAAP		39,399	37,659
Adjustments required to conform with US GAAP:			
Consolidation of SES	(1)	1,699	3,277
Lease adjustment	(2)	103,302	31,536
Outstanding contributions	(3)	-713	-713
Deferred taxes	(4)	-53,639	-13,087
		-----	-----
Shareholders' equity in accordance with US GAAP		90,048	58,672
		=====	=====

NOTE D LONG-TERM SALES AND SERVICE AGREEMENTS

According to the long-term electricity supply contract between SEG and its major customer, SEG supplies its total available electricity capacity to this customer. The contract has a term of 25 years starting at the date of commissioning of the power plant. The customer is obliged to pay on a monthly basis a price that covers (1) the availability of power supply capacity and (2) the operating costs incurred to produce the electricity. The customer has agreed to make minimum payments of DM 2,142.7 million over the period of the agreement (25 years). In 1997, SEG's sales of TDM 224,502 solely relate to sales made to this customer.

SEG closed a use and benefit agreement with Kraftwerk Schkopau GbR under which GbR grants SEG a notional share of 400 MW (power share) in the total net capacity of the power station for its sole use. The SEG power share encompasses all plant and equipment of the power station. In return SEG is obliged to pay all costs of the GbR related to the SEG-power share as stipulated in the agreement plus a profit margin plus value added tax. During 1997, SEG was billed TDM 139,294 by GbR.

SAALE ENERGIE GMBH

NOTES TO THE FINANCIAL STATEMENTS
(IN THOUSANDS DM)

In order to manage and operate its share in the power plant SEG closed a contract with Kraftwerk Schkopau Betriebsgesellschaft mbH (KSB) on December 10, 1993. SEG commissions KSB with the conversion of coal using its power share of 400 MW of the Schkopau power plant, and KSB accepts responsibility for all costs of operating and maintaining the power plant. In terms of the contract SEG is obliged to pay for KSB's services. The management fees levied by the KSB for 1997 amounted to TDM 54,713.

NOTE E INVESTMENTS IN SUBSIDIARIES AND PARTICIPATIONS

SEG holds a 98 % share in Saale Energie Services GmbH (SES). The investment is accounted for at its historical acquisition cost of TDM 49. The business of the company consists of all activities relating to the supply of management, maintenance and consulting services in respect of power stations and related plants, especially for the power stations of the Mitteldeutsche Braunkohlengesellschaft mbH (MIBRAG) and its affiliated companies.

A 41.1 % participation in the GbR, which owns the Schkopau power plant, is held by SEG at the historical cost value of TDM 200,655.

SEG's 44.4 % share in the Kraftwerk Schkopau Betriebsgesellschaft mbH (KSB) has been recorded at the historical acquisition cost of TDM 22 (p.y. TDM 22). SEG has assigned its share in KSB to C & L Deutschland Revision AG in security for the other partner in the GbR.

NOTE F LOAN TO KRAFTWERK SCHKOPAU GBR

In terms of the loan agreement between the participants of the GbR, SEG has granted a loan of DM 98 million to GbR. The balance outstanding at December 31, 1997 was TDM 82,200. The loan is unsecured and bears interest at a fixed rate of 7 % p.a.. The interest on the loan for 1997 of TDM 5,754 was set-off from the payables to the GbR (see NOTE I). The loan has been granted for an indefinite period and the repayment terms are not fixed.

SAALE ENERGIE GMBH

NOTES TO THE FINANCIAL STATEMENTS
(IN THOUSANDS DM)

NOTE G RECEIVABLES AND OTHER ASSETS

The trade receivables of TDM 18,860, as reported on December 31, 1997, relates to power supplied to the Company's sole customer. The other assets are mainly receivables from tax authorities. Included in the receivables from the tax authorities are receivables relating to the refundable corporation tax of TDM 1,260 arising from the dividends paid by SES.

NOTE H CHANGE IN SHAREHOLDERS' EQUITY

Shareholders' equity of SEG changed in 1997 solely by the net profit for 1997 of TDM 1,741 from TDM 37,658 to TDM 39,399.

NOTE I LIABILITIES

The maturity periods of the liabilities are as follows (in TDM):

	Total balance as of Dec. 31, 1997	Maturity period of less than 1 year	Maturity period between 1 and 5 years	Maturity period more than 5 years	Total balance as of Dec. 31, 1996
1) Trade payables	3,541	3,541	-	-	8,836
2) Payables to shareholding companies	69	69	-	-	92,084
3) Payables to affiliated companies	3,140	-	3,140	-	4,375
4) Payables to companies in which participations are held	234,837	63,473	162,408	8,956	174,884
5) Other liabilities	42,211	-	42,211	-	34,150
	-----	-----	-----	-----	-----
	283,798	67,083	207,759	8,956	314,329
	=====	=====	=====	=====	=====

SAALE ENERGIE GMBH

NOTES TO THE FINANCIAL STATEMENTS
(IN THOUSANDS DM)

2) PowerGen plc., London and NRGenerating B.V., Amsterdam granted loans to SEG for the partial funding of its financial requirements for a total amount of TDM 148,054. The loans were not collateralized and bore interest at a fixed rate of 7.5 % p.a.. The loans were repaid during 1997 except for sundry interest free credits remaining of TDM 69 in total. TDM 5,412 interest was charged by the shareholding companies during 1997.

The loans from shareholding companies comprise of the following (in TDM):

	December 31, 1997	December 31, 1996
NRGenerating B.V.	59	46,088
PowerGen plc.	10	45,996
	-----	-----
	69	92,084
	=====	=====

3) In terms of the loan agreements dated February 7, 1996 and September 25, 1996 SES granted to SEG loans amounting TDM 6,500 and TDM 1,000 respectively. The

unsecured loans bear interest at a variable rate equal to the German Central Bank's discount rate plus 2 % p.a.. Included in the balance as of December 31, 1997 is interest payable of TDM 215. The net dividend paid by SES to SEG during 1997 of TDM 2,150 (after withholding taxes of TDM 790) was deducted from the outstanding loan balance. The loans can be called up at any time.

4) The liability as of December 31, 1997 comprises of the following (in TDM):

	December 31, 1997	December 31, 1996
	-----	-----
a) Kraftwerk Schkopau GbR (GbR)	230,111	168,912
b) Kraftwerk Schkopau Betriebsgesellschaft mbH (KSB)	4,726	5,972
	-----	-----
	234,837	174,884
	=====	=====

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SAALE ENERGIE GMBH

NOTES TO THE FINANCIAL STATEMENTS
(IN THOUSANDS DM)

a) The payables to GbR comprise of two components:

TDM 188,275 refer to the fees due for the current year relate to the use and benefit agreement dated December 10, 1993 and represent SEG's share in the power plant's expenses. The gross fee payable of TDM 160,188 (including value added taxation) was reduced by the interest on the GbR loans (TDM 5,754), the share in the 1996 profit of the GbR (TDM 2,959) as well as cash calls by the GbR (TDM 73,309).

TDM 41,837 results from SEG's obligation to reimburse its share in the shortfall achieved in the 1995 financial statement of the GbR as well as the shortfall achieved in 1996 up to the commissioning date of the power plant (March 31). TDM 16,966 was repaid during 1997.

The payables to the GbR are interest free.

b) The liability mainly arises from the coal conversion contract, closed on December 10, 1993 between SEG and KSB. In terms of this contract SEG commissions KSB with the conversion of coal using its power share of 400 MW of the Schkopau power plant, and KSB accepts responsibility for all costs of operating and maintaining the power plant. In terms of the contract, SEG is obliged to pay for KSB's services.

5) The other owner of the GbR, granted a loan of up to TDM 50 million to SEG for purposes of funding the interest due during the construction period of the power plant. TDM 6,061, TDM 8,682 and TDM 25,468 were drawn by SEG during 1995, 1996 and 1997 respectively. A variable interest rate of 3 months LIBOR plus 2 % p.a. was charged during 1997.

NOTE J OTHER FINANCIAL COMMITMENTS

For financial commitments relating to the leased assets and lease commitments see note C.

SAALE ENERGIE GMBH

NOTES TO THE FINANCIAL STATEMENTS
(IN THOUSANDS DM)

NOTE K RELATED PARTY TRANSACTIONS

SEG and MIBRAG, a related company with common shareholders NRG Energy Inc. and PowerGen plc., closed a long-term coal supply agreement. Under the terms of this agreement MIBRAG delivers lignite to the power station in Schkopau until 2010 at market price. The annual volume of coal to be delivered by MIBRAG was not fixed in the agreement. The lignite purchased by SEG from MIBRAG during the financial year amounted to TDM 32,052.

In addition, SES and MIBRAG entered into a consulting and management agreement. This agreement determines certain consultancy services to be provided by SES. In 1997 MIBRAG was billed TDM 4,548 by SES.

TO THE SHAREHOLDERS OF SUNSHINE STATE POWER BV

AUDITORS' REPORT

We have audited the accompanying balance sheet of Sunshine State Power BV as of December 31, 1997, 1996 and 1995, and the related statements of income and of cash flows for each of the three years ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of December 31, 1997, 1996 and 1995 and of the results for the years then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code.

PRICE WATERHOUSE NEDERLAND BV
March 27, 1998
Amsterdam, Netherlands

SUNSHINE STATE POWER BV

BALANCE SHEET AT DECEMBER 31, 1997, 1996 AND 1995

1997	1996	1995
AUD'000	AUD'000	AUD'000
-----	-----	-----

ASSETS

FIXED ASSETS			
Intangible fixed assets	7,926	8,397	8,868
Tangible fixed assets	161,545	165,173	161,355
	-----	-----	-----
	169,471	173,570	170,223
CURRENT ASSETS			
Stocks	2,254	3,536	1,851
Receivables	4,470	4,877	5,835
Cash and bank balances	10,885	11,898	11,460
	-----	-----	-----
	17,609	20,311	19,146
	-----	-----	-----
TOTAL ASSETS	187,080	193,881	189,369
	-----	-----	-----
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Issued share capital	30	30	30
Retained earnings	24,147	15,014	7,712
Result for the year	2,433	9,133	7,302
	-----	-----	-----
	26,610	24,177	15,044
	-----	-----	-----
Provisions	16,195	14,618	9,309
Long-term liabilities	135,435	146,817	156,097
Current liabilities	8,840	8,269	8,919
	-----	-----	-----
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES ..	187,080	193,881	189,369
	-----	-----	-----

The accompanying notes form an integral part of the annual accounts.

SUNSHINE STATE POWER BV

STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

	1997	1996	1995
	AUD'000	AUD'000	AUD'000
	-----	-----	-----
Net turnover			
Queensland Transmission & Supply Corporation	24,105	31,245	33,250
Boyne Smelters Limited	31,386	21,548	21,378
	-----	-----	-----
TOTAL	55,491	52,793	54,628
Cost of turnover			
Non-fuel	8,864	9,179	8,163
Fuel	19,972	14,562	14,851
	-----	-----	-----

TOTAL	28,836	23,741	23,014
GROSS PROFIT ON TURNOVER	26,655	29,052	31,614
Operating expenses	2,484	1,719	3,000
Depreciation and amortization expense	6,328	6,041	5,539
TOTAL EXPENSES	8,812	7,760	8,539
NET PROFIT ON TURNOVER	17,843	21,292	23,075
Interest expense	7,831	10,233	11,100
Interest income	(667)	(770)	(718)
Foreign exchange (gain)/loss	6,951	(2,527)	744
Disposal of assets (gain)/loss	(73)	86	-
NET FINANCIAL EXPENSE	14,042	7,022	11,126
Result from ordinary operations before taxation ..	3,801	14,270	11,949
Taxation	1,368	5,137	4,647
NET RESULT	2,433	9,133	7,302

The accompanying notes form an integral part of the annual accounts.

SUNSHINE STATE POWER BV

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

	1997 AUD'000	1996 AUD'000	1995 AUD'000
	-----	-----	-----
Cash flows from operating activities			
Net result	2,433	9,133	7,302
Adjustments to reconcile net result to net cash provided by operating activities:			
Depreciation and amortization	6,328	6,041	5,539
Deferred income taxes	1,368	5,137	4,647
Foreign exchange loss/(gain)	6,951	(2,527)	744
(Gain)/Loss on sale of fixed assets	(73)	86	-
Changes in operating assets and liabilities:			
Stocks	1,282	(1,685)	(6)
Receivables	407	958	(1,469)
Provisions	209	172	166
Current liabilities	48	(1,088)	(102)
	-----	-----	-----

NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES ..	18,953	16,227	16,821
	-----	-----	-----
Cash flows from investing activities			
Purchases of tangible fixed assets	(2,251)	(9,495)	(12,762)
Proceeds from sale of fixed assets	94	21	-
	-----	-----	-----
NET CASH FLOWS USED BY INVESTING ACTIVITIES	(2,157)	(9,474)	(12,762)
	-----	-----	-----
Cash flows from financing activities			
Proceeds (repayments) of notes payable	(12,896)	(1,840)	1,014
Repayments of long-term debt	(4,913)	(4,475)	(4,038)
	-----	-----	-----
NET CASH FLOWS (USED) PROVIDED BY FINANCING ACTIVITIES	(17,809)	(6,315)	(3,024)
	-----	-----	-----
NET (DECREASE)/INCREASE IN CASH AND BANK BALANCES	(1,013)	438	1,035
	-----	-----	-----
Cash and bank balances			
Beginning of year	11,898	11,460	10,425
	-----	-----	-----
End of year	10,885	11,898	11,460
	-----	-----	-----
SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR INTEREST	8,072	10,382	11,043
	-----	-----	-----

The accompanying notes form an integral part of the annual accounts.

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SUNSHINE STATE POWER BV

NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

1. GENERAL

ACTIVITIES

Sunshine State Power BV (the Company) was incorporated on November 11, 1993. The Company's principal operating activity is the ownership of 20% of the Gladstone Power Station Joint Venture. The Gladstone Power Station Joint Venture owns and operates the Gladstone Power Station located in Queensland, Australia which it acquired on March 30, 1994. The Gladstone Power Station Joint Venture is an unincorporated joint venture and therefore not a separate legal entity. Accordingly, the Gladstone Power Station Joint Venture owners act as tenants in common owning their proportionate shares of the unincorporated joint venture's assets, liabilities and results, of operations.

The accounts have been prepared for the years ended December 31, 1997, 1996 and 1995.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

Unless otherwise stated assets and liabilities are carried at nominal value.

BASIS OF PREPARATION

The Company's financial statements have been prepared in accordance with generally accepted accounting principles in the Netherlands (Netherlands GAAP) which may differ in certain respects from generally accepted accounting principles in the United States (US GAAP). With regard to the Company's balance sheet and statement of income, there are no material differences between Netherlands GAAP and US GAAP. With regard to the Company's statement of cash flows, under US GAAP the foreign exchange loss/(gain) would be classified under the cash flows from financing activities section as US GAAP requires that such items be netted with the related cash flow item.

FOREIGN CURRENCIES

Assets and liabilities at year-end and transactions during the period denominated in a foreign currency are translated into the Company's local currency (Australian \$) at the exchange rates ruling at year-end and at the time of the transaction, respectively. Exchange adjustments are taken to the statement of income.

INTANGIBLE FIXED ASSETS

Project Development Expenditures - Project development expenditures represent the Company's share of project development expenditures incurred by the Gladstone Power Station Joint Venture to organize the acquisition of the Gladstone Power Station and operate it subsequent to the acquisition.

Capitalized development expenditures are being amortized over the term of the Gladstone Power Station Power sales agreements (35 years), commencing from the date the investment in the project was consummated. The carrying values of capitalized development expenditures and the amortization periods are reviewed annually and any necessary write down is charged against income. Research expenditures and expenditures on development of existing projects are charged against income in the year in which they are incurred.

SUNSHINE STATE POWER BV

NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995 -- (CONTINUED)

Financing Costs - Financing costs represent the Company's share of the costs incurred by the Gladstone Power Station Joint Venture to acquire the long-term debt used to finance the acquisition of the Gladstone Power Station. Capitalized financing costs are being amortized over a ten year period, which represents the timeframe until the Company expects the long-term debt will be refinanced.

TANGIBLE FIXED ASSETS

All tangible fixed assets are stated at cost. The Company has not had any reevaluations performed on its tangible fixed assets. Tangible fixed assets, with the exception of land, are depreciated over their estimated useful lives or over the life of the power purchase agreement by the straight line method. Ordinary maintenance and repairs are expensed as incurred; replacements and improvements are capitalized.

The estimated useful lives are:

Site roads and preparation	35 years
Generators, systems, stacks, etc.	35 years
Coal handling plant	10-35 years
Other operating fixed assets	3-10 years

STOCKS

Stocks are carried at the lower of cost (principally by the FIFO method or another method which approximates FIFO) and net realizable value. In valuing stocks, appropriate allowance is made for obsolete or slow-moving items.

TRADE DEBTORS

Trade debtors are stated at nominal value.

PROVISIONS

Employee Provisions - Provisions are made for amounts expected to be paid to the operator of the Gladstone Power Station in respect of its employees for the pro rata entitlements for long service and annual leave. These amounts are accrued at actual pay rates having regard to experience of employee's departure and period of service. The provisions are divided into current (expected to be paid in the ensuing twelve months) and non-current portions.

Deferred Tax - Provisions for deferred taxes have been set up where items entering into the determination of accounting profit for one period are recognized for taxation purposes in another. The principal difference arises in connection with the depreciation of fixed assets. In calculating the provision, current tax rates are applied. During 1995, Australian income tax rates increased from 33% to 36%. In 1995, the prior year deferred tax balance was increased to reflect the increase in tax rates with the adjustment being recorded in taxation in the statement of income.

COMPANY INCOME TAX

Company income tax is based upon the results reported in the statement of income as adjusted for permanent differences. Current Australian tax rates are applied.

3. INTANGIBLE FIXED ASSETS

The movements in the intangible fixed assets are summarized as follows:

	PROJECT DEVELOPMENT EXPENDITURES	FINANCING COSTS	TOTAL
	AUD'000	AUD'000	AUD'000
COST			
Balance at December 31, 1994	6,984	2,707	9,691
Additions for the year ended December 31, 1995	-	-	-
Balance at December 31, 1995	6,984	2,707	9,691
Additions for the year ended December 31, 1996	-	-	-
Balance at December 31, 1996	6,984	2,707	9,691
Additions for the year ended December 31, 1997	-	-	-
Balance at December 31, 1997	6,984	2,707	9,691
ACCUMULATED AMORTIZATION			
Balance at December 31, 1994	(150)	(203)	(353)
Amortization for the year ended December 31, 1995 ..	(199)	(271)	(470)
Amortization for the year ended December 31, 1996 ..	(200)	(271)	(471)
Amortization for the year ended December 31, 1997 ..	(200)	(271)	(471)
Balance at December 31, 1997	(749)	(1,016)	(1,765)
Net book value at December 31, 1997	6,235	1,691	7,926

4. TANGIBLE FIXED ASSETS

The movements in the tangible fixed assets are summarized as follows:

	LAND	SITE ROADS AND PREPARATION	GENERATORS SYSTEMS, STACKS	COAL HANDLING PLANT	OTHER OPERATING FIXED ASSETS	TOTAL
	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000
COST						
Balance at December 31, 1994	211	2,443	141,125	6,294	1,912	151,985
Additions	-	146	8,943	2,036	721	11,846
Disposals	-	-	(1)	-	(10)	(11)
Balance at December 31, 1995	211	2,589	150,067	8,330	2,623	163,820
Additions	5	209	11,988	1,334	111	13,647
Disposals	-	-	(88)	-	(19)	(107)
Balance at December 31, 1996	216	2,798	161,967	9,664	2,715	177,360
Additions	-	48	3,810	44	263	4,165
Disposals	-	(12)	(3)	-	(6)	(21)
Balance at December 31, 1997	216	2,834	165,774	9,708	2,972	181,504

NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995-- (CONTINUED)

	LAND	SITE ROADS AND PREPARATION	GENERATORS SYSTEMS, STACKS	COAL HANDLING PLANT	OTHER OPERATING FIXED ASSETS	TOTAL
	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000
ACCUMULATED DEPRECIATION						
Balance at December 31, 1994	-	(53)	(2,940)	(331)	(177)	(3,501)
Charge for the year	-	(72)	(4,304)	(452)	(353)	(5,181)
Balance at December 31, 1995	-	(125)	(7,244)	(783)	(530)	(8,682)
Charge for the year	-	(79)	(4,497)	(601)	(393)	(5,570)
Balance at December 31, 1996	-	(204)	(11,741)	(1,384)	(923)	(14,252)
Charge for the year	-	(129)	(4,795)	(676)	(258)	(5,858)
Balance at December 31, 1997	-	(333)	(16,536)	(2,060)	(1,181)	(20,110)
Net book value at December 31, 1997	216	2,501	149,238	7,648	1,791	161,394
Construction in progress at December 31, 1997 (construction in progress at December 31, 1996 and 1995 was \$2,065 and \$6,217, respectively)						151
Net tangible fixed assets at December 31, 1997						161,545

5. STOCKS

	DECEMBER 31, 1997 ----	DECEMBER 31, 1996 ----	DECEMBER 31, 1995 ----
	AUD'000	AUD'000	AUD'000
Coal	1,046	2,318	656
Fuel oils	146	154	202
Chemicals	5	12	13
Spares and consumables ..	1,057	1,052	980
	-----	-----	-----
	2,254	3,536	1,851
	-----	-----	-----

6. RECEIVABLES

	DECEMBER 31, 1997 ----	DECEMBER 31, 1996 ----	DECEMBER 31, 1995 ----
	AUD'000	AUD'000	AUD'000
Trade debtors	4,249	4,605	5,501
Prepayments	221	272	334
	-----	-----	-----
	4,470	4,877	5,835
	-----	-----	-----

All receivables are due in less than one year.

SUNSHINE STATE POWER BV

NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995-- (CONTINUED)

7. CASH AND BANK BALANCES

All cash and bank balances are held by banks and include investments with maturities of three months or less which are readily convertible to cash. The Company's long-term debt agreement places restrictions on the amount of cash and bank balances which must be maintained. At December 31, 1997, 1996 and 1995, the restricted cash and bank balances totaled \$6,200,000, \$7,000,000 and \$7,500,000, respectively.

8. ISSUED SHARE CAPITAL

The authorized share capital consists of 2,000 shares each having a nominal value of 30 Australian dollars (40 Dutch Guilders), of which 1,000 shares have been issued and fully paid up at December 31, 1997 and 1996. The Company's shares are owned by NRGenerating International BV (990) and Gunwale BV (10). Both NRGenerating International BV and Gunwale BV are wholly owned by NRG Energy, Inc., which is incorporated in the United States of America.

9. RETAINED EARNINGS

	1997	1996
	----	----
	AUD'000	AUD'000
Balance at January 1	15,014	7,712
Appropriation of prior years result	9,133	7,302
	-----	-----
Balance at December 31	24,147	15,014
	-----	-----

10. RESULT FOR THE PERIOD

AUD'000

Balance at December 31, 1994	7,712
1994 net result appropriated to retained earnings	(7,712)
Net result for the year ended December 31, 1995	7,302
1995 net result appropriated to retained earnings	(7,302)
Net result for the year ended December 31, 1996	9,133
1996 net result appropriated to retained earnings	(9,133)
Net result for the year ended December 31, 1997	2,433

Balance at December 31, 1997	2,433

SUNSHINE STATE POWER BV

NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995-- (CONTINUED)

11. PROVISIONS

	EMPLOYEE PROVISIONS	DEFERRED TAX	TOTAL
	-----	---	-----
	AUD'000	AUD'000	AUD'000
Balance at December 31, 1994	697	3,799	4,496
Charged/(released) to income	166	4,647	4,813
	-----	-----	-----
Balance at December 31, 1995	863	8,446	9,309
Charged/(released) to income	172	5,137	5,309
	-----	-----	-----
Balance at December 31, 1996	1,035	13,583	14,618
Charged/(released) to income	209	1,368	1,577
	-----	-----	-----
Balance at December 31, 1997	1,244	14,951	16,195
	-----	-----	-----

Approximately \$710 (AUD'000) of the employee provisions are current and expected to be paid during 1998.

12. LONG-TERM LIABILITIES

Secured long-term debt due to third parties

	DECEMBER 31, 1997 ----	DECEMBER 31, 1996 ----	DECEMBER 31, 1995 ----
	AUD'000	AUD'000	AUD'000
Secured - with banks	103,383	108,821	113,733

Current installments of bank long-term debt are included under current liabilities. The interest rate for long-term debt is variable based on an average of the bid rates quoted by the banks plus a margin of 1.4% at December 31, 1997.

The bank long-term debt is repayable as follows (in AUD'000):

1998	5,437
1999	5,975
2000	6,600
2001	7,275
2002	8,012
Thereafter	75,522

	108,821

The bank long-term debt is secured by the Company's ownership interest in the Gladstone Power Station Joint Venture.

SUNSHINE STATE POWER BV

NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995-- (CONTINUED)

Unsecured Subordinated Notes Payable (AUD'000)

On March 25, 1994 the Company received loans from NRGenerating International BV and Gunwale BV, the primary shareholders of the Company, in the amounts of \$48,312 and \$488 respectively. The notes payable are subordinated to all other liabilities of the Company, bear no interest and are to be repaid in U.S. dollars. The Company repaid \$12,767 and \$129 to NRGenerating International BV and Gunwale BV, respectively, during 1997 and repaid \$1,822 and \$18 to NRGenerating International BV and Gunwale BV respectively during 1996. There were no repayments made during 1995. Repayments on the notes payable are at the discretion of the Company, unless certain events of termination occur, as defined, and then the entire balance of the notes becomes due. The note balances, as adjusted for current period activity and foreign exchange fluctuations, were \$31,733 and \$319 to NRGenerating International BV and

Gunwale BV at December 31, 1997, respectively, \$37,616 and \$380 to NRGenerating International BV and Gunwale BV at December 31, 1996, respectively, and \$41,940 and \$424 to NRGenerating International BV and Gunwale BV at December 31, 1995, respectively.

13. CURRENT LIABILITIES

	DECEMBER 31, 1997 ----	DECEMBER 31, 1996 ----	DECEMBER 31, 1995 ----
	AUD'000	AUD'000	AUD'000
Current installments of bank long-term debt ..	5,437	4,913	4,475
Trade creditors/suppliers	945	776	1,579
Accrued coal/rail costs	1,633	1,152	1,712
Accrued interest	559	800	959
Other accrued expenses	266	628	194
	-----	-----	-----
	8,840	8,269	8,919
	-----	-----	-----

14. RELATED PARTIES

An affiliate of the Company, Sunshine State Power (No. 2) BV owns 17.5% of the Gladstone Power Station Joint Venture. Sunshine State Power (No. 2) BV is owned by the owners of the Company.

The Gladstone Power Station is operated by NRG Gladstone Operating Services Pty Ltd, which is ultimately a wholly-owned subsidiary of NRG Energy Inc. NRG Gladstone Operating Services Pty Ltd operates the Gladstone Power Station under the terms of the Operation and Maintenance Agreement with the Gladstone Power Station Joint Venture. During the periods ended December 31, 1997, 1996 and 1995, the Company paid NRG Gladstone Operating Services Pty Ltd approximately \$298, \$288 and \$331 (AUD'000) respectively in operators fees under the terms of the Operation and Maintenance Agreement.

SUNSHINE STATE POWER BV

NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995-- (CONTINUED)

15. NUMBER OF EMPLOYEES

The average number of persons employed at the Gladstone Power Station during 1997 was approximately 453. These individuals are primarily employed in the operations and maintenance areas of the station. The Company is responsible for 20% of the related costs for these employees. The Company itself has no employees.

16. REMUNERATION OF DIRECTORS

During the periods ended December 31, 1997, 1996 and 1995, none of the directors received remuneration for their services as directors of the Company.

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TO THE SHAREHOLDERS OF SUNSHINE STATE POWER (NO. 2) BV

AUDITORS' REPORT

We have audited the accompanying balance sheet of Sunshine State Power (No. 2) BV as of December 31, 1997, 1996 and 1995, and the related statements of income and of cash flows for each of the three years ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of December 31, 1997, 1996 and 1995 and of the results for the years then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code.

PRICE WATERHOUSE NEDERLAND BV
March 27, 1998
Amsterdam, Netherlands

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SUNSHINE STATE POWER (NO. 2) BV

BALANCE SHEET AT DECEMBER 31, 1997, 1996 AND 1995

	1997 AUD'000	1996 AUD'000	1995 AUD'000
	-----	-----	-----
ASSETS			
FIXED ASSETS			
Intangible fixed assets	6,937	7,348	7,759
Tangible fixed assets	141,349	144,524	141,183
	-----	-----	-----
	148,286	151,872	148,942
CURRENT ASSETS			
Stocks	1,972	3,093	1,620
Receivables	3,910	4,267	5,106
Cash and bank balances	9,535	10,416	9,953
	-----	-----	-----
	15,417	17,776	16,679
	-----	-----	-----
TOTAL ASSETS	163,703	169,648	165,621
	-----	-----	-----
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Issued share capital	30	30	30
Retained earnings	21,108	13,158	6,748
Result for the year	2,139	7,950	6,410
	-----	-----	-----
	23,277	21,138	13,188
	-----	-----	-----
Provisions	14,164	12,779	8,155
Long-term liabilities	118,545	128,472	136,515
Current liabilities	7,717	7,259	7,763
	-----	-----	-----
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES ..	163,703	169,648	165,621
	=====	=====	=====

The accompanying notes form an integral part of the annual accounts.

SUNSHINE STATE POWER (NO. 2) BV

STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

	1997 AUD'000	1996 AUD'000	1995 AUD'000
	-----	-----	-----
Net turnover			
Queensland Electricity Commission	21,092	27,340	29,094

Boyne Smelters Limited	27,462	18,854	18,706
	-----	-----	-----
TOTAL	48,554	46,194	47,800
Cost of turnover			
Non-fuel	7,756	8,031	7,143
Fuel	17,475	12,742	12,995
	-----	-----	-----
TOTAL	25,231	20,773	20,138
	-----	-----	-----
GROSS PROFIT ON TURNOVER	23,323	25,421	27,662
Operating expenses	2,144	1,509	2,632
Depreciation and amortization expense	5,537	5,285	4,846
	-----	-----	-----
TOTAL EXPENSES	7,681	6,794	7,478
	-----	-----	-----
NET PROFIT ON TURNOVER	15,642	18,627	20,184
	-----	-----	-----
Interest expense	6,852	8,954	9,713
Interest income	(584)	(668)	(626)
Foreign exchange (gain)/loss	6,096	(2,157)	609
Disposal of assets (gain)/loss	(64)	76	-
	-----	-----	-----
NET FINANCIAL EXPENSE	12,300	6,205	9,696
	-----	-----	-----
Result from ordinary operations before taxation ..	3,342	12,422	10,488
Taxation	1,203	4,472	4,078
	-----	-----	-----
NET RESULT	2,139	7,950	6,410
	-----	-----	-----

The accompanying notes form an integral part of the annual accounts.

SUNSHINE STATE POWER (NO. 2) BV

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

	1997 AUD'000	1996 AUD'000	1995 AUD'000
	-----	-----	-----
Cash flows from operating activities			
Net result	2,139	7,950	6,410
Adjustments to reconcile net result to net cash provided by operating activities:			
Depreciation and amortization	5,537	5,285	4,846
Deferred income taxes	1,203	4,472	4,078
Foreign exchange loss/(gain)	6,096	(2,157)	609
Gain/loss on sale of fixed assets	(64)	76	-
Changes in operating assets and liabilities:			
Stocks	1,121	(1,473)	(6)
Receivables	357	839	(1,237)

Provisions	182	152	144
Current liabilities	(3)	(886)	(131)
	-----	-----	-----
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	16,568	14,258	14,713
	-----	-----	-----
Cash flows from investing activities:			
Purchases of tangible fixed assets	(1,969)	(8,308)	(11,165)
Proceeds from sale of fixed assets	83	17	-
	-----	-----	-----
NET CASH FLOWS USED BY INVESTING ACTIVITIES	(1,886)	(8,291)	(11,165)
	-----	-----	-----
Cash flows from financing activities:			
Proceeds (repayments) of notes payable	(11,265)	(1,588)	883
Repayments of long-term debt	(4,298)	(3,916)	(3,533)
	-----	-----	-----
NET CASH FLOWS (USED) BY FINANCING ACTIVITIES	(15,563)	(5,504)	(2,650)
	-----	-----	-----
NET INCREASE IN CASH AND BANK BALANCES	(881)	463	898
	-----	-----	-----
Cash and bank balances			
Beginning of year	10,416	9,953	9,055
	-----	-----	-----
End of year	9,535	10,416	9,953
	-----	-----	-----
SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR			
INTEREST	7,063	9,084	9,667
	-----	-----	-----

The accompanying notes form an integral part of the annual accounts.

SUNSHINE STATE POWER (NO. 2) BV

NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

1. GENERAL

ACTIVITIES

Sunshine State Power (No. 2) BV (the Company) was incorporated on February 24, 1994. The Company's principal operating activity is the ownership of 17.5% of the Gladstone Power Station Joint Venture. The Gladstone Power Station Joint Venture owns and operates the Gladstone Power Station located in Queensland, Australia, which it acquired on March 30, 1994. The Gladstone Power Station Joint Venture is an unincorporated joint venture and therefore not a separate legal entity. Accordingly, the Gladstone Power Station Joint Venture owners act as tenants in common owning their proportionate shares of the unincorporated joint venture's assets, liabilities and results of operations. The accounts have been prepared for the years ended December 31, 1997, 1996 and 1995.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

Unless otherwise stated assets and liabilities are carried at nominal value.

BASIS OF PREPARATION

The Company's financial statements have been prepared in accordance with generally accepted accounting principles in the Netherlands (Netherlands GAAP) which may differ in certain respects from generally accepted accounting principles in the United States (US GAAP). With regard to the Company's balance sheet and statement of income, there are no material differences between Netherlands GAAP and US GAAP. With regard to the Company's statement of cash flows, under US GAAP the foreign exchange loss/(gain) would be classified under the cash flows from financing activities section as US GAAP requires that such items be netted with the related cash flow item.

FOREIGN CURRENCIES

Assets and liabilities at year-end and transactions during the period denominated in a foreign currency are translated into the Company's local currency (Australian \$) at the exchange rates ruling at year-end and at the time of the transaction, respectively. Exchange adjustments are taken to the statement of income.

INTANGIBLE FIXED ASSETS

Project Development Expenditures - Project development expenditures represent the Company's share of project development expenditures incurred by the Gladstone Power Station Joint Venture to organize the acquisition of the Gladstone Power Station and operate it subsequent to the acquisition.

Capitalized development expenditures are being amortized over the term of the Gladstone Power Station Power sales agreements (35 years), commencing from the date the investment in the project was consummated. The carrying values of capitalized development expenditures and the amortization periods are reviewed annually and any necessary write down is charged against income. Research expenditures and expenditures on development of existing projects are charged against income in the year in which they are incurred.

SUNSHINE STATE POWER (NO. 2) BV

NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995-- (CONTINUED)

Financing Costs - Financing costs represent the Company's share of the costs incurred by the Gladstone Power Station Joint Venture to acquire the long-term debt used to finance the acquisition of the Gladstone Power Station. Capitalized financing costs are being amortized over a ten year period, which represents the timeframe until the Company expects the long-term debt will be refinanced.

TANGIBLE FIXED ASSETS

All tangible fixed assets are stated at cost. The Company has not had any revaluations performed on its tangible fixed assets. Tangible fixed assets,

with the exception of land, are depreciated over their estimated useful lives by the straight line method. Ordinary maintenance and repairs are expensed as incurred; replacements and improvements are capitalized.

The estimated useful lives are:

Site roads and preparation	35 years
Generators, systems, stacks, etc.	35 years
Coal handling plant	10-35 years
Other operating fixed assets	3-10 years

STOCKS

Stocks are carried at the lower of cost (principally by the FIFO method or another method which approximates FIFO) and net realizable value. In valuing stocks, appropriate allowance is made for obsolete or slow-moving items.

TRADE DEBTORS

Trade debtors are stated at nominal value.

PROVISIONS

Employee Provisions - Provisions are made for amounts expected to be paid to the operator of the Gladstone Power Station in respect of its employees for the pro rata entitlements for long service and annual leave. These amounts are accrued at actual pay rates having regard to experience of employee's departure and period of service. The provisions are divided into current (expected to be paid in the ensuing twelve months) and non-current portions.

Deferred Tax - Provisions for deferred taxes have been set up where items entering into the determination of accounting profit for one period are recognized for taxation purposes in another. The principal difference arises in connection with the depreciation of fixed assets. In calculating the provision, current tax rates are applied. During 1995 Australian income tax rates increased from 33% to 36%. In 1995 the prior year deferred tax balance was increased to reflect the increase in tax rates with the adjustment being recorded in taxation in the statement of income.

COMPANY INCOME TAX

Company income tax is based upon the results reported in the statement of income as adjusted for permanent differences. Current Australian tax rates are applied.

3. INTANGIBLE FIXED ASSETS

The movements in the intangible fixed assets are summarized as follows:

	PROJECT	FINANCING	TOTAL
	DEVELOPMENT EXPENDITURES	COSTS	
	AUD'000	AUD'000	AUD'000
COST			
Balance at December 31, 1994	6,111	2,369	8,480
Additions for the year ended December 31, 1995	-	-	-
Balance at December 31, 1995	6,111	2,369	8,480
Additions for the year ended December 31, 1996	-	-	-
Balance at December 31, 1996	6,111	2,369	8,480
Additions for the year ended December 31, 1997	-	-	-
Balance at December 31, 1997	6,111	2,369	8,480
ACCUMULATED AMORTIZATION			
Balance at December 31, 1994	(131)	(178)	(309)
Amortization for the year ended December 31, 1995 ..	(175)	(237)	(412)
Amortization for the year ended December 31, 1996 ..	(174)	(237)	(411)
Amortization for the year ended December 31, 1997 ..	(175)	(236)	(411)
Balance at December 31, 1997	(655)	(888)	(1,543)
Net book value at December 31, 1997	5,456	1,481	6,937

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SUNSHINE STATE POWER (NO. 2) BV

NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995-- (CONTINUED)

4. TANGIBLE FIXED ASSETS

The movements in the tangible fixed assets are summarized as follows:

	LAND	SITE ROADS AND PREPARATION	GENERATORS SYSTEMS, STACKS	COAL HANDLING PLANT	OTHER OPERATING FIXED ASSETS	TOTAL
	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000
COST						
Balance at December 31, 1994	184	2,138	123,482	5,508	1,673	132,985
Additions	-	128	7,827	1,781	631	10,367
Disposals	-	-	(1)	-	(9)	(10)
Balance at December 31, 1995	184	2,266	131,308	7,289	2,295	143,342
Additions	5	182	10,489	1,168	97	11,941
Disposals	-	-	(77)	-	(16)	(93)
Balance at December 31, 1996	189	2,448	141,720	8,457	2,376	155,190
Additions	-	42	3,334	38	230	3,644
Disposals	-	(10)	(3)	-	(6)	(19)

Balance at December 31, 1997	189	2,480	145,051	8,495	2,600	158,815
ACCUMULATED DEPRECIATION						
Balance at December 31, 1994	-	(46)	(2,571)	(292)	(155)	(3,064)
Charge for the year	-	(63)	(3,767)	(396)	(309)	(4,535)
Balance at December 31, 1995	-	(109)	(6,338)	(688)	(464)	(7,599)
Charge for the year	-	(69)	(3,935)	(526)	(344)	(4,874)
Balance at December 31, 1996	-	(178)	(10,273)	(1,214)	(808)	(12,473)
Charge for the year	-	(114)	(4,195)	(591)	(225)	(5,125)
Balance at December 31, 1997	-	(292)	(14,468)	(1,805)	(1,033)	(17,598)
Net book value at December 31, 1997	189	2,188	130,583	6,690	1,567	141,217
Construction in progress at December 31, 1997 (construction in progress at December 31, 1996 and 1995 was \$1,807 and \$5,440, respectively)						132
Net tangible fixed assets at December 31, 1997						141,349

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SUNSHINE STATE POWER (NO. 2) BV

NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995-- (CONTINUED)

5. STOCKS

	DECEMBER 31, 1997 ----	DECEMBER 31, 1996 ----	DECEMBER 31, 1995 ----
	AUD'000	AUD'000	AUD'000
Coal	915	2,028	574
Fuel oils	128	135	177
Chemicals	4	10	11
Spares and consumables ..	925	920	858
	-----	-----	-----
	1,972	3,093	1,620
	-----	-----	-----

6. RECEIVABLES

DECEMBER 31, 1997 ----	DECEMBER 31, 1996 ----	DECEMBER 31, 1995 ----
------------------------------	------------------------------	------------------------------

	AUD'000	AUD'000	AUD'000
Trade debtors	3,717	4,030	4,814
Prepayments	193	237	292
	-----	-----	-----
	3,910	4,267	5,106
	-----	-----	-----

All receivables are due in less than one year.

7. CASH AND BANK BALANCES

All cash and bank balances are held by banks and include investments with maturities of three months or less which are readily convertible to cash. The Company's long-term debt agreement places restrictions on the amount of cash and bank balances which must be maintained. At December 31, 1997, 1996 and 1995, the restricted cash and bank balances totaled \$5,425,000, \$6,100,000 and \$6,500,000, respectively.

8. ISSUED SHARE CAPITAL

The authorized share capital consists of 2,000 shares each having a nominal value of 75 Australian dollars (100 Dutch Guilders), of which 400 shares have been issued and fully paid up at December 31, 1997 and 1996. The Company's shares are owned by NRGenerating International BV (396) and Gunwale BV (4). Both NRGenerating International BV and Gunwale BV are wholly owned by NRG Energy, Inc., which is incorporated in the United States of America.

9. RETAINED EARNINGS

	1997	1996
	----	----
	AUD'000	AUD'000
Balance at January 1	13,158	6,748
Appropriation of prior years result	7,950	6,410
	-----	-----
Balance at December 31	21,108	13,158
	-----	-----

SUNSHINE STATE POWER (NO. 2) BV

NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995-- (CONTINUED)

10. RESULT FOR THE PERIOD

	AUD'000
Balance at December 31, 1994	6,748
1994 net result appropriated to retained earnings	(6,748)
Net result for the year ended December 31, 1995	6,410
1995 net result appropriated to retained earnings	(6,410)
Net result for the year ended December 31, 1996	7,950
1996 net result appropriated to retained earnings	(7,950)
Net result for the year ended December 31, 1997	2,139
Balance at December 31, 1997	2,139

11. PROVISIONS

	EMPLOYEE PROVISIONS	DEFERRED TAX	TOTAL
	-----	-----	-----
	AUD'000	AUD'000	AUD'000
Balance at December 31, 1994	610	3,323	3,933
Charged/(released) to income	144	4,078	4,222
Balance at December 31, 1995	754	7,401	8,155
Charged/(released) to income	152	4,472	4,624
Balance at December 31, 1996	906	11,873	12,779
Charged/(released) to income	182	1,203	1,385
Balance at December 31, 1997	1,088	13,076	14,164

Approximately \$621 (AUD'000) of the employee provisions are current and expected to be paid during 1998.

12. LONG-TERM LIABILITIES

Secured long-term debt due to third parties

	DECEMBER 31, 1997	DECEMBER 31, 1996	DECEMBER 31, 1995
	----	----	----
	AUD'000	AUD'000	AUD'000
Secured - with banks	90,460	95,218	99,516

Current installments of bank long-term debt are included under current liabilities. The interest rate for long-term debt is variable based on an

average of the bid rates quoted by the banks plus a margin of 1.4% at December 31, 1997.

SUNSHINE STATE POWER (NO. 2) BV

NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995-- (CONTINUED)

The bank long-term debt is repayable as follows (in AUD'000):

1998	4,758
1999	5,228
2000	5,775
2001	6,366
2002	7,011
Thereafter	66,080

	95,218
	=====

The bank long-term debt is secured by the Company's ownership interest in the Gladstone Power Station Joint Venture.

Unsecured Subordinated Note Payable (AUD'000)

On March 25, 1994 the Company received loans from NRGenerating International BV and Gunwale BV, the primary shareholders of the Company, in the amount of \$42,273 and \$427, respectively. The notes payable are subordinated to all other liabilities of the Company, bear no interest and are to be repaid in US dollars. The Company repaid \$11,152 and \$113 to NRGenerating International BV and Gunwale BV, respectively during 1997 and \$1,572 and \$16 to NRGenerating International BV and Gunwale BV respectively during 1996. There were no repayments made during 1995. Repayments on the notes payable are at the discretion of the Company, unless certain events of termination occur, as defined, and then the entire balance of the notes becomes due. The note balances, as adjusted for current period activity and foreign exchange fluctuations, were \$27,806 and \$279 to NRGenerating International BV and Gunwale BV at December 31, 1997 respectively, \$32,922 and \$332 to NRGenerating International BV and Gunwale BV at December 31, 1996, respectively, and \$36,629 and \$370 to NRGenerating International BV and Gunwale BV at December 31, 1995, respectively.

13. CURRENT LIABILITIES

DECEMBER 31,	DECEMBER 31,	DECEMBER 31,
1997	1996	1995
----	----	----

	AUD'000	AUD'000	AUD'000
Current installments of bank long-term debt ..	4,758	4,298	3,916
Trade creditors/suppliers	826	696	1,345
Accrued coal/rail costs	1,429	1,008	1,498
Accrued interest	489	700	834
Other accrued expenses	215	557	170
	-----	-----	-----
	7,717	7,259	7,763
	-----	-----	-----

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SUNSHINE STATE POWER (NO. 2) BV

NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995-- (CONTINUED)

14. RELATED PARTIES

An affiliate of the Company, Sunshine State Power BV owns 20% of the Gladstone Power Station Joint Venture. Sunshine State Power BV is owned by the owners of the Company.

The Gladstone Power Station is operated by NRG Gladstone Operating Services Pty Ltd, which is ultimately a wholly-owned subsidiary of NRG Energy Inc. NRG Gladstone Operating Services Pty Ltd operates the Gladstone Power Station under the terms of the Operation and Maintenance Agreement with the Gladstone Power Station Joint Venture. During the periods ended December 31, 1997, 1996 and 1995, the Company paid NRG Gladstone Operating Services Pty Ltd approximately \$260, \$252 and \$289 (A\$S'000) respectively in operators fees under the terms of the Operation and Maintenance Agreement.

15. NUMBER OF EMPLOYEES

The average number of persons employed at the Gladstone Power Station during 1997 was approximately 453. These individuals are primarily employed in the operations and maintenance areas of the station. The Company is responsible for 17.5% of the related costs for these employees. The Company itself has no employees.

16. REMUNERATION OF DIRECTORS

During the periods ended December 31, 1997, 1996 and 1995, none of the directors received remuneration for their services as directors of the Company.

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