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

FORM 10-K

(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
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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 or any amendment to this Form 10-K. Yes X No
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As of March 30, 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

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PART I

ITEM 1 - BUSINESS

GENERAL

NRG Energy, Inc., ("NRG") is one of the leading participants in the independent power generation industry. Established in 1989 and wholly-owned by Northern States Power Company ("NSP"), NRG is principally engaged in the acquisition, development and operation of, and ownership of interests in, independent power production and co-generation facilities, thermal energy production and transmission facilities and resource recovery facilities. The power generation facilities in which NRG currently has interests (including those under construction) as of December 31, 1997 have a total design capacity of 8,516 megawatts ("MW"), of which NRG has or will have total or shared operational responsibility for 5,374 MW and net ownership of, or leasehold interests in 2,650 MW. In addition, NRG has substantial interests in district heating and cooling systems and steam generation and transmission operations. As of December 31, 1997, these thermal businesses had a steam capacity of approximately 3,550 million British thermal units ("mmBtus"). NRG's refuse-derived fuel ("RDF") plants processed more than 800,000 tons of municipal solid waste into approximately 650,000 tons of RDF during 1997.

NRG has experienced significant growth in the last year, expanding from 1,353 MW of net ownership interests in power generation facilities (including those under construction) as of December 31, 1996 to 2,650 MW of net ownership interests as of December 31, 1997. This growth resulted primarily from a number of domestic and international investments and acquisitions. NRG's total operating revenues and equity in earnings of projects changed from $104.5 million and $32.8 million in 1996 to $118.3 million and $26.2 million, respectively, in 1997.

NRG's headquarters and principal executive offices are located at 1221 Nicollet Mall, Suite 700, Minneapolis, Minnesota 55403. Its telephone number is (612) 373-5300.

STRATEGY

NRG intends to continue to grow through a combination of acquisition and greenfield development of power generation and thermal energy production and transmission facilities and related assets in the United States and abroad. In the United States, NRG's near-term focus will be primarily on the acquisition of existing power generation capacity and thermal energy production and transmission facilities, particularly in situations in which its expertise can be applied to improve the operating and financial performance of the facilities. In the international market, NRG will continue to pursue development and acquisition opportunities in those countries in which it believes that the legal, political and economic environment is conducive to increased foreign investment.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS IN 1997

On February 11, 1997, NRG purchased 7.2% (4.5 million shares) of the common stock of Energy Developments Limited ("EDL"), an Australian Company, for AUS$9.9 million (US$7.9 million on that date). EDL is engaged in independent power generation from landfill gas, coal seam methane, and natural gas and owns approximately 184 MW of operating projects primarily in Australia. On September 24, 1997, NRG purchased an additional 10.1 million shares of common stock of EDL for an aggregate purchase price of AUS$22.2 million (US$16.1 million on that date), bringing NRG's ownership level to 19.97% of the outstanding shares of EDL. EDL's common stock is listed on the Australian Stock Exchange. Its share price as of December 31, 1997 was AUS$2.77 (US$2.08). In addition, NRG was granted an option to acquire 16.8 million convertible non-voting preference shares of EDL at AUS$2.20 per share. The preference shares do not become convertible into EDL's common stock unless a takeover bid is made

for EDL by a person who is not an affiliate of the owner of the preference

shares and such person is, or becomes, entitled to purchase more than 35% of EDL's outstanding common stock. In such event, if EDL fails to comply with an obligation to appoint directors nominated by the owner of the preference shares, the preference shares convert at the option of the owner to common shares of EDL on a share-for-share basis. NRG expects to exercise its option and acquire 16.8 million preference shares of EDL during the second quarter of 1998.

In May 1997, NRG consummated the largest acquisition in its history, acquiring a 25.37% interest in the assets of a 2,000 MW brown coal fired thermal power station and adjacent coal mine located in Victoria, Australia and known as Loy Yang A ("Loy Yang"). The State of Victoria sold Loy Yang as part of its privatization program to a partnership formed by affiliates of NRG and of CMS Generation (a wholly-owned subsidiary of CMS Enterprises), together with Horizon Energy Investment Limited (an investment vehicle of Macquarie Bank), for a total price of approximately AUS$4.7 billion (or US$3.7 billion as of May 12, 1997). While most of the purchase price was raised through project-financed loans and leveraged leases that are non-recourse to the sponsors, NRG's equity investment was approximately US$257 million.

In June 1997, NRG purchased the San Diego Power & Cooling Company ("SDPC"). The purchase price was $6.7 million, including a note to the seller for $2.7 million, payable over 72 months. The remaining amount, with the exception of a $50,000 contingency, was paid in cash. SDPC serves the cooling needs of thirteen major customers in the downtown San Diego central business district through an underground piping system. SDPC's chilled water capacity is 5,250 tons/hour.

In June 1997, NRG and its partners closed the financing for the refurbishment and expansion of the Energy Center Kladno plant in Kladno, The Czech Republic. NRG owns a 34% interest in the existing 28 MW coal-fired project, which also supplies thermal energy. Non-recourse project financing was provided by a consortium of Czech banks, the International Finance Corporation, Nisshi Iwai and ABB. This financing will fund the refurbishment of the existing facility as well as the construction of a new 354 MW expansion project. NRG currently holds a 57.85% interest in the expansion project, and El Paso Energy International and Stredoceska Energeticka ("STE"), the regional Czech electric distribution company, hold the balance. NRG's total equity commitment in this project is approximately $46 million.(See "Item 2 - Properties for details on ownership.")

On November 4, 1997, NRG acquired 100% of the outstanding shares of Pacific Generation Company ("PGC"), which was a wholly-owned indirect subsidiary of PacifiCorp, for a cash purchase price of approximately $148.8 million. PGC has ownership interests in 11 projects with a total capacity of 737 MW, of which PGC has operational responsibility for 312 MW and net ownership interest of 166 MW. In addition, PGC owns limited partnership interests in Energy Investors Funds, through which it owns an allocated share equal to 39MW of additional ownership interests. One of PGC's projects is located in Canada and the other ten are broadly distributed throughout the United States.

On December 12, 1997, NRG and its partner, Indeck Energy Services (Europe), obtained financing commitments for the Enfield Energy Centre, a 396 MW gas-fired power project under construction in the North London borough of Enfield in the United Kingdom. NRG has a 50% interest in the project, which is planned to begin commercial operations at the end of 1999. NRG's total equity commitment to this project is approximately $28 million.

In December 1997, through a consensual Chapter 11 bankruptcy, NRG acquired the assets of Mid-Continent Power Company, Inc. ("MCPC") in exchange for forgiveness of debt. The project is a gas-fired cogeneration plant with a rated capacity of 120 MW, located in Pryor, Oklahoma. Concurrently, with the asset acquisition, NRG reduced its interest in the project to 50% with Decker Energy International ("Decker") and its affiliate owning the remaining 50%. On December 31, 1997, NRG and Decker agreed to sell the facility to its major customer, Oklahoma Gas & Electric Company ("OG&E"), in order to settle outstanding disputes with OG&E relating to OG&E's obligation to purchase power from the facility. The sale price to OG&E is

approximately $25.4 million. The sale has been approved by the Oklahoma Corporation Commission and is now awaiting approval from the Federal Energy Regulatory Commission. In January 1998, NRG received notice from its affiliate, NRG Generating (U.S.) Inc. ("NRGG"), that NRGG believed that it was entitled to purchase the MCPC facility under the terms of the Co-Investment Agreement between NRG and NRGG. (See "Significant Equity Investments - NRG Generating (U.S.) Inc." for a description of the Co-Investment Agreement). NRG and NRGG have submitted this issue to arbitration in accordance with the terms of the Co-Investment Agreement. (See "Item 3 - Legal Proceedings".)

SIGNIFICANT EQUITY INVESTMENTS

LOY YANG POWER

Loy Yang owns and operates a 2,000 MW brown coal fired thermal power station (the "Power Station") and the adjacent Loy Yang coal mine (the "Mine") located in the Latrobe Valley, Victoria, Australia. The Power Station has four generating units, each with a 500 MW boiler and turbo generator, which commenced commercial operation between July 1984 and December 1988. In addition, Loy Yang manages the common infrastructure facilities which are located on the Loy Yang site, which services not only the Power Station, but also the adjacent Loy Yang B 1000 MW power station ("Loy Yang B"), a pulverized dried brown coal plant, and several other nearby power stations.

Loy Yang is required by law to sell its entire output of electricity (subject to certain narrow exemptions) through the competitive wholesale market for electricity operated and administered by the Victorian Power Exchange (the "Pool"). There are two components to the wholesale electricity market in Victoria. The first is the Pool. The second is the price hedging contracts, known as Contracts for Differences ("CFDs"), that are entered into between electricity sellers and buyers in lieu of traditional power purchase agreements, which are not available in Victoria because of the Pool system.

Under the Victorian regulatory system, all electricity generated in Victoria must be sold and purchased through the Pool. All licensed generators and suppliers, including Loy Yang, are signatories to a pooling and settlement agreement, which governs the constitution and operation of the Pool and the calculation of payments due to and from generators and suppliers. The Pool also provides centralized settlement of accounts and clearing. Prices for electricity are set by the Pool daily for each half-hour of the following day based on the bids of the generators and a complex set of calculations matching supply and demand and taking account of system stability, security and other costs. Under a new national electricity market, the grid in Victoria has been interconnected with that of New South Wales and limited trading is already taking place between those states. Over the long term, there are plans for the interconnection of the eastern seaboard states to establish what will be known as a national power pool.

In a Pool system, it is not possible for a generator such as Loy Yang to enter into traditional power purchase agreements. In order to provide a hedge against Pool price volatility and also to support their financings, most of the Victorian generators have entered into CFDs with the Victorian distribution companies, Victorian government entities and industrial users ("customers"). These CFDs are financial hedging instruments which have the effect of fixing the price for a specified quantity of electricity for a particular seller and purchaser over a defined period. They establish a "strike price" for a certain volume of electricity purchased by the user during a specified period; differences between that "strike price" and the actual price set by the Pool give rise to "difference payments" between the parties at the end of the period. Even if Loy Yang is producing less than its contracted quantity it will still be required to make and will be entitled to receive difference payments for the amounts set forth in its CFDs.

Loy Yang's current CFDs with the Victorian distribution companies and other Victorian government entities in respect of regulated customer load (which are called its "vesting contracts") cover approximately 73% of Loy Yang's forecast revenue from generation for the fiscal year ending June 30, 1998.

Loy Yang also enters into CFDs with its unregulated or "contestable" customers; these CFDs are known as "hedging contracts" and, together with the vesting contracts with the regulated customers, they cover approximately 93% of Loy Yang's forecast load through June 30, 1998. Each of the vesting contracts expires at the end of the franchise period (December 31, 2000), by which time all retail customers will have become "contestable customers" by operation of law. Loy Yang's hedging contracts are generally for a term of one to two years, and the volume of load covered by these contracts will increase as retail customers progressively become contestable. Loy Yang's goal is to cover 85% of its forecast load with hedging contracts.

Loy Yang and the State Electricity Commission of Victoria (the "SECV") have been issued with a joint mining license for the Mine. Under the terms of the privatization, Loy Yang is required to mine coal to supply not only its own Power Station but also the neighboring Loy Yang B and an additional future power station that could be developed on a nearby site. This requirement extends to 2027, but may be extended for an additional 30 years at the SECV's option. Loy Yang receives a fixed capacity charge and a variable energy charge for these services, coupled with a system of initiatives and penalties. Loy Yang has over 70 years of economically viable coal supply at current usage rates within its mine license area, even assuming that it is required to continue supplying coal to the other parties beyond 2026.

GLADSTONE POWER STATION

The Gladstone Power Station ("Gladstone") is a 1,680 MW coal-fired power generation facility located in Gladstone, Australia. NRG acquired a 37.5% ownership interest in Gladstone when the facility was privatized in March 1994. The other participants in this acquisition are subsidiaries or affiliates of Comalco Limited, Marubeni Corporation, Sumitomo Corporation and Sumitomo Light Metal Industries, Mitsubishi Corporation and Mitsubishi Materials Corporation, and Yoshida Kogyo (the "Participants"). NRG Gladstone Operating Services Pty. Ltd., a wholly-owned subsidiary of NRG ("NRG Gladstone"), operates Gladstone under an operations and maintenance agreement expiring in 2011.

Gladstone sells electricity to the Queensland Transmission and Supply Corporation ("QTSC") and also to Boyne Smelters Limited located at Boyne Island, Queensland ("the Smelter"). Pursuant to an Interconnection and Power Pooling Agreement (the "IPPA"), the Participants have the right to interconnect Gladstone to the QTSC system and QTSC is obligated to accept all electricity generated by the facility (subject to merit order dispatch), for an initial term of 35 years. QTSC also has agreed under the IPPA to permit the Smelter to interconnect to the QTSC system and to provide sufficient generating capacity on its system in order to provide an uninterrupted supply of power to the Smelter in most circumstances. The Participants are obligated to maintain a 35% reserve margin for the Smelter design load, but the QTSC is obligated to provide capacity support to the Participants to make up any shortfall between the available capacity from Gladstone and the Smelter demand at any given time.

The QTSC also entered into a 35-year Capacity Purchase Agreement (a "CPA") with each of the Participants for its percentage of the capacity of Gladstone, excluding that sold directly to the Smelter. Under the CPAs, the Participants are paid both a capacity and an energy charge by the QTSC. The capacity charge is designed to cover the projected fixed costs allocable to the QTSC, including debt service and an equity return, and is adjusted to reflect variations in interest rates. A capacity bonus is also available if the Equivalent Availability Factor exceeds 88% on a rolling average basis, and

damages are payable by the Participants if it is less than 82% on that same basis. As of December 31, 1997, the two-year average Equivalent Availability Factor was 89.6%. The QTSC also pays an energy charge, which is intended to cover fuel costs.

The owners of the Smelter ("BSL") have also entered into a Block A PPA and Block B PPA with each Participant, providing for the sale and purchase of such Participant's percentage share of capacity allocated to the existing Smelter. The term of each of these PPAs is 35 years. BSL is obligated to pay to each Participant a demand charge that is intended to cover the fixed costs of supplying capacity to the existing Smelter and the Smelter expansion, including debt service and return on equity. BSL also is obligated to pay an energy charge

based on the fuel cost associated with the production of energy from the facility. NRG anticipates that the Smelter expansion will result in an increase in Gladstone capacity utilization from approximately 41% in 1994 to an estimated 60% in 1998 and 70% in 1999.

NRG Gladstone is responsible for operation and maintenance of Gladstone pursuant to a 17-year Operation and Maintenance Agreement that commenced in 1994. NRG Gladstone is entitled to a base fee of AUS$1.25 million per year indexed in accordance with Australian CPI (approximately $.942 million, based on exchange rates and ACPI in effect at December 31, 1997), and an annual bonus based on the capacity bonuses to which the Participants are entitled under the CPAs. NRG Gladstone is obligated to pay liquidated damages for shortfalls in availability in an amount calculated by reference to the liquidated damages payable by the Participants under the CPAs and the PPAs. NRG Gladstone's obligations under the Operation and Maintenance Agreement are unconditionally guaranteed by NRG, subject to an aggregate liability cap of AUS$25 million indexed in accordance with ACPI (approximately $18.7 million, based on exchange rates and ACPI in effect at December 31, 1997).

COLLINSVILLE POWER STATION

The Collinsville Power Station ("Collinsville") is a 189 MW coal-fired power generation facility located in Collinsville, Australia. In March 1996, NRG acquired a 50% ownership interest in Collinsville when it was privatized by the Queensland State government. NRG's partner in this acquisition is Transfield Holdings Pty Ltd ("Transfield"), an Australian infrastructure contractor, with which NRG formed an unincorporated joint venture to refurbish this plant. The joint venture contracted with an affiliate of Transfield to complete the refurbishment of the facility under a turn-key contract. The operation and maintenance of the facility will be undertaken by Collinsville Operations Pty Ltd, a 50% owned subsidiary of NRG which has entered into a technical services agreement with NRG for some staffing and assistance with certain operational and maintenance functions.

The Collinsville facility failed to achieve its scheduled commercial operation date of March 1, 1998. NRG expects the commercial operation date to occur in May 1998. The joint venture is liable to QTSC under the PPA for liquidated damages of approximately AUS $27,000 per day until the facility achieves commercial operation. In addition, the joint venture is liable for further liquidated damages if the capacity of the refurbished plant is less than 177.25 MW. Total liquidated damages which NRG and Transfield can be required to pay to QTSC under the power purchase agreement with QTSC (the "Collinsville PPA") are limited to AUS $5 million (indexed in April 1995 dollars). In addition, the QTSC will have the right to terminate the Collinsville PPA if, among other things, the tested capacity of the facility is not at least 160 MW by September 1, 1998. The joint venture's remedies under the turn-key refurbishment contract with Transfield include a reduction in the contract price of AUS $110,000 per day from and after March 1, 1998, until the facility achieves a tested capacity of 160 MW. Transfield has indicated to NRG that it

intends to dispute the price reduction. No assurance can be given with respect to the outcome of such dispute.

SCHKOPAU POWER STATION

In 1993, NRG and PowerGen plc of the United Kingdom each acquired a 50% interest in a German limited liability company, Saale Energie GmbH ("Saale"). Saale then acquired a 41.1% interest in a 960 MW coal-fired power plant that was under construction in the city of Schkopau, which is located in the former East Germany. A German energy company, VEBA Kraftwerke Ruhr AG ("VKR"), owns the remaining 58.9% interest in Schkopau and operates the plant. The partnership of Saale and VKR that owns the plant is called Kraftwerk Schkopau GbR ("KS").

The first 425 MW unit of the Schkopau plant began operation in January 1996, the 110 MW turbine went into commercial operation in February 1996, and the second 425 MW unit came on line in July 1996. Acceptance testing of all of the individual pieces of equipment has been completed.

VKR operates and maintains the Schkopau facility under an operation and maintenance contract with Kraftwerk Schkopau Betriebsgesellschaft mbH, a German limited liability company ("KSB"), in which Saale and VKR hold interests of 44.4% and 55.6%, respectively, and which is responsible for the operation and maintenance of the facility pursuant to certain agreements with each of Saale and VKR. VKR is paid a management fee for such services made up of several variable components that will be adjusted according to changes in, among other things, labor costs, producer prices for light fuel oil and prices for electricity. Pursuant to the KSB partnership agreement between Saale and VKR and the Saale shareholders agreement between NRG and PowerGen, NRG has the right to participate in the oversight of facility operations and in the approval and oversight of facility budgets and policies. The plant is fueled by brown coal (lignite) which will be provided under a long-term contract by MIBRAG's Profen lignite mine.

Pursuant to the KS partnership agreement between Saale and VKR, each partner has been allocated a share of capacity and energy generated by the facility. Saale sells its allocated 400 MW portion of the plant's capacity under a 25-year contract with VEAG, a major German utility which controls the high-voltage transmission of electricity in the former East Germany. VEAG pays a price that is made up of three components, the first of which is designed to recover installation and capital costs, the second to recover operating and other variable costs, and the third to cover fuel supply and transportation costs. NRG receives 50% of the net profits from these VEAG payments through its ownership interest in Saale.

MIBRAG

NRG owns an indirect 33-1/3% interest in the equity of Mitteldeutsche Braunkohlengesellschaft mbH ("MIBRAG") which owns coal mining, power generation and associated operations, all of which are located south of Leipzig, Germany. MIBRAG is a corporation formed by the German government following the reunification of East and West Germany, to hold two open-cast brown coal (lignite) mining operations, a lease on an additional mine, three lignite-fired industrial cogeneration facilities and briquette manufacturing and coal dust plants, all located in the former East Germany. In connection with the acquisition, NRG and its partners agreed to invest (from cash flow from MIBRAG operations) in excess of DM 1 billion (US$556 million based on the exchange rate as of December 31, 1997) by December 31, 2004 to modernize the existing mines and power generation facilities and to develop new open-pit mines. The German government is obligated to provide certain guarantees of bank loans to MIBRAG relating to capital improvements to the Schleenhain mine. MIBRAG also agreed to operate the three power generation facilities until 2005, to operate the briquette plants in accordance with market demand until 2005, and to operate the lignite mines until continued operation of the mines is no longer economically

justifiable. In addition, MIBRAG has made certain employee retention commitments until 2000. Under the provisions of the sale and purchase agreement, NRG and its partners agreed to make a deferred payment of DM 40 million to the German government in the year 2009. This obligation will be reduced by certain costs incurred by MIBRAG. The remaining obligation at December 31, 1997 was DM 15.7 million (or US$8.7 million based on the exchange rate on December 31, 1997). NRG expects the entire obligation will be offset by ongoing costs prior to the year 2009.

MIBRAG's cogeneration operations consist of the 100 MW Mumsdorf facility, the 60 MW Deuben facility and the 40 MW Wahlitz facility. These facilities provide power and thermal energy for MIBRAG's coal mining operations and its briquette manufacturing plants. All power not consumed by MIBRAG's internal operations is sold under an eight-year power purchase agreement with Westsachsische Energie Aktiengesellschaft ("WESAG"), a recently privatized German electric utility. NRG and PowerGen jointly, through Saale, provide consulting services for a fee for the operation of the MIBRAG steam and power generation facilities, the associated electrical and thermal transmission and distribution system and the briquette manufacturing plants, under a power consultancy agreement with MIBRAG for the life of the facilities. After some retrofitting was completed by MIBRAG, NRG believes that all three of these cogeneration facilities now satisfy the current European Union environmental regulations. MIBRAG leases these cogeneration facilities under a 13-year lease pursuant to which MIBRAG has operating control of, and a 1% interest in, the facilities.

MIBRAG's lignite mine operations include Profen, Zwenkau and Schleenhain (which is under construction but has not yet commenced operations), with total estimated reserves of 776 million metric tons. Morrison Knudsen, an international mining company, provides consulting services to mines under a consultancy agreement with MIBRAG for the life of the mines. In addition to providing approximately 3 million tons of lignite per year for MIBRAG's three cogeneration facilities and one briquette facility, output from these mines supplies lignite to the Schkopau power station and other facilities. The total output of the new Schleenhain mine will be dedicated to the new 1600 MW Lippendorf power station. MIBRAG is currently supplying coal for the existing Lippendorf and Thierbach power generation facilities, but they are expected to close in 1999 when the new Lippendorf facility is scheduled to commence operations.

COBEE

In December 1996, NRG acquired an interest in Compania Boliviana de Energia Electrica S.A.-Bolivian Power Company Limited ("COBEE"), the second largest generator of electricity in Bolivia. The acquisition was consummated through a Netherlands corporation, Tosli Investments B.V. ("Tosli"), which is 50% owned by subsidiaries of NRG and Vattenfall AB of Sweden ("Vattenfall"). On December 19, 1996, Tosli completed a successful tender offer for the shares of COBEE, which were listed on the New York Stock Exchange, acquiring 96.6% of COBEE's outstanding common shares for a total purchase price of $175 million. COBEE shares were delisted in January 1997. The COBEE board of directors consists of three designees of NRG, three designees of Vattenfall and three directors appointed jointly by NRG and Vattenfall. In addition, in December 1996, the Chief Executive Officer of NRG was elected as chairman of the board of directors of COBEE.

COBEE has entered into an Electricity Supply Contract with Electricidad de La Paz S.A., a Bolivian distribution company ("Electropaz"), which provides that COBEE shall supply Electropaz with all of the electricity that COBEE can supply, up to the maximum amount of electricity required by Electropaz to supply the requirements of its distribution concession. This Electricity Supply Contract expires in December 2008. COBEE has entered into a substantially

similar contract with Empresa de Luz Fuerza Electricade Oruro, S.A., another Bolivian distribution company, ("ELF"). Electropaz and ELF are both wholly-owned subsidiaries of Ibedrola S.A., a Spanish utility company. All payments by Electropaz and ELF are in local currency, tied to the value of the U.S. dollar.

COBEE operates its electric generation business under a 40-year Concession granted by the Government of Bolivia in 1990, as most recently amended in March 1995. Under this Concession, COBEE is entitled to earn a return of 9% after all operating expenses, depreciation, taxes and interest expense, calculated on its U.S. dollar rate base, consisting of net fixed assets at historical cost in U.S. dollars and working capital and materials up to certain limits. The Bolivian Electricity Code also provides for the adjustment of rates to compensate COBEE for any shortfall or to recapture any excess in COBEE's actual rate of return during the previous year. COBEE periodically applies to the Superintendent of Electricity for rate increases sufficient to provide its 9% rate of return based on COBEE's current operating results and its projection of future revenues and expenses.

NRG GENERATING (U.S.) INC.

On January 18, 1996, the U.S. Bankruptcy Court for the District of New Jersey awarded NRG the right to acquire a 41.86% equity interest in O'Brien Environmental Energy, Inc. ("O'Brien"), which emerged from bankruptcy on April 30, 1996 and was renamed "NRG Generating (U.S.) Inc." ("NRGG"). NRG currently holds 45.21% of the common stock of NRGG. The remaining 54.79% of the common stock is held publicly. NRGG has interests in four domestic operating projects with an aggregate capacity of approximately 346 MW. NRGG's principal operating projects include: (a) the 52 MW Newark Boxboard Project (which is owned 100% by a wholly-owned project subsidiary of NRGG), a gas-fired cogeneration facility that sells electricity to Jersey Central Power & Light Company ("JCP&L") and steam to Newark Group Industries, Inc.; (b) the 122 MW E.I. du Pont Parlin Project (which is owned 100% by a wholly-owned project subsidiary of NRGG), a gas-fired cogeneration facility that sells

electricity to JCP&L and steam to E.I. du Pont de Nemours and Company; (c) an 83% interest in a 22 MW standby/peak sharing facility which provides electricity and standby capabilities for the Philadelphia Municipal Authority; and (d) a 33.33% interest in the 150 MW Grays Ferry project, a gas-fired cogeneration project located in Philadelphia, which sells electricity to PECO Energy Company ("PECO"). PECO recently attempted to terminate the PPA with respect to the Grays Ferry project. The Grays Ferry partnership in turn commenced litigation claiming there is not basis for termination of such agreement. (See "Item 3 - Legal Proceedings.")

NRG provides NRGG with administrative services in connection with day-to-day operations. NRG employees serve as NRG's designees on the board of directors of NRGG. NRG and NRGG also entered into a "Co-Investment Agreement," pursuant to which NRG granted NRGG a right of first offer until May, 2003 to acquire from NRG each energy development project first developed or acquired by NRG for which a co-investor is required because of federal or state regulatory restrictions on NRG's ownership. In addition, NRG has agreed that, prior to May 1, 1999, a minimum of one or more such projects, having an aggregate equity value of at least $60 million or a minimum power generation capacity of 150 MW, will be so offered. To facilitate NRGG's ability to acquire projects under the Co-Investment Agreement, NRG is obligated to provide financing to NRGG (on commercially competitive terms) to the extent that NRGG is unable to obtain funds on comparable terms from other sources.

Pursuant to the Co-Investment Agreement, NRGG acquired from NRG 100% of the membership interests in NRG (Morris) Cogen, LLC on December 30, 1997. NRG (Morris) Cogen has the exclusive right to build a 117 MW cogeneration plant that is presently under construction on the site of the Equistar Chemicals, LP

manufacturing facility in Morris, Illinois. NRG has committed to finance the acquisition price pursuant to a loan agreement between NRG and NRGG. NRG has guaranteed the obligation of NRGG to invest equity into the project company to the lenders to the project company, for which The Chase Manhattan Bank is agent.

NRG has also agreed to certain provisions designed to protect the rights of the holders of the equity in NRGG that is not owned by NRG. These provisions include super-majority voting requirements with respect to a merger or sale of all or substantially all of NRGG's assets and certain additional issuances of NRGG stock, the creation of an independent committee of the board of directors of NRGG with authority to, among other things, determine whether NRGG will exercise its right of first offer under the Co-Investment Agreement and a commitment that, for a seven-year period following NRG's investment in NRGG, NRG will not remove or vote against the re-election to NRGG's board of directors of any of the three directors who constitute the independent directors committee.

NRGG and NRG have entered into various loan agreements. At December 31, 1997, the loan balance due to NRG was $2,624,204 with a maturity date of April 30, 2001.

NRGG's shares are traded on The NASDAQ National Market under the symbol "NRGG". NRGG's closing share price as of December 31, 1997 was $19.875.

SUNNYSIDE

In 1994, NRG, through a wholly-owned subsidiary, purchased a 50 percent ownership interest in Sunnyside Cogeneration Associates, a Utah joint venture, which owns and operates a 58 MW waste coal plant in Utah. The waste coal plant is currently being operated by a partnership that is 50 percent owned by an NRG affiliate. As of year-end 1997, NRG and its partner's effort to restructure the debt of the Sunnyside project was not successful. Due to the lack of progress in restructuring the debt, NRG recorded a nonrecurring expense, as of December 31, 1997, of $8.9 million to write down its investment in the Sunnyside project.

SIGNIFICANT WHOLLY-OWNED OPERATIONS

MINNEAPOLIS ENERGY CENTER ("MEC")

MEC provides steam and chilled water to customers in downtown Minneapolis, Minnesota. MEC currently provides 90 customers with 1.6 billion pounds of steam per year and 34 customers with 39.1 million ton hours of chilled water per year. NRG acquired MEC in August 1993 for approximately $110 million. MEC's assets include two combined steam and chilled water plants, three chilled water plants, two steam plants, six miles of steam and two miles of chilled water distribution lines. The MEC plants have a combined steam capacity of 1,323 mmBtus per hour (388 MWt) and cooling capacity of 35,550 tons per hour.

MEC provides steam and chilled water to its customers pursuant to energy supply agreements which expire at varying dates from December 1998 to March 2018. Historically, MEC has renewed its energy supply agreements as they near expiration. With minor exceptions, these agreements are standard form contracts providing for a uniform rate structure consisting of three components: a demand charge designed to recover MEC's fixed capital costs, a consumption charge designed to provide a per unit margin, and an operating charge designed to pass through to customers all fuel, labor, maintenance, electricity and other operating costs. The demand and consumption charges are adjusted in accordance with the Consumer Price Index every five years.

ROCK-TENN

Rock-Tenn process steam operation, which is owned and operated by NRG, consists of a five-mile closed-loop steam/condensate line that delivers steam to the Rock-Tenn Company (formerly Waldorf Corporation), a paper manufacturer in St. Paul, Minnesota, and has a peak steam capacity of 430 mmBtus per hour (126 MWt). As a result of the settlement of a 1987 dispute between Waldorf and NORENCO Corporation (a predecessor of NRG), Waldorf prepaid revenues for future steam service. As of December 31, 1997, deferred revenues remaining were $4.7 million. Rock-Tenn's corrugated medium operations are on 24-hour a day, 7-day a week schedule. The corrugated medium operations represent approximately 40% of normal steam sales.

NRG delivers steam to Rock-Tenn pursuant to a steam sales agreement which expires in 2007. Under the agreement Rock-Tenn is obligated to purchase its total energy needs for its St. Paul, Minnesota facility through June 30, 2007. The agreement does not obligate Rock-Tenn to purchase a minimum quantity of energy. Instead, Rock-Tenn's failure to acquire a certain quantity of energy during a given contract year triggers an NRG right to terminate the agreement, unless Rock-Tenn elects to compensate NRG for the deficit energy usage amount.

NEO CORPORATION

NEO is a wholly-owned project subsidiary of NRG that was formed to develop small power generation facilities, ranging in size from 1 to 50 MW, in the United States. NEO is currently focusing on the development and acquisition of landfill gas projects and the acquisition of hydroelectric projects.

Through the investment vehicle Northbrook Energy, L.L.C. ("Northbrook"), NEO has a 50% interest in eighteen small operating hydroelectric projects, ranging in size from 1 MW to 6 MW and having a total capacity of 39.3 MW. As of December 31, 1997, NEO's total investment in these projects was $3.9 million. NEO also loaned $3.7 million to Omega Energy Partners, L.L.C. ("Omega") to fund Omega's 50% equity interest in Northbrook.

NEO has a 50% interest in fourteen operating landfill gas projects, as of December 31, 1997, ranging in size from 1 MW to 10 MW. As of December 31, 1997, NEO's equity investment in these projects totaled $1.0 million and loans to fund development, construction and start-up amounted to $55 million. In addition, NEO has six landfill gas projects under construction. NEO expects its total funding requirements to be approximately $60 million, and total capacity of the portfolio is expected to reach 73 MW in 1998.

On September 24, 1997, certain affiliates of NEO entered into a Construction, Acquisition and Term Loan Agreement with Lyon Credit Corporation ("Lyon") for $92 million to fund the construction of the landfill gas collection systems and generation facilities for certain NEO landfill gas projects in development. The construction loan for each project will convert to a term loan containing a maximum maturity date of ten (10) years. NRG has agreed to provide Lyon with a guarantee during the construction loan period. In addition, NRG has agreed to guarantee the monetization and use of the Section 29 tax credits generated from the landfill gas projects financed by Lyon through the year 2007.

An important factor in the after tax return of the landfill gas projects is the eligibility of these projects for Section 29 tax credits. The Section 29 tax credit is available only to projects that produce gas from biomass or synthetic fuels from coal. Landfill gas is produced from biomass for purposes of the Section 29 credit. To qualify for the credit, the facility for producing gas must be placed in service no later than June 30, 1998.

RESOURCE RECOVERY FACILITIES

NRG's Newport resource recovery facility, located in Newport, Minnesota, can process over 1,500 tons of municipal solid waste, ("MSW") per

day, 92% of which is recovered as RDF or other recycleables and reused in power generation facilities in Red Wing and Mankato, Minnesota. The Newport facility, which was originally constructed and operated by NSP, was transferred to NRG in 1994. NRG owns 100% of, and operates and maintains, the Newport facility.

Pursuant to service agreements with Ramsey and Washington Counties (the "Counties") which expire in 2007, NRG processes a minimum of 280,800 tons of MSW per year at the Newport facility and receives service fees based on the amount of waste processed, pass-through costs and certain other factors. NRG is also entitled to an operation and maintenance fee, which is designed to recover fixed costs and to provide NRG a guaranteed amount for operating and maintaining the Newport facility for the processing of 750 tons per day of MSW, whether or not the Counties deliver such waste for processing.

Since 1989, NRG has operated the Elk River resource recovery facility located in Elk River, Minnesota, which can process over 1,500 tons of MSW per day, 90% of which is recovered as RDF or other recyclables and reused in power generation facilities in Elk River and Mankato, Minnesota. NSP owns 85% of the Elk River facility, and United Power Association owns the remaining 15%.

Pursuant to service agreements between NSP and each of Anoka County, Hennepin County, Sherburne County in Minnesota and the Tri-County Solid Waste Management Commission in Minnesota (the "NSP Service Counties"), all of which expire in 2009, NSP is obligated to process a maximum of 450,000 tons of MSW per year and is entitled to receive service fees based on the amount of waste processed, pass-through costs, revenues credited to the NSP Service Counties and certain other factors. NSP is also entitled to an operation and maintenance fee, which is designed to recover fixed costs and to provide NSP a guaranteed amount for operating and maintaining the facility for the processing of 214,900 tons of waste, whether or not the NSP Service Counties deliver such waste for processing.

NRG also provides ash storage and disposal for the Elk River facility at NSP's Becker ash disposal facility, an approved ash deposit site adjacent to NSP's Sherburne County generating facility near Becker, Minnesota. NRG operates the Becker facility on behalf of NSP. Pursuant to an ash management services agreement between NSP and the NSP Service Counties, the NSP Service Counties pay an ash disposal fee based on the amount of ash disposal, pass-through costs and certain other factors.

RDF projects, such as NRG's Newport facility and NSP's Elk River facility, historically were assured adequate supply of waste through state and local flow control legislation, which directed that waste be disposed of in certain facilities. In May 1994, the United States Supreme Court held that such waste was a commodity in

interstate commerce and, accordingly, that flow control legislation which prohibited shipment of waste out of state was unconstitutional. Since this ruling, the RDF facilities owned or operated by NRG have faced increased competition from landfills.

SIGNIFICANT PENDING ACQUISITIONS AND PROJECTS UNDER DEVELOPMENT

WEST JAVA

A joint venture among NRG, Ansaldo Energia SpA, a major Italian industrial company ("Ansaldo"), and P.T. Kiani Metra, an Indonesian industrial company ("PTKM"), is developing a 400 MW coal-fired power generation facility in West Java Indonesia through P.T. Dayalistrik Pratama ("PTDP"), a limited liability company created by the joint venturers. Each of NRG and Ansaldo has an ownership interest of 45% in PTDP and PTKM has an ownership interest of 10%.

On November 13, 1996, PTDP signed a Power Purchase Agreement (the "West Java PPA") with P.T. PLN (Persero) ("P.T. PLN"), an instrumentality of the Government of Indonesia. Under the terms of the existing West Java PPA, PTDP was to have drawn and closed on construction financing for the project no later than January 12, 1998. However, the government of Indonesia issued Decree No. 39/1997 in September, 1997 which placed the West Java project on a list of Indonesian infrastructure projects to be halted and reviewed by the government before being allowed to proceed. There have been no communications from the Indonesian government regarding when the project may be reviewed or allowed to continue towards financial close and construction and operation. In addition, the significant decline of the Indonesian currency has placed the viability of the project and its related PPA in serious question.

In February 1998, P.T. PLN announced that payments under existing and operating PPAs would be made in local currency terms (the rupiah) rather than the U.S. dollar terms dictated in the PPAs (including the West Java PPA). The payment has been fixed at the rate of 2450 rupiah to the dollar, which approximates the currency exchange rate in place at the time P.T. PLN signed most of the PPAs. However, since the October Asian crisis, the rupiah has severely devalued causing an average economic loss of 75% of the revenues under the PPAs.

On January 9, 1998, PTDP filed a Notice of Force Majeure with the PLN informing them that due to the application of Decree No. 39/1997, PTDP has been prevented from satisfying certain of its obligations under the PPA, including the obligation to achieve the financing date by January 12, 1998. NRG believes that the filing of the Notice of Force Majeure preserves PTDP's rights under the West Java PPA.

All development efforts on the project are temporarily halted until the economic issues of Indonesia are stabilized and the West Java project is allowed to proceed. As of December 31, 1997, NRG had infused $5.6 million of capital into the project (of which $3.8 million was used to acquire land) and had an additional $3.9 million of capitalized development costs. In addition, NRG has an interest rate hedge in place for a portion of the equity commitment to PTDP at December 31, 1997. The mark-to-market on the hedge if it were to be settled at December 31, 1997 would have been $4.3 million. As of March 30, 1998 the mark-to-market on the hedge was $4.0 million. If the project is not allowed to go forward, NRG will be required to write-off the majority of these costs.

ESTONIA

On December 20, 1996, representatives of the Estonian Government, the state-owned utility Eesti Energia ("EE"), and NRG signed a Development and Cooperation Agreement ("DCA"). The DCA defines the terms under which the parties are to establish a plan to develop and refurbish the Balti and Eesti Power Plants. Pursuant to the DCA, a business plan for the joint project was submitted in June 1997. NRG has stated its willingness to invest up to $67.25 million of equity into the project and to assist the joint project in obtaining non-recourse debt in an

amount necessary to fund the required capital improvements to the Balti and Eesti Power Plants. Recently the Estonian government announced that it had rejected the business plan of NRG and EE. Early in 1998 the Estonian government and EE offered to work on a new plan with NRG. NRG has a policy of expensing all costs until there is a signed contract and Board of Directors approval. All such costs with respect to Estonia have been expensed. Discussions are continuing with the Estonian government as management continues to evaluate the Estonian situation as well as other opportunities around the world.

CAJUN

NRG, together with two other parties and the Chapter 11 trustees, have filed a plan with the United States Bankruptcy Court for the Middle District of Louisiana to acquire the fossil generating assets of Cajun Electric Power Cooperative of Baton Rouge, Louisiana ("Cajun") for approximately $1.1 billion. The NRG consortium has the support of the Chapter 11 trustee and Cajun's secured creditors. The Court has also received two other competing plans of reorganization for Cajun. All three plans of reorganization are the subject of a confirmation hearing which began in December, 1996. NRG expects the confirmation process to conclude in the second quarter of 1998. Under the plan filed with the Court, NRG would hold a 30% equity interest in Louisiana Generating LLC, which would acquire Cajun's 1706 MW, excluding nuclear generating assets.

EL SEGUNDO

On November 21, 1997, NRG signed an Asset Purchase Agreement to acquire a 50% interest in the El Segundo Generating Station, a 1,020 MW natural gas-fired project, from Southern California Edison Company ("SCE"). NRG and its partner Destec Energy, Inc. ("Destec"), a subsidiary of NGC Corporation ("NGC"), are jointly and severally liable under the agreement for the payment of the $87.75 million purchase price. Consummation of the transaction is expected to occur on or before March 31, 1998, but it is contingent on receipt of regulatory approvals and consents from a number of governmental and private parties. NRG will be the lead party on operations and Destec's parent, NGC, will be the lead party on fuel procurement and power marketing. SCE will provide operations and maintenance services for the first two years, in accordance with bid protocol and California regulation.

LONG BEACH

In January, 1998 NRG and Destec, signed an agreement with SCE to acquire SCE's Long Beach plant for approximately $29.8 million. The gas-fired plant has a summer capacity rating of 530 MW. The acquisition is contingent upon regulatory approval by the California Public Utility Commission and the Federal Trade Commission. NRG and Destec will each hold 50% ownership in the Long Beach plant. NRG will be the lead party on operations and NGC will be the lead party on fuel procurement and power marketing. SCE will provide operations and maintenance services for the first two years, in accordance with bid protocol and California regulation.

Because of the many complexities inherent in the acquisition, development and financing of projects, there can be no assurance that any of NRG's pending acquisitions and projects under development, including those described above, will be consummated.

PROJECT AGREEMENTS

In the past, virtually all of NRG's operating power generation facilities have sold electricity under long-term power purchase agreements. A facility's revenue from a power purchase agreement usually consists of two components: energy payments and capacity payments. Energy payments, which are intended to cover the variable costs of electric generation (such as fuel costs and variable operation and maintenance expense), are normally based on a facility's net electrical output measured in kilowatt hours, with payment rates either fixed or indexed to

the fuel costs of the power purchaser. Capacity payments, which are generally intended to provide funds for the fixed costs incurred by the project subsidiary or project affiliate (such as debt service on the project financing and the equity return), are normally calculated based on the net electrical output or the declared capacity of a facility and its availability.

A number of the more recent projects in which NRG has acquired or is acquiring an interest do not have long-term power purchase agreements. For

example, Loy Yang does not have such agreements because under the new Australian regulatory scheme, all generators must sell their output to a grid, where the price is established by a neutral regulator based on the market prices during each defined period. The same will be true of Enfield, since the United Kingdom has adopted a similar regulatory scheme. Similarly, the El Segundo and Long Beach projects will be merchant plants, selling power through a newly established independent system operator. In the case of the Kladno project, where there is a long-term agreement, the energy price is tied to the market price of electricity rather than to the costs incurred by the project, so the contract does not provide the traditional level of certainty and protection. While these "merchant" projects introduce new risks and uncertainties and require careful advance analysis of the local power markets, NRG believes that they are becoming increasingly common in the independent power market.

REGULATION

NRG is subject to a broad range of federal, state and local energy and environmental laws and regulations applicable to the development, ownership and operation of its United States and international projects. These laws and regulations generally require that a wide variety of permits and other approvals be obtained before construction or operation of a power plant commences and that, after completion, the facility operate in compliance with their requirements. NRG strives to comply with the terms of all such laws, regulations, permits and licenses and believes that all of its operating plants are in material compliance with all such applicable requirements. No assurance can be given, however, that in the future all necessary permits and approvals will be obtained and all applicable statutes and regulations complied with. In addition, regulatory compliance for the construction of new facilities is a costly and time-consuming process, and intricate and rapidly changing environmental regulations may require major expenditures for permitting and create the risk of expensive delays or material impairment of project value if projects cannot function as planned due to changing regulatory requirements or local opposition. Furthermore, there can be no assurance that existing regulations will not be revised or that new regulations will not be adopted or become applicable to NRG which would have an adverse impact on its operations.

EMPLOYEES

At December 31, 1997, NRG employed 603 people, approximately 320 of whom are employed directly by NRG and approximately 283 of whom are employed by its wholly-owned subsidiaries.

ITEM 2 - PROPERTIES

Set forth in the two tables and the text below are descriptions of NRG's interests in facilities, operations or projects under construction as of December 31, 1997.

INDEPENDENT POWER PRODUCTION AND COGENERATION FACILITIES (1)

NAME AND LOCATION OF FACILITY	LATER OF DATE OF ACQUISITION OR DATE OF COMMERCIAL OPERATION	DESIGN CAPACITY (MW)(2)	NRG'S PERCENTAGE OWNERSHIP INTEREST	POWER PURCHASER
INTERNATIONAL PROJECTS:				
Loy Yang Power (3), Australia	1997	2000	25.37	Victorian Pool
Gladstone Power Station, Australia	1994	1680	37.50	QTSC; BSL
Collinsville, Australia	1998	189	50.00	QTSC

Energy Developments Limited, Australia	1997	237	19.97	Various
Kladno Czech Republic, existing project	1994	28	34.00	STE/Industrials
Kladno Czech Republic, expansion project	1999	354	(4)	STE
Schkopau Power Station, Germany	1996	960	20.55	VEAG
MIBRAG mbH(3), (Mumsdorf) Germany	1994	100	33.33	WESAG
MIBRAG mbH(3), (Deuben) Germany	1994	60	33.33	WESAG
MIBRAG mbH(3), (Wahlitz) Germany	1994	40	33.33	WESAG
COBEE, Bolivia	1996	218 (5)	48.30	Electropaz/ELF
Latin Power (Mamonal), Colombia	1994	100	6.45	Proelectrica
Latin Power (Termovalle), Colombia	1998	199	4.88	EPSA
Latin Power (ELCOSA), Honduras	1994	80	7.65	Empresa Nacional de Energia Electrica
Latin Power (Dr. Bird), Jamaica	1995	74	8.78	Jamaica Public Service Company, Ltd.
Latin Power (Aguaytia), Peru	1998	155	3.28	Central Peruvian Electricity Grid
Enfield (London) UK	1999	396	50.00	U.K. Electricity Grid
DOMESTIC PROJECTS: Pacific Generation Company (6)	1997	737		
Camas Power	1997	25 (7)	100.00	Steam Purchase by Fort James Corporation
Crockett Cogeneration	1997	240	24.87	PG&E
Curtis-Palmer Hydro	1997	58	8.50	NIMO
Kingston Cogeneration	1997	110	25.00	Ontario Hydro
Maine Energy Recovery	1997	22	16.25	CMP

NAME AND LOCATION OF FACILITY	LATER OF DATE OF ACQUISITION OR DATE OF COMMERCIAL OPERATION	DESIGN CAPACITY (MW)(2)	NRG'S PERCENTAGE OWNERSHIP INTEREST	POWER PURCHASER
Penobscot Energy Recovery	1997	22	28.70	Bangor Hydroelectric Company
Mt. Poso Cogeneration	1997	50	21.90	PG&E (8)
PowerSmith Cogeneration	1997	110	8.75	Oklahoma Gas & Electric
WindPower Partners 1987	1997	50	17.00	PG&E
WindPower Partners 1988	1997	30	18.54	PG&E
Turners Falls	1997	20	8.9	Unitil Power Company(8)
NRGG (Parlin), New Jersey	1996	122	45.21	Jersey Central Power & Light Company
NRGG (Newark), New Jersey	1996	52	45.21	Jersey Central Power & Light Company
NRGG (Grays Ferry), Pennsylvania	1998	150	15.07	PECO Energy Company
NRGG (Philadelphia Cogen), Pennsylvania	1996	22	37.52	Philadelphia Municipal Authority
NRGG (Millennium), Illinois	1998	117	45.21	Millennium Petro Chemicals, Inc.
San Joaquin Valley (Madera), California	1992	23	45.00	NA(9)(10)
San Joaquin Valley (Chowchilla II), California	1992	10	45.00	NA(9) (10)
San Joaquin Valley (El Nido), California	1992	10	45.00	NA(9) (10)
Jackson Valley Energy Partners, California(11)	1991	16	50.00	PG&E
Sunnyside Cogeneration Associates, Utah	1994	58	50.00	PacifiCorp

Artesia, California	1996	34	2.96	Southern California
Cadillac Renewable Energy, Michigan	1997	34	50.00	Consumers Energy
Mid-Continent Power Company	1997	120	50.00	Oklahoma Gas & Electric

1. Does not include the small hydroelectric and landfill gas-fired power generation facilities owned by NEO with an aggregate capacity of 72 MW, of which NEO has net ownership of 35 MW. In addition, NEO has landfill gas projects under construction with an aggregate capacity of 23.5 MW, of which NEO has net ownership of 11.8 MW.

2. Design capacity is without deduction for internally consumed power.

3. Each of Loy Yang and MIBRAG also owns coal mines which sell coal both to its respective power plant and to third parties.

4. The expansion project is held separately through ECK Generating ("ECKG"), a Czech limited liability company of which 89% is owned by a Netherlands company called Matra Powerplant Holding B.V. ("Matra") and 11% is owned by STE. NRG owns 65% of Matra and El Paso owns the remaining 35%. As a result, NRG has net temporary ownership interest in the expansion plant of 57.85%. Each of NRG and El Paso has granted Nations Energy (a subsidiary of Tucson Electric) an option to acquire 15% of Matra at any time before May 1998. On February 17, 1998, NRG received a letter of intent from Nations Energy to exercise its option to acquire the 15% of Matra. In addition, on February 19, 1998, NRG and El Paso signed an agreement pursuant to which El Paso committed that if Nations Energy does not exercise its option to purchase 15% of Matra, El Paso would purchase the additional 15%. In such case NRG and El Paso would each own 50% of Matra and 44.5% of the expansion project.

5. Includes the Zongo 65 MW expansion which will be fully operational in 1999.

6. In addition to the projects listed, PGC owns limited partnership interests in Energy Investors Funds through which it owns an allocated share equal to another 39 MW.

7. The project does not generate electricity but its steam sales are the equivalent of 25 MW of electric power.

8. Operations of the project are currently suspended pursuant to an agreement with this power purchaser.

9. Operations suspended following buy-out of power purchase contracts and pending negotiation of new power purchase agreements or sale of such facilities.

10. PG&E has agreed to a buy-out of related power purchase agreements, but retains a right of first refusal with respect to output of facilities.

11. Operations were suspended during 1995 and 1996 pursuant to a restructuring of the power purchase agreement. Operations restarted on May 1, 1997.

THERMAL ENERGY PRODUCTION AND TRANSMISSION FACILITIES
AND RESOURCE RECOVERY FACILITIES

NAME AND LOCATION OF FACILITY	DATE OF ACQUISITION	DESIGN CAPACITY(1)	NRG'S PERCENTAGE OWNERSHIP INTEREST	THERMAL ENERGY PURCHASER/MSW SUPPLIER
THERMAL ENERGY PRODUCTION AND TRANSMISSION FACILITIES				
Minneapolis Energy Center (MEC), Minnesota	1993	Steam: 1,323 mmBtu/hr. (388 MWt) Chilled water: 35,550 tons/hr.	100.00	Approximately 90 steam customers and 34 chilled water customers
North American Thermal Systems (NATS), Pennsylvania & California (2)	1995	Pittsburgh: steam- 240 mmBtu/hr. (70 MWt) chilled water - 10,180 tons/hr. San Francisco: steam- 490 mmBtu/hr. (144 MWt)	49.40	Approximately 24 customers in Pittsburgh and 210 customers in San Francisco
San Diego Power & Cooling, California	1997	Chilled Water: 5,250 tons/hr.	100.00	Approximately 14 customers
Rock-Tenn, Minnesota	1992	Steam: 430 mmBtu/hr. (126 MWt)	100.00	Rock-Tenn Company
Washco, Minnesota	1992	160 mmBtu/hr. (47 MWt)	100.00	Andersen Corporation Minnesota Correctional Facility
Grand Forks Air Force Base, North Dakota	1992	105 mmBtu/hr. (31 MWt)	100.00	Grand Forks Air Force Base
Energy Center Kladno, Czech Republic(3)	1994	512 mmBtu/hr. (150 MWt)	34.00	City of Kladno
RESOURCE RECOVERY FACILITIES				
Newport, Minnesota	1993	MSW: 1,500 tons/day	100.00	Ramsey and Washington Counties
Elk River, Minnesota	(4)	MSW: 1,500 tons/day	0.00	Anoka, Hennepin, and Sherburne Counties; Tri-County Solid Waste Management Commission

(1) Thermal production and transmission capacity is based on 1,000 Btus per pound of steam production or transmission capacity. The unit mmBtu is equal to one million Btus.

(2) Includes 0.5% general partnership interests in each of PTLP and SFTLP.

(3) Kladno also is included in the Independent Power Production and Cogeneration Facilities table on the preceding page. (4) NRG operates the Elk River resource recovery facility on behalf of NSP.

(4) NRG operates the Elk River resource recovery facility on behalf of NSP.

OTHER PROPERTIES

In addition to the above, NRG leases its offices at 1221 Nicollet Mall, Suite 700, Minneapolis, Minnesota 55403, under a five-year lease that expires in June 2002.

ITEM 3 - LEGAL PROCEEDINGS

There are no material legal proceedings pending, other than ordinary routine litigation incidental to NRG's business, to which NRG is a party, except as discussed below. There are no material legal proceedings to which an officer or director is a party or has a

material interest adverse to NRG or its subsidiaries. There are no material administrative or judicial proceedings arising under environmental quality or civil rights statutes pending or known to be contemplated by governmental agencies to which NRG is or would be a party.

The Grays Ferry partnership, along with subsidiaries of NRGG and Trigen Energy Corporation (which are two of its partners), recently commenced litigation, in federal court in Pennsylvania, seeking to enjoin PECO from terminating its power purchase agreements with the partnership and to compel PECO to pay the rates set forth in the existing agreements. Plaintiffs' position is that the actions of PECO, in unilaterally terminating the power purchase agreements with the Grays Ferry partnership, are without merit and that those agreements should be enforced. On March 19, the Federal Court in Pennsylvania dismissed Grays Ferry partnership's action for lack of jurisdiction. The Grays Ferry partnership is reviewing its options, which includes re-filing the action in State court in Pennsylvania.

On January 30, 1998, NRGG gave notice that it intended to seek arbitration of its claim that NRG sold the MCPC facility to Oklahoma Gas & Electric in violation of its obligations to offer certain project investments to NRGG under the Co-Investment Agreement between NRG and NRGG. (See "Item 1 - Significant Investments and Acquisition in 1997 - NRG Generating (U.S.) Inc.") An arbitration panel is being formed to hear the proceedings. NRGG is seeking a ruling from the arbitration panel that NRG must sell the MCPC facility to NRGG. NRG believes that it had no obligation to offer the MCPC facility to NRGG.

PART II

ITEM 5 - MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

This is not applicable as the Company is a wholly owned subsidiary.

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ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations is omitted per conditions as set forth in General Instructions I (1) (a) and (b) of Form 10-K for wholly owned subsidiaries. It is replaced with management's narrative analysis of the results of operations set forth in General Instructions I (2) (a) of Form 10-K for wholly-owned subsidiaries (reduced disclosure format). This analysis will primarily compare NRG's revenue and expense items for the year ended December 31, 1997 with the year ended December 31, 1996.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

Net income for the year ended December 31, 1997, was $22.0 million, an increase of $2.0 million or 10%, compared to net income of $20.0 million in the same period in 1996. This increase was due to the factors described below.

REVENUES

For the year ended December 31, 1997, NRG had total revenues of $118.3 million, compared to $104.5 million for the year ended December 31, 1996, an increase of 13%. NRG's operating revenues from wholly-owned operations for the period ended December 31, 1997 were $92.1 million, an increase of $20.4 million, or 28%, over the same period in 1996. The increase was primarily attributable to increases in MEC sales volume, rates charged to customers and pass-through fuel costs, management fee and cost reimbursement revenues from NRG's wholly-owned service subsidiaries, and technical service fees. Revenues from the RDF business increased $4.0 million, due to increases in MSW deliveries at the Newport Facility. For the year ended December 31, 1997, revenues from wholly-owned operations consisted primarily of revenue from district heating and cooling (37%), resource recovery activities (30%), other thermal projects (17%), technical service fees (6%), management fees (8%), and NEO (2%).

EQUITY INCOME

Equity in earnings of unconsolidated project affiliates was $26.2 million for the year ended December 31, 1997 compared to $32.8 million for the year ended December 31, 1996, a decline of 20.1%. Lower earnings in MIBRAG, Gladstone, Latin Power, and Kladno offset the new revenue sources for Loy Yang, PacGen, and COBEE.

OPERATING COSTS AND EXPENSES

Cost of wholly-owned operations was $46.7 million for the year ended December 31, 1997, an increase of $10.1 million, or 28%, over the same period in 1996. The increase is due primarily to increased MEC sales volume, service labor costs and fuel costs. Cost of operations as a percentage of revenues from wholly-owned operations was 51% which is approximately equal to the same period in 1996.

General, administrative and development costs were $43.1 million for the year ended December 31, 1997, compared to $39.2 million for the year ended December 31, 1996. The $3.9 million increase is due primarily to increased

business development, associated legal, technical, and accounting expenses, headcount and equipment resulting from expanded operations. General, administrative and development costs as a percent of revenues from wholly-owned operations declined from 55% to 47%.

OTHER INCOME (EXPENSE)

Other expense was $19.6 million for the year ended December 31, 1997 compared with $5.9 million for the year ended December 31, 1996. The increase is primarily due to interest expense which increased by $15.6 million, from $15.4 million in 1996 to $31.0 million in 1997. This increase was due to the issuance of the $250 million Senior

Notes at the end of June 1997, bridge financing prior to issuance of the Senior Notes and $1.8 million of interest on the Company's $175 million revolving line of credit.

Also, 1997 includes a $8.9 million charge for the write-down of the Company's investment in the Sunnyside project and gains of $8.7 million on the sale of certain project investments.

INCOME TAX

NRG has recognized an income tax benefit due to tax losses from domestic operations and due to the recognition of certain tax credits. The net income tax benefit for the year ended December 31, 1997 increased by $17.8 million as compared to the benefit for the year ended December 31, 1996 due to increased tax credits as shown in Note 9 to the financial statements, and higher interest expense.

YEAR 2000

NRG is in the process of examining the year 2000 issue. NRG plans to update and/or replace all corporate systems where there is a year 2000 computing issue. In addition, NRG is evaluating the affect that the year 2000 may have on project systems.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information included in this Annual Report contains statements that are forward-looking, such as statements relating to business development activities as well as other capital spending and financing sources. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by or on behalf of NRG. In addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements, factors that could cause NRG's actual results to differ materially from those contemplated in any forward-looking statements include, among others, the following:

- Economic conditions including inflation rates and monetary fluctuations;

- Trade, monetary, fiscal, taxation, and environmental policies of governments, agencies and similar organizations in geographic areas where NRG has a financial interest;

- Customer business conditions including demand for their products or services and supply of labor and materials used in creating their products and services;

- Financial or regulatory accounting principles or policies imposed by the Financial Accounting Standards Board, the Securities and Exchange Commission, the Federal Energy Regulatory Commission and similar entities with regulatory oversight;

- Availability or cost of capital such as changes in: interest rates; market perceptions of the power generation industry, NRG or any of its subsidiaries; or security ratings;

- Factors affecting power generation operations such as unusual weather conditions; catastrophic weather-related damage; unscheduled generation outages, maintenance or repairs; unanticipated changes to fossil fuel, or gas supply costs or availability due to higher demand, shortages, transportation problems or other developments; environmental incidents; or electric transmission or gas pipeline system constraints;

- Employee workforce factors including loss or retirement of key executives, collective bargaining agreements with union employees, or work stoppages;

- Increased competition in the power generation industry;

- Cost and other effects of legal and administrative proceedings, settlements, investigations and claims;

- Technological developments that result in competitive disadvantages and create the potential for impairment of existing assets;

- Factors associated with various investments including conditions of final legal closing, foreign government actions, foreign economic and currency risks, political instability in foreign countries, partnership actions, competition, operating risks, dependence on certain suppliers and customers, domestic and foreign environmental and energy regulations;

- Limitations on NRG's ability to control the development or operation of projects in which NRG has less than 100% interest;

- Other business or investment considerations that may be disclosed from time to time in NRG's Securities and Exchange Commission filings or in other publicly disseminated written documents, including NRG's Registration Statement No. 333-33397, as amended.

NRG undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors should not be construed as exhaustive.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PAGE NO.

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and Stockholder
of NRG Energy, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholder's equity and of cash flows present fairly, in all material respects, the financial position of NRG Energy, Inc (a wholly-owned subsidiary of Northern States Power Company) and its subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. 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 generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PRICE WATERHOUSE LLP

Price Waterhouse LLP
Minneapolis, Minnesota
March 19, 1998

NRG ENERGY, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

(Thousands of Dollars)	Year Ended December 31, 1997	1996	1995
OPERATING REVENUES			
Revenues from wholly-owned operations	$ 92,052	$ 71,649	$ 64,180
Equity in earnings of unconsolidated affiliates	26,200	32,815	23,639
Total operating revenues	118,252	104,464	87,819
OPERATING COSTS AND EXPENSES			
Cost of wholly-owned operations	46,717	36,562	32,535
Depreciation and amortization	10,310	8,378	8,283
General, administrative and development	43,116	39,248	34,647
Total operating costs and expenses	100,143	84,188	75,465
OPERATING INCOME	18,109	20,276	12,354
OTHER INCOME (EXPENSE)			
Minority interest in earnings of consolidated subsidiary	(131)	--	--
Write-off of investment	(8,964)	--	--
Equity in gain on project termination settlement	--	--	29,850
Gain on sale of interest in projects	8,702	--	--
Other income, net	11,764	9,477	4,896
Interest expense	(30,989)	(15,430)	(7,089)
Total other income (expense)	(19,618)	(5,953)	27,657
INCOME (LOSS) BEFORE INCOME TAXES	(1,509)	14,323	40,011
INCOME TAX (BENEFIT) EXPENSE	(23,491)	(5,655)	8,810
NET INCOME	$ 21,982	$ 19,978	$ 31,201

See notes to consolidated financial statements.

NRG ENERGY, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

(Thousands of Dollars)	Year Ended December 31, 1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 21,982	$ 19,978	$ 31,201
Adjustments to reconcile net income to net cash provided (used) by operating activities			
Undistributed equity in earnings of unconsolidated affiliates	6,481	(17,827)	(20,074)
Depreciation and amortization	10,310	8,378	8,283
Deferred income taxes and investment tax credits	3,107	(776)	(2,608)
Cash provided (used) by changes in certain working capital Items, net of acquisition effects			
Accounts receivable	(2,859)	(2,728)	1,102
Accounts receivable-affiliates	(19,963)	(2,068)	(2,889)
Other current assets	(2)	(3,401)	(678)
Accounts payable	7,791	917	(2,028)
Accrued salaries, benefits and related costs	3,826	1,381	2,427
Accrued interest	1,215	3,902	553
Accrued income taxes	1,762	(5,436)	9,808
Other current liabilities	7,729	3,110	698
Cash used by changes in other assets and liabilities	(7,155)	(1,284)	(1,004)
Equity in gain from project termination settlement	--	--	(29,850)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	34,224	4,146	(5,059)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in projects	(317,887)	(140,590)	(25,776)
Acquisition, net of liabilities assumed	(148,830)	--	--
Increase in notes receivable	(37,431)	(36,617)	(35,411)
Capital expenditures	(26,936)	(24,588)	(11,036)
Cash distribution from project termination settlement	--	15,671	14,179
Cash from sale of project investment	19,158	--	--
Decrease (increase) in restricted cash	16,100	(7,915)	4,044
Other, net	10,114	(4,486)	(3,104)
NET CASH USED BY INVESTING ACTIVITIES	(485,712)	(198,525)	(57,104)
CASH FLOWS FROM FINANCING ACTIVITIES			
Revolving line of credit	122,000	--	--
Capital contributions from parent	80,900	80,000	55,000
Proceeds from issuance of long-term debt	254,061	122,671	--
Principal payments on long-term debt	(5,925)	(2,893)	(3,305)
NET CASH PROVIDED BY FINANCING ACTIVITIES	451,036	199,778	51,695
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(452)	5,399	(10,468)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12,438	7,039	17,507
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 11,986	$ 12,438	$ 7,039
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest paid (net of amount capitalized)	$ 30,890	$ 11,527	$ 6,536
Income taxes paid (benefits received), net	(24,577)	1,164	1,447

See notes to consolidated financial statements.

NRG ENERGY, INC., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

(Thousands of Dollars)	December 31, 1997	1996
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 11,986	$ 12,438
Restricted cash	1,588	17,688
Accounts receivable-trade, less allowance For doubtful accounts of $100 and $143	15,520	12,061
Accounts receivable-affiliates	29,162	6,708
Current portion of notes receivable - affiliates	48,816	3,601
Current portion of notes receivable	3,729	5,985
Inventory	2,619	2,312
Prepayments and other current assets	5,002	4,644

Total current assets	118,422	65,437
PROPERTY, PLANT AND EQUIPMENT, AT ORIGINAL COST		
In service	255,433	176,072
Under construction	9,758	24,683
	265,191	200,755
Less accumulated depreciation	(79,300)	(71,106)
Net property, plant and equipment	185,891	129,649
OTHER ASSETS		
Investments in projects	694,655	365,749
Capitalized project costs	17,791	9,267
Notes receivable, less current portion - affiliates	71,759	58,169
Notes receivable, less current portion	4,624	9,309
Intangible assets, net of accumulated amortization of $2,012 and $2,036	21,414	11,987
Debt issuance costs, net of accumulated amortization of $779 and $338	6,569	2,753
Other assets, net of accumulated amortization of $4,782 and $3,611	46,977	28,489
Total other assets	863,789	485,723
TOTAL ASSETS	$ 1,168,102	$ 680,809

See notes to consolidated financial statements.

NRG ENERGY, INC., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

(Thousands of Dollars)	December 31, 1997	1996
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 7,676	$ 4,848
Revolving line of credit	122,000	--
Accounts payable-trade	16,101	4,443
Note payable	--	3,867
Accrued income taxes	3,692	1,930
Accrued property and sales taxes	3,804	2,159
Accrued salaries, benefits and related costs	10,998	6,559
Accrued interest	6,310	4,726
Other current liabilities	10,508	4,424
Total current liabilities	181,089	32,956
MINORITY INTEREST	19,818	--
LONG-TERM DEBT, LESS CURRENT PORTION	491,179	207,293
DEFERRED REVENUES	9,577	6,340
DEFERRED INCOME TAXES	11,968	8,606
DEFERRED INVESTMENT TAX CREDITS	1,598	1,853
DEFERRED COMPENSATION	2,175	1,847
Total liabilities	717,404	258,895
STOCKHOLDER'S EQUITY		

Common stock; $1 par value; 1,000 shares authorized; 1,000 shares issued and outstanding	1	1
Additional paid-in capital	431,913	351,013
Retained earnings	88,283	66,301
Currency translation adjustments	(69,499)	4,599
Total Stockholder's Equity	450,698	421,914
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 1,168,102	$ 680,809

See notes to consolidated financial statements.

NRG ENERGY, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY

(Thousands of Dollars)	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	CURRENCY TRANSLATION ADJUSTMENTS	TOTAL STOCKHOLDER'S EQUITY
BALANCES AT DECEMBER 31, 1994	$ 1	$ 216,013	$ 15,122	$ 3,586	$ 234,722
Net Income			31,201		31,201
Capital contributions from parent		55,000			55,000
Currency translation adjustments				(1,159)	(1,159)
BALANCES AT DECEMBER 31, 1995	1	271,013	46,323	2,427	319,764
Net Income			19,978		19,978
Capital contributions from parent		80,000			80,000
Currency translation adjustments				2,172	2,172
BALANCES AT DECEMBER 31, 1996	1	351,013	66,301	4,599	421,914
Net Income			21,982		21,982
Capital contributions from parent		80,900			80,900
Currency translation adjustments				(74,098)	(74,098)
BALANCES AT DECEMBER 31, 1997	$ 1	$ 431,913	$ 88,283	$ (69,499)	$ 450,698

See notes to consolidated financial statements.

NRG ENERGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of Dollars)

NOTE 1-ORGANIZATION

NRG Energy, Inc. (the Company), a Delaware Corporation, was incorporated on May 29, 1992, as a wholly-owned subsidiary of Northern States Power Company (NSP).

Beginning in 1989, the Company was doing business through its predecessor companies, NRG Energy, Inc. and NRG Group, Inc., Minnesota corporations which were merged into the Company subsequent to its incorporation. The Company and its subsidiaries and affiliates develop, build, acquire, own and operate non-regulated energy-related businesses.

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION
The consolidated financial statements include the accounts of the Company and its subsidiaries (referred to collectively herein as NRG). All significant intercompany transactions and balances have been eliminated in consolidation. As discussed in Note 5, NRG has investments in partnerships, joint ventures and projects for which the equity method of accounting is applied. Earnings from equity in international investments are recorded net of foreign income taxes.

CASH EQUIVALENTS
Cash equivalents include highly liquid investments (primarily commercial paper) with a remaining maturity of three months or less at the time of purchase.

RESTRICTED CASH
Restricted cash consists primarily of cash collateral for letters of credit issued in relation to project development activities.

INVENTORY
Inventory is valued at the lower of average cost or market and consists principally of spare parts and raw materials used to generate steam.

PROPERTY, PLANT AND EQUIPMENT
Property, plant and equipment are capitalized at original cost. Significant additions or improvements extending asset lives are capitalized, while repairs and maintenance are charged to expense as incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Facilities and improvements	20-45 years
Machinery and equipment	7-30 years
Office furnishings and equipment	3-5 years

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 project is completed and considered operational. Capitalized interest is amortized using the straight line method over the useful life of the related project. Capitalized interest was $98,000 and $364,000 in 1997 and 1996, respectively.

DEVELOPMENT COSTS AND CAPITALIZED PROJECT COSTS
These costs include professional services, dedicated employee salaries, permits, and other costs which are incurred incidental to a particular project. Such costs are expensed as incurred until a sales agreement or letter of intent is signed, and the project has been approved by NRG's Board of Directors. Additional costs incurred after this point are capitalized. When project operations begin, previously capitalized project costs are reclassified to investment in projects and amortized on a straight-line basis over the lesser of the life of the project's related assets or revenue contract period.

DEBT ISSUANCE COSTS
Costs to issue long-term debt have been capitalized and are being amortized over the terms of the related debt.

INTANGIBLES
Intangibles consist principally of the excess of the cost of investment in subsidiaries over the underlying fair value of the net assets acquired and are being amortized using the straight-line method over 10 to 40 years. The Company periodically evaluates the recovery of goodwill and other intangibles based on an analysis of estimated undiscounted future cash flows.

OTHER LONG TERM ASSETS
Other long-term assets consist primarily of service agreements and operating contracts. These assets are being amortized over the remaining terms of the individual contracts, which range from seven to twenty-eight years.

INCOME TAXES
The Company is included in the consolidated tax returns of NSP. NRG calculates its income tax provision on a separate return basis under a tax sharing agreement with NSP as discussed in Note 9. Current federal and state income taxes are payable to or receivable from NSP. NRG records income taxes using the liability method. Income taxes are deferred on all temporary differences between pretax financial and taxable income and between the book and tax bases of assets and liabilities. Deferred taxes are recorded using the tax rates scheduled by law to be in effect when the temporary differences reverse. Investment tax credits are deferred and amortized over the estimated lives of the related property. NRG's policy for income taxes related to international operations is discussed in Note 9.

REVENUE RECOGNITION
Under fixed-price contracts, revenues are recognized as deliveries of products or services are made. Revenues and related costs under cost reimbursable contract provisions are recorded as costs are incurred. Anticipated future losses on contracts are charged against income when identified.

FOREIGN CURRENCY TRANSLATION
The local currencies are generally the functional currency of NRG's foreign operations. Foreign currency denominated assets and liabilities are translated at end-of-period rates of exchange. The resulting currency adjustments are accumulated and reported as a separate component of stockholder's equity. Income, expense, and cash flows are translated at weighted-average rates of exchange for the period.

USE OF ESTIMATES
In recording transactions and balances resulting from business operations, NRG uses estimates based on the best information available. Estimates are used for such items as plant depreciable lives, tax provisions, uncollectible accounts and actuarially determined benefit costs. 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 reclassifications have been made to the 1996 financial statements to conform to the 1997 presentation. These reclassifications had no effect on net income or stockholder's equity as previously reported.

NOTE 3-BUSINESS ACQUISITIONS

In February 1997, NRG made an initial purchase of 7.2% of Energy Developments Limited (EDL). In September, 1997, NRG purchased additional common stock of EDL, bringing its ownership level to 19.97%. EDL, a publicly held Australian company, is engaged in independent power generation from landfill gas, coal seam methane, and natural gas. EDL, currently owns approximately 184 MW of operating projects and operates over 243 MW of generation capacity across five states and territories of Australia.

In May 1997, NRG acquired a 25.37% interest in the assets of Loy Yang A, a 2,000 MW brown coal thermal power station and adjacent coal mine located in Victoria, Australia. NRG's initial equity investment in this project was $257 million.

NRG purchased the San Diego Power & Cooling Company ("SDPC") in June 1997. SDPC serves the cooling needs of thirteen major customers in the downtown San Diego central business district through an underground piping system with chilled water capacity of 5,250 tons/hour.

In July 1997, NRG, together with its partner, Decker Energy International, Inc., acquired a 34 MW wood-fired steam turbine power plant, located in Cadillac, Michigan. NRG assumed on-going operation of the plant.

In November 1997, NRG acquired 100% of the outstanding shares of Pacific Generation Company ("PGC") a, wholly-owned subsidiary of PacifiCorp for $148.8 million. PGC has ownership interest in 11 projects with a total capacity of 737 MW, with operational responsibility for 312 MW and net ownership interest of 166 MW. The projects, which are located throughout the United States and Canada, are powered by natural gas, hydro, refuse-derived fuel, coal and wind.

The total acquisition investments in these projects through December 31, 1997, was approximately $437.8 million. The projects acquired in 1997 contributed $3.8 million to NRG's 1997 earnings.

NOTE 4-PROPERTY, PLANT AND EQUIPMENT

The major classes of property, plant and equipment at December 31 were as follows:

	1997	1996
Facilities and equipment, including construction work in progress of $9,758 and $24,683	$ 250,358	$ 187,014
Land and improvements	10,397	10,397
Office furnishings and equipment	4,436	3,344
Total property, plant and equipment	265,191	200,755
Accumulated depreciation	(79,300)	(71,106)
Net property, plant and equipment	$ 185,891	$ 129,649

NRG ENERGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5-INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

NRG has 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 NRG 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 in the net income or losses of international projects are reflected as equity in earnings of unconsolidated affiliates.

A summary of NRG's significant equity-method investments which were in operation

at December 31, 1997 is as follows:

NAME	GEOGRAPHIC AREA	ECONOMIC INTEREST	PURCHASED OR PLACED IN SERVICE
Various Independent Power Production Facilities	USA	45%-50%	July 1991-December 1997
Loy Yang A	Australia	25.37%	May 1997
Energy Developments Limited	Australia	19.97%	February and September 1997
Energy Center Kladno	Czech Republic	34.0%	December 1994
Pacific Generation Company Projects	USA/Canada	8.5% - 28.7%	November 1997
MIBRAG mbH	Germany	33.3%	January 1994
Gladstone Power Station	Australia	37.5%	March 1994
Schkopau Power Station	Germany	20.6%	January and July 1996
Scudder Latin American Power Projects	Latin America	25.0%	June 1993
Bolivian Power Company (Cobee)	Bolivia	48.3%	December 1996
NRG Generating (U.S.) Inc. (NRGG)	USA	45.2%	April 1996

Summarized financial information for investments in unconsolidated affiliates accounted for under the equity method as of and for the year ended December 31, is as follows:

(THOUSANDS OF DOLLARS)	1997	1996	1995
Operating revenues	$1,612,897	$ 886,947	$ 776,612
Costs and expenses	1,522,727	794,255	615,696
Net income	$ 90,170	$ 92,692	$ 160,916
Current assets	$ 713,390	$ 647,213	757,124
Noncurrent assets	7,733,886	3,420,950	2,557,992
Total assets	$8,447,276	$4,068,163	$3,315,116
Current liabilities	$ 472,980	$ 365,905	$ 290,805
Noncurrent liabilities	6,042,102	2,732,922	2,236,919
Equity	1,932,194	969,336	787,392
Total liabilities and equity	$8,447,276	$4,068,163	$3,315,116
NRG's share of equity	$ 694,655	$ 365,749	$ 221,129
NRG's share of income	$ 26,200	$ 32,815	$ 23,639

In accordance with Financial Accounting Standards No. 121 "Accounting for Impairment of Long-Lived Assets to be Disposed of," (SFAS 121), the Company reviews long lived assets, investments and certain intangibles for impairment whenever events or circumstances indicate the carrying amounts of an asset may not be recoverable. In December 1997, the Company reviewed the carrying amount of a project that failed to restructure its debt and recorded a charge of $8.9 million. The charge represents the difference between the carrying amount of the investment and the fair value of the asset. This charge is presented in Other Income (Expense) and is not part of the above information.

NOTE 6-RELATED PARTY TRANSACTIONS

SALE TO AFFILIATE
In December 1997, NRG sold its interest in the Millenium facility, a 117 MW cogeneration plant under construction near Morris, Illinois to NRG Generating (U.S.) Inc. for $4 million.

OPERATING AGREEMENTS
NRG has two agreements with NSP for the purchase of thermal energy. Under the terms of the agreements, NSP charges NRG for certain costs (fuel, labor, plant maintenance, and auxiliary power) incurred by NSP to produce the thermal energy. NRG paid NSP $4.6 million in 1997 and $6.0 million in 1996 under these agreements.

NRG has a renewable 10-year agreement with NSP, expiring on December 31, 2001, whereby NSP agrees to purchase refuse-derived fuel for use in certain of its boilers and NRG agrees to pay NSP a burn incentive. NRG has an agreement expiring in 2006 to sell wood by-products obtained from a Thermal customer to NSP for use as fuel. Under these two agreements, NRG received $1.3 million and $1.5 million from NSP, and paid $2.8 million and $2.2 million to NSP in 1997 and 1996, respectively.

ADMINISTRATIVE SERVICES AND OTHER COSTS
NRG and NSP have entered into an agreement to provide for the reimbursement of actual administrative services provided to each other, an allocation of NSP administrative costs and a working capital fee. Services provided by NSP to NRG are principally cash management, legal, accounting, employee relations, benefits administration and engineering support. In addition, NRG employees participate in

certain employee benefit plans of NSP as discussed in Note 10. During 1997 and 1996, NRG paid NSP $.7 million and $3.2 million, respectively, as reimbursement under this agreement.

In 1996, NRG and NSP entered into an agreement for NRG to provide operations and maintenance services for NSP's Elk River resource recovery facility and Becker ash landfill. During 1997 and 1996, NSP paid NRG $1.1 million and $1.5 million, respectively, as compensation under this agreement.

NOTE 7 - NOTES RECEIVABLE

Notes receivable consists primarily of fixed and variable rate notes secured by equity interests in partnerships and joint ventures. The notes receivable at December 31, are as follows:

(Thousands of dollars)	1997	1996

NEO notes to various affiliates due primarily 1999, prime +2% to 12.5%	$ 49,921	$ 20,648
SMMPA note receivable due 2003, 7%	1,709	1,869
Various secured notes due 1999 and later, non-interest bearing	724	720
TVI note due 1998, 11%	1,500	--
Mid-Continent Power Notes., various notes due 1998, 12%	18,820	9,309
NRG Generating US, Inc., note due 2001, 9.5%	2,624	14,932
Grays Ferry note due 2005, LIBOR plus 4.0%	1,900	--
Tosli, various notes due 1998, LIBOR plus 4.0%	31,088	--
NRGenerating International BV notes to various affiliates, non-interest bearing (7.5% in 1996)	6,713	29,586
Pacific Generation, various notes due from 1998 to 2013, Prime +2% to 14%	13,929	--
Total Notes Receivable (Current and Long-Term)	$128,928	$ 77,064

NRG ENERGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8-LONG-TERM DEBT

Long-term debt consists of the following at December 31:

(THOUSANDS OF DOLLARS)	1997	1996
NRG Energy Center, Inc. senior secured notes due June 15, 2013, 7.31%	$74,481	$76,986
Note payable to NSP, due December 1, 1995-2006 5.40%-6.75%	7,811	8,405
NRG Sunnyside, Inc. note payable, due December 31, 1997 10.00%	--	1,750
NRG Energy senior notes, due February 1, 2006 7.625%	125,000	125,000
NRG Energy senior notes, due June 15, 2007 7.50%	250,000	--
NRG San Diego, Inc. promissory note, due June 25, 2003 8.0%	2,521	--
NEO Landfill Gas, Inc. term loan, due October 30, 2007 9.35%	2,636	--
NEO Landfill Gas Inc. construction loan due October 30, 2007 6.887%	2,982	--
Pacific Generation Co. senior secured notes, due December 31, 2000 9.93%	2,636	--
Pacific Generation Co. revenue bonds, due August 1, 2007 4.65%	11,855	--
Pacific Generation Co. unsecured term loan, due June 30, 2007 7.65%	18,933	--
	498,855	212,141
Less current maturities	(7,676)	(4,848)
Total	$491,179	$207,293

The NRG Energy Center, Inc. notes are secured principally by long-term assets of the Minneapolis Energy Center (MEC). In accordance with the terms of the note agreement, MEC is required to maintain compliance with certain financial covenants primarily related to incurring debt, disposing of MEC assets, and affiliate transactions. MEC was in compliance with these covenants at December 31, 1997.

The note payable to NSP relates to long-term debt assumed by the Company in connection with the transfer of ownership of an RDF processing plant by NSP to the Company in 1993.

The NRG Energy $125 million and $250 million senior notes are unsecured and are used to support equity requirements for projects acquired and in development. The interest is paid semi-annually and the ten-year senior notes mature in February 2006 and June 2007.

The NRG San Diego, Inc. promissory note is secured principally by long-term assets of the San Diego Power & Cooling Company.

The NEO Landfill Gas, Inc. notes are term and construction loans. The loans are secured principally by long-term assets of NEO Landfill Gas collection system. NEO Landfill Gas is required to maintain compliance with certain covenants primarily related to incurring debt, disposing of the NEO Landfill Gas

assets, and affiliate transactions. NEO Landfill Gas was in compliance with these covenants at December 31, 1997.

The PGC notes are secured principally by long-term assets of certain PGC affiliates. In accordance with the terms of the note agreements, PGC is required to maintain compliance with certain financial covenants primarily related to incurring debt, disposing of PGC assets, and affiliate transactions. PGC was in compliance with these covenants at December 31, 1997.

Annual maturities of long-term debt for the years ending after December 31, 1997 are as follows:

(Thousands of dollars)	
1998	$ 7,676
1999	7,682
2000	7,977
2001	7,931
2002	8,478
Thereafter	459,111
Total	$498,855

The Company has a credit agreement for $175 million of which $122 million was outstanding at December 31, 1997. In addition, the Company has credit lines for issuance of letters of credit which may not exceed $57.5 million. There were $48.4 million and $18.4 million outstanding letters of credit under the credit lines at December 31, 1997 and 1996, respectively.

On March 17, 1998 NRG amended its existing 3-year, $175 million Revolving Credit facility to allow NRG additional borrowing capacity under its covenant ratios. Also on that date, NRG entered into an additional $75 million, 364-day facility with its existing bank group with ABN-AMRO as agent. The new facility will be used for general corporate purposes and for funding future growth opportunities. (See Exhibits 10.15 and 10.16)

NOTE 9-INCOME TAXES

NRG and its parent, NSP, have entered into a federal and state income tax sharing agreement relative to the filing of consolidated federal and state income tax returns. The agreement provides, among other things, that (1) if NRG, along with its subsidiaries, is in a taxable income position, NRG will be currently charged with an amount equivalent to its federal and state income tax computed as if the group had actually filed separate federal and state returns, and (2) if NRG, along with its subsidiaries, is in a tax loss position, NRG will be currently reimbursed to the extent its combined losses are utilized in a consolidated return, and (3) if NRG, along with its subsidiaries, generates tax credits, NRG will be currently reimbursed to the extent its tax credits are utilized in a consolidated return.

The provision for income taxes consists of the following:

(THOUSANDS OF DOLLARS)	1997	1996	1995
Current			
Federal	$ (8,516)	$ 633	$ 9,965
State	(1,274)	253	3,268
Foreign	236	616	233
	(9,554)	1,502	13,466
Deferred			
Foreign	(2,703)	--	--
Federal	(958)	(3,655)	(1,592)
State	(439)	(1,498)	(1,012)
	(4,100)	(5,153)	(2,604)
Tax credits recognized	(9,837)	(2,004)	(2,052)
Total income tax (benefit) expense	$(23,491)	$ (5,655)	$ 8,810
Effective tax rate	(1,557%)	(39.5%)	22.0%

The components of the net deferred income tax liability at December 31 were:

(THOUSANDS OF DOLLARS)	1997	1996
Deferred tax liabilities		
Differences between book and tax bases of property	$16,999	$16,606
Investments in projects	11,574	2,988
Goodwill	915	2,974
Other	5,396	2,646

Total deferred tax liabilities	34,884	25,214
Deferred tax assets		
Deferred revenue	1,963	3,043
Deferred compensation, accrued vacation and other reserves	4,638	1,536
Development costs	9,588	5,581
Deferred investment tax credits	661	766
Steam capacity rights	976	1,043
Other	5,090	4,639
Total deferred tax assets	22,916	16,608
Net deferred tax liability	$11,968	$ 8,606

The effective income tax rate for the years 1997, 1996 and 1995 differs from the statutory federal income tax rate of 35% primarily due to income and expenses from foreign operations not subject to U.S. taxes (as discussed below) and due to state tax, foreign tax, and tax credits as shown above.

Income before income taxes includes equity in net foreign investment income of $27 million, $28 million and $32.0 million in 1997, 1996, and 1995 respectively. NRG's management intends to reinvest the earnings of foreign operations indefinitely. Accordingly, U.S. income taxes and foreign withholding taxes have not been provided on the earnings of foreign subsidiary companies. The cumulative amount of undistributed earnings of foreign subsidiaries upon which no U.S. income taxes or foreign withholding taxes have been provided is approximately $112 million at December 31, 1997. The additional U.S.

income tax and foreign withholding tax on the unremitted foreign earnings, if repatriated, would be offset in whole or in part by foreign tax credits. Thus, it is impracticable to estimated the amount of tax that might be payable.

NOTE 10-BENEFIT PLANS AND OTHER POSTRETIREMENT BENEFITS

PENSION BENEFITS
NRG participates in NSP's noncontributory, defined benefit pension plan that covers substantially all employees. Benefits are based on a combination of years of service, the employee's highest average pay for 48 consecutive months, and Social Security benefits. Net annual periodic pension cost includes the following components:

(THOUSANDS OF DOLLARS)	1997	1996	1995
Service cost-benefits earned during the period	$ 1,127	$ 1,115	$ 688
Interest cost on projected benefit obligation	1,187	1,013	525
Actual return on assets	(3,756)	(1,983)	(1,542)
Net amortization and deferral	2,729	1,258	1,147
Net periodic pension cost	$ 1,287	$ 1,403	$ 818

NRG's funding policy is to contribute to NSP the full actuarial pension cost accrued, less future tax benefits to be realized from such costs. Plan assets consist principally of common stock of public companies, corporate bonds and U.S. government securities. The funded status of the pension plan in which NRG employees participate is as follows at December 31:

(THOUSANDS OF DOLLARS)	NSP PLAN--1997 Total	NRG Portion
Actuarial present value of benefit obligation		
Vested	$ 701,219	$ 7,976
Non-vested	165,004	4,265
Accumulated benefit obligation	$ 866,223	$ 12,241
Projected benefit obligation	$1,048,251	$ 17,410
Plan assets at fair value	1,978,538	18,795
Plan assets in excess of projected benefit obligation	(930,287)	(1,385)
Unrecognized prior service cost	(18,663)	(81)
Unrecognized net actuarial gain	953,825	3,243
Unrecognized net transitional asset	463	-
Net pension liability recorded	$ 5,338	$ 1,777

(THOUSANDS OF DOLLARS)	NSP PLAN--1996 Total	NRG Portion
Actuarial present value of benefit obligation		
Vested	$ 660,920	$ 6,464
Nonvested	147,278	3,422
Accumulated benefit obligation	$ 808,198	$ 9,886
Projected benefit obligation	$ 993,821	$ 14,253
Plan assets at fair value	1,634,696	12,986
Plan assets (in excess of) less than projected benefit obligation	(640,875)	1,267
Unrecognized prior service cost	(19,734)	(86)
Unrecognized net actuarial gain	651,368	256
Unrecognized net transitional asset	539	--
Net pension (asset) liability recorded	$ (8,702)	$ 1,437

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 7% for December 31, 1997 and 7.5% for December 31, 1996. The rate of increase in future compensation levels used in determining the actuarial present value of the projected obligation was 5% in 1997 and 1996. The assumed long-term rate of return on assets used for cost determinations was 9% for 1997, 1996 and 1995. Assumption changes had an immaterial impact on benefit costs for the periods presented.

POSTRETIREMENT HEALTH CARE

NRG participates in NSP's contributory health and welfare benefit plan that provides health care and death benefits to substantially all employees after their retirement. The plan is intended to provide for sharing of costs of

retiree health care between NRG and retirees. For employees retiring after January 1, 1994, a six-year cost-sharing strategy was implemented with retirees paying 15% of the total cost of health care in 1994, increasing to a total of 40% in 1999.

Postretirement health care benefits for NRG are determined and recorded under the provisions of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 106 requires the actuarially determined obligation for postretirement health care and death benefits to be fully accrued by the date employees attain full eligibility for such benefits, which is generally when they reach retirement age. In conjunction with the adoption of SFAS No. 106 in 1993, NRG elected to amortize on a straight-line basis over 20 years the unrecognized accumulated postretirement benefit obligation (APBO) of $1.4 million for current and future retirees.

Plan assets as of December 31, 1997 consisted of investments in equity mutual funds and cash equivalents. NRG's funding policy is to contribute to NSP benefits actually paid under the plan. The following table sets forth the funded status of the health care plan in which NRG employees participate at December 31:

	NSP PLAN--1997	
(THOUSANDS OF DOLLARS)	TOTAL	NRG PORTION
APBO		
Retirees	$ 149,081	$ 346
Fully eligible plan participants	21,245	746
Other active plan participants	108,904	2,801
Total APBO	279,230	3,893
Plan assets at fair value	19,784	--
APBO in excess of plan assets	259,446	3,893
Unrecognized net actuarial loss	(14,408)	(579)
Unrecognized net transition obligation	(161,700)	(1,063)
Net benefit obligation recorded	$ 83,338	$ 2,251

	NSP PLAN--1996	
(THOUSANDS OF DOLLARS)	TOTAL	NRG PORTION
APBO		
Retirees	$ 144,180	$ 323
Fully eligible plan participants	23,438	619
Other active plan participants	101,065	2,269
Total APBO	268,683	3,211

Plan assets at fair value	15,514	--
APBO in excess of plan assets	253,169	3,211
Unrecognized net actuarial loss	(12,467)	(366)
Unrecognized net transition obligation	(172,480)	(1,133)
Net benefit obligation recorded	$ 68,222	$ 1,712

The assumed health care cost trend rates used in measuring the APBO at December 31, 1997 and 1996, were 9.2% and 9.8% for those under age 65, and 6.8 % and 7.1% for those over age 65, respectively. The assumed cost trends are expected to decrease each year until they reach 5.5% for both age groups in the year 2004, after which they are assumed to remain constant. A one percent increase in the assumed health care cost trend rate for each year would increase the APBO by approximately 14.5% as of December 31, 1997. Service and interest cost components of the net periodic postretirement cost would increase by approximately 15.4% with a similar one percent increase in the assumed health care cost trend rate. The assumed discount rate used in determining the APBO was 7% for December 31, 1997 and 7.5% for December 31, 1996, compounded annually. The assumed long-term rate of return on assets used for cost determinations under SFAS No. 106 was 8% for 1997, 1996 and 1995. Changes in actuarial assumptions had an immaterial impact on benefit costs.

The net annual periodic postretirement benefit cost recorded for 1997 and 1996 consists of the following components:

(THOUSANDS OF DOLLARS)	1997	1996	1995
Service cost-benefits earned during the year	$223	$257	$171
Interest cost on APBO	246	233	171
Amortization of transition obligation	70	70	70
Net amortization and deferral	--	26	--
Net periodic postretirement health care cost	$539	$586	$412

NRG EQUITY PLAN

Employees are eligible to participate in the NRG Equity Plan (the Plan). The Plan grants phantom equity units to employees based upon performance and job grade. NRG's equity units are valued based upon NRG's growth and financial performance. The primary financial measures used in determining the equity units' value are revenue growth, return on investment and cash flow from operations. The units are awarded to employees annually at the respective year's calculated share price (grant price). The Plan provides employees with a cash payout for the unit's appreciation in value over the vesting period. The Plan has a seven year vesting schedule with actual payments beginning after the end of the third year and continuing at 20% each year for the subsequent five years.

The Plan includes a change of control provision, which allow all shares to vest if the ownership of NRG were to change.

DEFERRED COMPENSATION

Certain employees of NRG are eligible to participate in a deferred compensation program. The employee can elect to defer a portion of their compensation until retirement. Earnings on the amounts deferred are equal to the return on the Fixed Income Option of the NSP Retirement Savings Plan. Earnings will be compounded annually and credited monthly. Payouts begin upon retirement with payments made over 180 equal monthly installments (or a minimum of $500 per month until the account balance is zero).

NOTE 11-SALES TO SIGNIFICANT CUSTOMERS

NRG and the Ramsey/Washington Resource Recovery Project have a service agreement for waste disposal which expires in 2006. Approximately 23.9% in 1997 and 29.1% in 1996 of NRG's operating revenues were recognized under this contract. In addition, sales to one thermal customer amounted to 9.9% of operating revenues in 1997 and 14.1% of operating revenues in 1996.

NOTE 12-FINANCIAL INSTRUMENTS

The estimated December 31 fair values of NRG's recorded financial instruments are as follows:

	1997		1996	
(THOUSANDS OF DOLLARS)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 11,986	$ 11,986	$ 12,438	$ 12,438
Restricted cash	1,588	1,588	17,688	17,688
Notes receivable, including current portion	129,687	129,687	77,064	77,064
Long-term debt, including current portion	498,855	489,332	212,141	200,875

For cash, 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 the quoted market prices for the same or similar issues.

DERIVATIVE FINANCIAL INSTRUMENTS

NRG's policy is to hedge known and anticipated foreign currency denominated cash flows, where appropriate hedging instruments are available, to preserve their U.S. dollar value. NRG has entered into currency hedging transactions through the use of forward foreign currency exchange agreements with terms of less than one to three years. Gains and losses on these agreements offset the effect of foreign currency exchange rate fluctuations on NRG's underlying exposures. Gains on agreements that hedge firm commitments of cash flows are deferred and included in the measurement of the related foreign currency transaction in the period the transaction occurs, and losses on these agreements are deferred in the same manner unless it is estimated that deferral would lead to recognizing losses in later periods. Gains and losses on agreements that hedge cash flows not meeting the criteria of a firm commitment are recorded in the current period in the statement of income. While NRG is not currently hedging foreign currency denominated investments, NRG has and will hedge such investments in the future when management believes that preserving the U.S. dollar value of the investment

is appropriate.

NRG has entered into forward foreign currency exchange contracts with counterparties to hedge certain exposures to currency fluctuations. Pursuant to these contracts, transactions have been executed that are designed to protect the economic value in U.S. dollars of selected known and anticipated NRG cash flows denominated in Australian dollars and German deutsche marks. As of December 31, 1997, NRG had in place contracts with a notional value of $10 million to hedge foreign currency denominated known future cash flows. In addition, NRG has in place forward foreign currency exchange contracts with a net notional value of $8.6 million to hedge projected construction expenditures, which do not qualify for hedge accounting and consequently result in currency fluctuations that can affect earnings. The forward foreign currency exchange contracts terminate in 1998. If all of the contracts had been terminated at December 31, 1997, $1.0 million would have been payable by NRG for currency exchange rate changes to date. Management believes NRG's exposure to credit risk due to nonperformance by the counterparties to its forward exchange contracts is not significant, based on the investment grade rating of the counterparties.

Where appropriate, NRG also uses interest rate hedging instruments to protect against increases in the cost of borrowing at both the corporate and project level. Gains and losses on interest rate hedging instruments are deferred and included in the measurement of the underlying equity investment when made. NRG also has two agreements in place, with a notional amount of $80 million, to fix the interest rate (based on U.S. Treasury obligations) for known future borrowings related to project investment commitments. If the

agreements had been terminated at December 31, 1997, $4.3 million would have been payable by NRG based on the underlying U.S. Treasury interest rate on that date.

NOTE 13-COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS

The Company leases certain of its facilities and equipment under operating leases, some of which include escalation clauses, expiring on various dates through 2010. Rental expense under these operating leases was $1.2 million in 1997 and $.7 million in 1996. Future minimum lease commitments under these leases for the years ending after December 31, 1997 are as follows:

(Thousands of dollars)	
1998	$1,372
1999	1,254
2000	1,282
2001	1,215
2002	823
Thereafter	6,158
Total	$12,104

CAPITAL COMMITMENTS - INTERNATIONAL

NRG signed a Joint Development Agreement for the acquisition, upgrading, expansion and development of Energy Center Kladno in Kladno, Czech Republic. The

acquisition of the existing facility is the first phase of a development project that will include upgrading the existing plant and developing a new power generation facility. NRG has made a $46 million commitment for the additional facilities.

NRG together with its partners, signed a power contract with PT Perusahaan Listrik Negara, the state-owned Indonesian Electric Company, to build, own and operate a 400 MW, coal-fired power station in Cilegon, West Java, Indonesia. NRG has a $65 million commitment for the facility. This project is currently on hold.

NRG is contractually committed to additional equity investments of $8 million in the Scudder Latin American Power I and $7 million to Scudder Latin American Power II as of December 31, 1997.

NRG purchased a 50% equity interest in the Enfield Energy Centre, a 396 MW power project under development in the North London Borough of Enfield, England. NRG's has a $28 million outstanding commitment for the facility.

NRG and Transfield signed an agreement for the acquisition and refurbishment of the 189 MW Collinsville coal-fired power generation facility in Queensland, Australia. NRG has a $10 million commitment to the Collinsville project.

CAPITAL COMMITMENTS-DOMESTIC

In 1996, NRG provided a $10 million loan commitment to a wholly owned subsidiary of NRG Generating (U.S.) Inc. (NRGG). The purpose of the loan was to allow NRGG to fund its capital contribution to a cogeneration project that was under construction. During 1997, NRG lent $10 million to NRGG and $1.9 million remains outstanding as of December 31, 1997.

Also in 1996, NRG entered into an agreement requiring that it provide NRGG power generation investment opportunities in the United States over a period of seven years. During the first three years of the seven-year term, NRG is obligated to offer projects to NRGG having aggregate, equity value of at least $60 million or a minimum power generation capacity of 150 net megawatts. In addition, NRG has committed to finance these projects to the extent funds are not available to NRGG on comparable terms from other sources. During 1997, NRG provided NRGG with a 117 megawatt project and offered a 17 net MW project which NRGG did not purchase.

NRG and Destec Energy Inc. (Destec) signed agreements with Southern California Edison to acquire a 1020 MW facility in El Segundo, California and a 530 MW facility in Long Beach, California for $87.75 million and $29.8 million, respectively. NRG and Destec will each own a 50% interest in these facilities.

NRG has guaranteed the repayment of certain affiliate borrowings under a construction loan facility. The facility, which terminates in October 1998, will fund construction of landfill gas collection and electric generation projects. The loan facility commitment is $74.0 million. Accounts outstanding under the facility at December 31, 1997, which could be subject to the NRG guarantee if unpaid by affiliate, were $4.8 million.

NRG has contractually agreed to the monetization of certain tax credits generated from landfill gas sales through the year 2007.

Future capital commitments related to projects are as follows:

(Millions of dollars)	
1998	$ 111
1999	77

2000	32
2001	3
2002	2
Total	$ 225

CLAIMS AND LITIGATION

In the normal course of business, NRG is a party to routine claims and litigation arising from current and prior operations. NRG is actively defending these matters and does not feel the outcome of such matters would materially impact the results of operation.

NOTE 14-SEGMENT REPORTING

NRG conducts its business within one industry segment, independent power generation. Operations in the United States include wholly-owned operations and investments in various domestic energy projects. International operations include investments in various international energy projects. See Note 5 for significant equity method investments.

1997	NORTH AMERICA	EUROPE	ASIA PACIFIC	OTHER AMERICAS	CORPORATE/ OTHER	TOTAL
	(IN THOUSANDS)					
Revenues from wholly-owned operations	$ 92,052	-	-	-	-	$ 92,052
Equity in earnings (losses) of unconsolidated affiliates	(2,093)	15,266	9,745	2,348	934	26,200
Total operating revenues	89,959	15,266	9,745	2,348	934	118,252
Net income	$ 32,932	$ 15,266	$ 9,745	$ 2,348	$ (38,309)(1)	$ 21,982
Assets reported on a Consolidated basis	$ 209,032	-	-	-	$ 28,501 (2)	$ 237,533
Equity investments and loans to affiliates	384,864	116,729	317,660	111,316	-	930,569
Total assets	$ 593,896	$ 116,729	$ 317,660	$ 111,316	$ 28,501	$1,168,102

1996	NORTH AMERICA	EUROPE	ASIA PACIFIC	OTHER AMERICAS	CORPORATE/ OTHER	TOTAL
	(IN THOUSANDS)					
Revenues from wholly-owned operations	$ 71,649	-	-	-	-	$ 71,649
Equity in earnings (losses) of unconsolidated affiliates	1,473	17,385	11,155	967	1,835	32,815
Total operating revenues	73,122	17,385	11,155	967	1,835	104,464
Net income	$ 28,182	$ 17,385	$ 11,155	$ 967	$(37,711)(1)	$ 19,978
Assets reported on a						

consolidated basis	$148,666	-	-	-	$ 32,892 (2)	$181,558
Equity investments and loans to affiliates	178,230	132,693	96,049	92,279	-	499,251
Total assets	$326,896	$132,693	$ 96,049	$ 92,279	$ 32,892	$680,809

1995	NORTH AMERICA	EUROPE	ASIA PACIFIC	OTHER AMERICAS	CORPORATE/ OTHER	TOTAL
			(IN THOUSANDS)			
Revenues from wholly-owned operations	$ 64,180	-	-	-	-	$ 64,180
Equity in earnings (losses) of unconsolidated affiliates	(2,398)	22,143	11,451	29	(7,586)	23,639
Total operating revenues	61,782	22,143	11,451	29	(7,586)	87,819
Net income	$ 50,813	$ 22,143	$ 11,451	$ 29	$ (53,235)(1)	$ 31,201
Assets reported on a consolidated basis	$ 124,807	-	-	-	$ 4,034 (2)	$ 128,841
Equity investments and loans to affiliates	127,157	112,148	78,303	8,140	-	325,748
Total assets	$ 251,964	$ 112,148	$ 78,303	$ 8,140	$ 4,034	$ 454,589

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(1) Includes all expenses not allocated to either consolidated operations or equity investments. This includes general, administrative and development expenses as well as other income (net), interest expense and taxes.

(2) Includes cash, debt issuance costs and other items not directly related to specific asset groups.

ITEM 9- CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

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None.

PART IV

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ITEM 14 EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) Consolidated Financial Statements
Included in Part II.

(a)(2) Supplemental Financial Statement Schedules

Exhibit 99.1 contains the financial statements of Mitteldeutsche Braunkohlengesellschaft mbH ("MIBRAG").

Exhibit 99.2 contains the financial statements of Saale Energie GmbH ("Saale").

Exhibit 99.3 contains the financial statements of Sunshine State Power BVI and Sunshine State Power BVII (the "Sunshines").

All other financial statement schedules have been omitted because either they are not required or the information required to be set forth therein is included in the Consolidated Financial Statements or in the Notes thereto.

(a)(3) Exhibits

3.1	Certificate of Incorporation. (Incorporated herein by reference to Exhibit 3.1 to the Registrants' Registration Statement of Form S-1, as amended, File No. 333-33397.)
3.2	By-Laws. (Incorporated herein by reference to Exhibits 3.2 to the Registrants' Registration Statement on Form S-1, as amended, File No. 333-33397.)
4.1	Indenture, dated as of June 1, 1997, between NRG and Norwest Bank Minnesota, National Association. (Incorporated herein by reference to Exhibit 4.1 to the Registrants' Registration Statement on Form S-1, as amended, File No. 333-33397).
4.2	Form of Exchange Notes. (Incorporated herein by reference to Exhibit 4.2 to the Registrants' Registration Statement on Form S-1, as amended, File No. 333-33397).
10.1	Employment Contract, dated as of June 28, 1995, between NRG and David H. Peterson. (Incorporated herein by reference to Exhibit 10.1 to the Registrants' Registration Statement on Form S-1, as amended, File No. 333-33397).
10.2	Indenture, dated as of January 31, 1996, between NRG and Norwest Bank Minnesota, National Association, As Trustee. (Incorporated herein by reference to Exhibit 10.2 to the Registrants' Registration Statement on Form S-1, as amended, File No. 333-33397).
10.3	Revolving Credit Agreement, dated as of March 17, 1997, among NRG, the banks party thereto and ABN AMRO Bank, N.V. as Agent. (Incorporated herein by reference to Exhibit 10.3 to the Registrants' Registration Statement on Form S-1, as amended, File No. 333-33397).
10.4	Note Agreement, dated August 20, 1993, among NRG Energy Center, Inc. and each of the purchasers named therein. (Incorporated herein by reference to Exhibit 10.4 to the Registrants' Registration Statement on Form S-1, as amended, File No. 333-33397).
10.5	Master Shelf and Revolving Credit Agreement, dated August 20, 1993 among NRG Energy Center, Inc., The Prudential Insurance Company of America and each Prudential Affiliate which becomes party thereto. (Incorporated herein by reference to Exhibit 10.5 to the Registrants' Registration Statement on Form S-1, as amended, File No. 333-33397).
10.6	Energy Agreement, dated February 12, 1988 between NRG (formerly known as Norenco Corporation) and Rock-Tenn Company (formerly Waldorf Corporation) (the "Energy Agreement"). (Incorporated herein by reference to Exhibit 10.6 to the Registrants' Registration Statement on Form S-1, as amended, File No. 333-33397).

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10.7	First Amendment to the Energy Agreement, dated August 27, 1993. (Incorporated herein by reference to Exhibit 10.7 to the Registrants' Registration Statement on Form S-1, as amended, File No. 333-33397).
10.8	Second Amendment to the Energy Agreement, dated August 27, 1993. (Incorporated herein by reference to Exhibit 10.8 to the Registrants' Registration Statement on Form S-1, as amended, File No. 333-33397).
10.9	Third Amendment to the Energy Agreement, dated August 27, 1993. (Incorporated herein by reference to Exhibit 10.9 to the Registrants' Registration Statement on Form S-1, as amended, File No. 333-33397).
10.10	Construction, Acquisition, and Term Loan Agreement, dated September 2, 1997 by and among NEO Landfill Gas, Inc , as Borrower, the lenders named on the signature pages, Credit Lyonnais New York Branch, as Construction/Acquisition Agent and Lyon Credit Corporation as Term Agent. (Incorporated herein by reference to Exhibit 10.10 to the Registrants' Registration Statement on Form S-1, as amended, File No. 333-33397).
10.11	Guaranty, dated September 12, 1997 by NRG in favor of Credit Lyonnais New York Branch as agent for the Construction/Acquisition Lenders. (Incorporated herein by reference to Exhibit 10.11 to the Registrants' Registration Statement on Form S-1, as amended, File No. 333-33397).
10.12	Construction, Acquisition, and Term Loan Agreement, dated September 2, 1997 by and among Minnesota Methane LLC, as Borrower, the lenders named on the signature pages, Credit Lyonnais New York Branch, as Construction/Acquisition Agent and Lyon Credit Corporation as Term Agent. (Incorporated herein by reference to Exhibit 10.12 to the Registrants' Registration Statement on Form S-1, as amended, File No. 333-33397).
10.13	Guaranty, dated September 12, 1997 by NRG in favor of Credit Lyonnais New York Branch as agent for the Construction/Acquisition Lenders. (Incorporated herein by reference to Exhibit 10.14 to the Registrants' Registration Statement on Form S-1, as amended, File No. 333-33397).
10.14	Non Operating Interest Acquisition Agreement, dated as of September 12, 1997, by and among NRG and NEO Corporation. (Incorporated herein by reference to Exhibit 10.14 to the Registrants' Registration Statement on Form S-1, as amended, File No. 333-33397).
10.15	First Amendment to Revolving Credit Agreement, dated as of March 17, 1998. (See 10.3 for detail)
10.16	364-Day Revolving Credit Agreement, dated as of March 17, 1998, among NRG, the Banks Party thereto and ABN AMRO Bank N.V., as Agent.
24	Power of Attorney (included on signature page).
27	Financial Data Schedule.
99.1	Financial Statements of "MIBRAG"
99.2	Financial Statements of "Saale" (upon amendment)
99.3	Financial Statements of "Sunshines" (upon amendment)
(b)	Reports on Form 8-K

The Registrant did not file any Current Reports on Form 8-K during the fourth quarter ended December 31, 1997.

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 March 30, 1998.

NRG ENERGY, INC.

By: /s/ Leonard A. Bluhm

Leonard A. Bluhm
Executive Vice President and
Chief Financial Officer

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints David H. Peterson and Leonard A. Bluhm, each or any of them, such person's true and lawful attorney-in-fact and agent with full power of substitution and resubstitution for such person and in such person's name, place and stead, in any and all capacities, to sign any and all amendments to this report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary or desirable to be done in and about the premises, as fully to all intents and purposes as such person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the Exchange Act, this report has been signed by the following persons on behalf of the registrant in the capacities indicated on March 30, 1998:

SIGNATURE	TITLE
/s/ David H. Peterson --- David H. Peterson	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
/s/ Leonard A. Bluhm --- Leonard A. Bluhm	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ David E. Ripka --- David E. Ripka	Controller (Principal Accounting Officer)

/s/ Gary R. Johnson --- Gary R. Johnson	Director
/s/ Cynthia L. Lesher --- Cynthia L. Lesher	Director

/s/ Edward J. McIntyre Director

Edward J. McIntyre

/s/ John A. Noer Director

John A. Noer

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 will be sent to security holders and will be 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.

EXHIBIT 10.15

FIRST AMENDMENT TO REVOLVING CREDIT AGREEMENT

This First Amendment to Revolving Credit Agreement dated as of March, 17 1998, by and among NRG Energy, Inc. (the "Borrower"), the banks from time to time party to the Credit Agreement (as hereinafter defined) (each a "Bank" and collectively the "Banks") and ABN AMRO Bank N.V. in its capacity as agent for the Banks (in such capacity, the "Agent").

WITNESSETH THAT:

WHEREAS, the Borrower, the Banks and the Agent are party to that certain Revolving Credit Agreement dated as of March 17, 1997 (together with all exhibits, schedules, attachments, appendices and amendments thereof, the "Credit Agreement"); and

WHEREAS, the Borrower has requested that the Credit Agreement be amended to, among other things, modify the definition of "Consolidated Tangible Net Worth" and the Banks are agreeable to such request.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Borrower, the Banks and the Agent hereby agree as follows:

1. The definitions of, "Consolidated Capitalization", "Consolidated Net Income" and "Consolidated Tangible Net Worth" appearing in Section 1.1. of the Credit Agreement are hereby deleted in their entirety and the following definitions are hereby substituted therefor:

> "Consolidated Capitalization" means Consolidated Net Worth plus Indebtedness of the Borrower.
>
> "Consolidated Net Income" means, for any period, the net income (or net loss) of the Borrower for such period computed on a consolidated basis in accordance with GAAP.
>
> "Consolidated Net Worth" means, as of the date of determination thereof, the amount which would be reflected as stockholders' equity upon a consolidated balance sheet of the Borrower (determined in accordance with GAAP) prior to making any adjustment thereto in connection with the account entitled "currency translation account" on such balance sheet.

2. The definition of "Guaranty" appearing in Section 1.1. of the Credit Agreement is hereby amended by inserting the following sentence at the end of such definition:

> Notwithstanding anything in this definition to the contrary, a Person's support of its subsidiary's obligation to (a) make equity contributions or (b) pay liquidated damages under an operating and maintenance agreement should such subsidiary fail to comply with the terms thereof shall not be considered a "Guaranty" by such Person.

3. The definition of "Indebtedness" appearing in Section 1.1. of the Credit Agreement is hereby amended by inserting the following at the end of such definition:

> All calculations of the Indebtedness of any Person (and the components thereof) shall be performed on a consolidated basis- provided, that Indebtedness shall not include obligations which

are required by GAAP to be shown as liabilities on such Person's balance sheet, but which are non-recourse to such Person.

4. The definition of "Minimum Consolidated Tangible Net Worth" appearing in Section 1.1. of the Credit Agreement is hereby deleted in its entirety and the following definition is hereby substituted therefor:

> "Minimum Consolidated Net Worth" means an amount, as of any determination thereof, equal to the sum of $175,000,000 plus 25% of Consolidated Net Income for the period from and including April 1, 1996 to such determination date but which amount shall in no event be less than $175,000,000.

5. The following definitions are hereby inserted into Section 1.1. of the Credit Agreement in proper alphabetical order:

> "Material Subsidiary" means a Subsidiary of the Borrower whose total assets represent at least 5% of the total assets of the Borrower and its Subsidiaries determined based upon the most recent financial statements delivered pursuant to Section 7.6 (as determined in accordance with GAAP).
>
> "364-Day Credit Agreement" means that certain 364-Day Revolving Credit Agreement among NRG. Energy, Inc., ABN AMRO Bank N.V., as Agent and the banks party thereto, as from time to time amended or otherwise modified.

6. Section 2.1(a) of the Credit Agreement is hereby amended by deleting the reference to "Section 11.12 or 11.13(iii)" in such section and replacing it with a reference to "Section 3.2(b), 11.12 or 11.13(iii)".

7. Section 2.8 of the Credit Agreement is hereby amended by deleting the last sentence of Section 2.8(b) thereof and inserting the following new subsection (c) as follows:

> (c) Each such prepayment shall be accompanied by a payment of all accrued and unpaid interest on the Loans prepaid and shall be subject to Section 2.11.

8. Section 3.2 of the Credit Agreement is hereby deleted and the following Section 3.2 is hereby substituted therefor:

> Section 3.2. Extension of Termination Date. (a) No later than ninety (90) days before the second anniversary date of this Agreement the Borrower may make a request for a one year extension of the Termination Date in a written notice to the Agent. The Agent will promptly inform the Banks of any such request. Each Bank may, in its sole and absolute discretion, determine whether to consent to such request and may by a revocable written notice (a "Consent Notice") to the Agent and the Borrower given

> no later than sixty (60) days prior to the second anniversary date of this Agreement (the period from ninety (90) days prior to such anniversary to and including sixty (60) days prior to such anniversary being the "Consent Period") notify the Agent and the Borrower of its determination to consent to such request. Failure by any Bank to respond within the Consent Period shall be deemed to be a denial of the Borrower's request by such Bank. Promptly after the Consent Period the Agent shall notify the Banks and the Borrower of which Banks have delivered a Consent Notice. Any Bank may revoke its Consent Notice at any time after the date sixty

(60) days prior to the second anniversary date of this Agreement to and including the date forty-five (45) days prior to such anniversary (the "Revocation Period") by giving written notice to the Agent and the Borrower of such revocation (a "Revocation Notice"). If the Agent does not receive a Revocation Notice within the Revocation Period from a Bank who has previously delivered a Consent Notice, such Bank's Consent Notice shall become irrevocable. If the Required Banks or the Agent in its capacity as a Bank have not delivered Consent Notices which shall have become irrevocable in accordance with the foregoing, the Termination Date shall not be extended and the Agent shall promptly notify the Banks and the Borrower of such circumstance. If the Required Banks and the Agent in its capacity as a Bank shall have delivered Consent Notices which shall have become irrevocable in accordance with the foregoing, the Agent shall promptly notify the Borrower of such circumstance and the Borrower shall, no later than thirty (30) days prior to such second anniversary date, notify the Agent if it still desires the extension of the Termination Date. If the Borrower notifies the Agent in writing no later than thirty (30) days prior to such second anniversary date that it no longer desires the extension of the Termination Date, then the Termination Date shall not be extended and the Agent shall promptly notify the Banks and the Borrower of such circumstance. If the Agent does not receive a written notice from the Borrower no later than thirty (30) days prior to the second anniversary date of this Agreement stating that it no longer desires the extension of the Termination Date or the Borrower delivers written notice by such date to the Agent that it still desires the extension of the Termination Date, then, subject to any conditions precedent that the Agent may require in connection with such extension (e.g., the remaking of representations and warranties, no Default or Event of Default having occurred and the delivery of a legal opinion and other appropriate documentation) and as to such consenting Banks only, the Termination Date shall be so extended, such extension to be effective as of the second anniversary date of this Agreement and the Agent shall promptly notify the Banks and the Borrower of such circumstance.

(b) In the event any Bank shall fail to agree to any extension requested by the Borrower pursuant to Section 3.2(a) (each such Bank a "Dissenting Bank"), the Borrower shall have the right to arrange with one or more Banks acceptable to the Agent that have consented to the extension of the Termination Date or other lenders acceptable to the Agent to assume all or a part of such Dissenting Bank's obligations under this Agreement. If the Borrower shall arrange for such a Bank or

lender to assume all or part of the obligations of any Dissenting Bank, then such Dissenting Bank and such Bank or lender shall execute and deliver to the Agent, for its acceptance and recording, an assignment agreement along with the accompanying documentation prescribed in Section 11.12 hereof. If the Borrower can not arrange for such a Bank or lender to assume the obligations of such Dissenting Bank, then (i) the Commitment of such Dissenting Bank shall terminate on the Termination Date in effect immediately before such extension, (ii) the Borrower shall repay in full on such Termination Date all Obligations payable to such Dissenting Bank under this Agreement (including all accrued interest and fees) and (iii) such Dissenting Bank will not be obligated to make any Loan or purchase a Participating Interest in any Letter of Credit with a maturity date or expiration date later than such Termination Date.

9. Section 5.2 of the Credit Agreement is hereby amended by deleting the first sentence thereof in its entirety and substituting the following sentence therefor:

> Schedule 5.2 (as updated quarterly pursuant to Section 7.6(b) hereof or otherwise from time to time in writing by the Borrower) hereto identifies each Subsidiary and the jurisdiction of its incorporation.

10. Section 5.4 of the Credit Agreement is hereby amended by deleting the words "and its Subsidiaries" appearing in the second sentence thereof.

11. Section 5.5(a) and (b) of the Credit Agreement are hereby amended by deleting the first parenthetical appearing in each such subsection in its entirety and substituting the following parenthetical therefor:

> (as updated quarterly pursuant to Section 7.6(b) hereof or otherwise from time to time in writing by the Borrower)

12. Section 6.2(b) of the Credit Agreement is hereby amended by inserting the following proviso at the end of such subsection:

> , provided that solely for purposes of this Section 6.2(b) the representations relating to the Borrower's Subsidiaries set forth in Section 5.2 hereof shall be deemed representations relating only to the Borrower's Material Subsidiaries.

13. Section 7.6(a) of the Credit Agreement is hereby amended by(i) inserting the word "treasurer," after the words "chief financial officer," appearing in subsection (i)(B) and subsection (ii) thereof and (ii) inserting the following language immediately prior to the semi-colon at the end of subsection (ii)thereof (:

> (subject to year end adjustments)

14. Section 7.6(b) of the Credit Agreement is hereby deleted in its entirety and the following Section 7.6(b) is hereby substituted therefor:

> (b) Each financial statement furnished to the Banks pursuant to subsection (i) or (ii) of Section 7.6(a) shall be accompanied by (A) a

> written certificate signed by the Borrower?s chief financial officer, vice president of finance, corporate controller or treasurer (i) to the effect that no Default or Event of Default has occurred during the period covered by such statements or, if any such Default or Event of Default has occurred during such period, setting forth a description of such Default or Event of Default and specifying the action, if any, taken by the Borrower to remedy the same, (ii) to the effect that the representations and warranties contained in Section 5 hereof are true and correct in all material respects as though made on the date of such certificate (other than those made solely as of an earlier date, which need only remain true as of such date), taking into account any amendments to such Section (including, without limitation, any amendments to the Schedules referenced therein) made after the date of this Agreement in accordance with its provisions and except as otherwise described therein, (iii) notifying the Banks (x) of any litigation or governmental proceeding of the type described in Section 5.5 hereof or (y) of any change in the information set forth on the Schedules hereto and (B) a

Compliance Certificate in the form of Exhibit C hereto showing the Borrower's compliance with the covenants set forth in Sections 7.9, 7.11, 7.12 and 7.13 hereof.

15. Section 7.6(c) of the Credit Agreement is hereby deleted in its entirety and the following Section 7.6(c) is hereby substituted therefor:

(c) The Borrower will (i) promptly (and in any event within three Business Days after an officer of the Borrower has knowledge thereof) give notice to the Agent and each Bank (x) of the occurrence of any Default or Event of Default or (y) of any payment default or payment event of default aggregating $20,000,000 or more under any Contractual Obligation of the Borrower and (ii) promptly (and in any event within ten Business Days after an officer of the Borrower has knowledge thereof) give notice to the Agent and each Bank of any material adverse change in the business, operations, Property or financial or other condition of the Borrower and its Subsidiaries (individually or in the aggregate).

16. Section 7.12 of the Credit Agreement is hereby deleted in its entirety and the following Section 7.12 is hereby substituted therefor:

Section 7.12. Consolidated Net Worth. (a) The Borrower will at all times maintain a ratio of Consolidated Net Worth to Consolidated Capitalization of at least 0.32 to 1.00, and (b) the Borrower will at all times cause its Consolidated Net Worth to be equal to or greater than the Minimum Consolidated Net Worth.

17. Section 9.3(d) of the Credit Agreement is hereby amended by inserting the following language to the end of the last sentence thereof:

and on the date of replacement, the Borrower shall pay all accrued interest and fees to the Bank that is being replaced.

18. Section 11.13 of the Credit Agreement is hereby amended by: (i) inserting the following language after the words "reduce the" appearing in subsection (i)(B) thereof: "stated rate at which interest

or fees accrue or reduce the" and (ii) inserting the following language to the end of the penultimate sentence of subsection (iii) thereof: "and all fees due and owing on the date of replacement".

19. Section 11.12 of the Credit Agreement is hereby amended by deleting the phrase "Section 11.13(iii) below" and replacing it with the phrase "Section 3.2(b) or 11.13(iii)".

20. Section 11.12. of the Credit Agreement is hereby further amended by inserting the following sentence at the end of such section:

A Bank may not assign its Revolving Credit Commitment hereunder unless it shall simultaneously assign the same percentage of its commitment, if any, under the 364-Day Credit Agreement. If the Borrower replaces a Dissenting Bank or Replaceable Bank with another entity, it shall also cause the assignment of such Dissenting Bank or Replaceable Bank's commitment, if any, under the 364-Day Credit Agreement in accordance with the terms thereof, and such Dissenting Bank or Replaceable Bank agrees to cooperate in the making of such assignment.

21. Section 8.1 of the Credit Agreement is hereby amended by (i) deleting the word "or" appearing at the end of clause (j) of such section, (ii) deleting

the period at the end of clause (k) of such section and replacing it with "; or" and (iii) inserting the following clause (l) at the end of such section:

> (l) an "event of default" occurs under the 364-Day Credit Agreement.

22. Section 11.15 of the Credit Agreement is hereby amended by inserting the word "Affiliates," after the words "their respective" appearing in the second sentence thereof.

23. Schedule 1 of the Credit Agreement is hereby amended by inserting the following language after the Pricing Grid appearing in such Schedule:

> Any change in Rating (and in any fees or interest payable hereunder based on Ratings) shall be effective as of the date on which S&P or Moody's, as the case may be, announces the applicable change in such Rating. In the event of a split rating, the lower rating shall control.

24. Schedule C-1 to Exhibit C to the Credit Agreement is hereby deleted in its entirety and Schedule C-1 attached hereto is hereby substituted therefor.

Except as expressly amended hereby, the Credit Agreement and all other documents executed in connection therewith shall remain in full force and effect in accordance with their respective terms. The Credit Agreement, as amended hereby, and all rights and powers created thereby and thereunder or under such other documents are in all respects ratified and confirmed. From and after the date hereof, the Credit Agreement shall be deemed to be amended and modified as herein provided, but, except as so amended and modified, the Credit Agreement shall continue in full force and effect in accordance with its terms and the Credit Agreement and this Amendment shall be read, taken and construed as one and the same instrument. On and after the date hereof the term "Agreement" as used in the Credit Agreement and all other references to the Credit Agreement in the Credit Agreement, the other documents executed in connection therewith and/or herewith or any other instrument, document or writing executed by the Borrower or any other person or furnished to the Agent and/or the Banks by the

Borrower, or any other person in connection herewith or therewith, shall be deemed to be a reference to the Credit Agreement as hereby amended.

On and as of the date hereof, the Borrower represents and warrants to the Banks that:

(a) The representations and warranties contained in this Amendment and the Credit Agreement are true and correct in all material respects, in each case as though made on and as of the date hereof, except to the extent such representations and warranties relate solely to an earlier date (and then as of such earlier date); and

(b) Both before and after giving effect to this Amendment, no Default of Event of Default has occurred and is continuing or would result from the execution and delivery of this Amendment; and

(c) The Borrower is, and will be, in full compliance with all of the material terms, conditions and all other provisions of this Amendment and the Credit Documents; and

(d) This Amendment has been duly authorized, executed and delivered on its behalf, and both the Credit Agreement, both before being amended and supplemented hereby and as amended and supplemented hereby, and this Amendment constitutes its legal, valid and binding obligation enforceable against it in accordance with its terms, except to the extent that a remedy

or default may be determined by a court of competent jurisdiction to constitute a penalty and except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to creditors' rights or by general principles of equity.

This Amendment shall be construed in accordance with and governed by the internal laws of the State of New York.

This Amendment may be signed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Except as otherwise specified herein, this Amendment embodies the entire agreement and understanding between the Borrower and the Banks with respect to the subject matter hereof and supersedes all prior agreements, consents and understandings relating to such subject matter.

This Amendment shall be binding upon and inure to the benefit of the Banks and their successors and assigns and the Borrower and its permitted successors and assigns.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their duly authorized officers as of the day and year first above written.

BORROWER: NRG ENERGY, INC.

By:_____
Name:_____
Title:_____

AGENT/BANK: ABN AMRO BANK N.V., in its individual capacity as a Bank and as Agent

By:_____
Name:_____
Title:_____

By:_____
Name:_____
Title:_____

OTHER BANKS: CIBC INC.

By:_____
Name:_____
Title:_____

9

COMMERZBANK AG

By:_____
Name:_____
Title:_____

CREDIT LOCAL DE FRANCE,
NEW YORK AGENCY

By:_____
Name:_____
Title:_____

NATIONSBANK, N.A.

By:_____
Name:_____
Title:_____

SOCIETE GENERALE, CHICAGO BRANCH

By:_____
Name:_____
Title:_____

10

THE CHASE MANHATTAN BANK

By:_____
Name:_____
Title:_____

UNION BANK OF SWITZERLAND
NEW YORK BRANCH

By:_____
Name:_____
Title:_____

By:_____
Name:_____
Title:_____

WESTDEUTSCHE LANDERSBANK
GIROZENTRALE, NEW YORK
BRANCH

By:_____
Name:_____
Title:_____

By:_____
Name:_____
Title:_____

Compliance Certificate
Schedule C-1

Compliance Calculations for Credit Agreement

Calculation as of _____, 19_____

A. Liens (Section 7.9)

1. Total Liens $_____
2. Existing Liens $_____
3. Balance of Liens $_____ (Line A1 minus Line A2)

(Line A3 not to exceed 10% of Consolidated Net Tangible Assets)

B. Sale of Assets (Section 7.11)

1. Net book value of assets sold during this fiscal year $_____

(Line B1 not to exceed 10% of Consolidated Net Tangible Assets)

C. Consolidated Net Worth (Section 7.12)

1. Consolidated stockholders' equity $_____

2. Less currency translation account $_____

3. Consolidated Net Worth

(Line C1 minus Line C2) $_____

D. Consolidated Capitalization

1. Consolidated Net Worth (Line C3) $_____

2. Indebtedness of the Borrower $_____

3. Consolidated Capitalization

(Sum of line D1 and D2) $_____

E. Ratio of Consolidated Net Worth to Consolidated Capitalization

___ to ___

(ratio must be at least 0.32 to 1.00)

1

EXHIBIT 10.16

==========

364-DAY REVOLVING CREDIT AGREEMENT

DATED AS OF

MARCH 17, 1998

AMONG

NRG ENERGY, INC.

THE BANKS PARTY HERETO,

AND

ABN AMRO BANK N.V.

AS AGENT

==========

2

364-DAY REVOLVING CREDIT AGREEMENT

364-DAY REVOLVING CREDIT AGREEMENT, dated as of March 17, 1998 among NRG Energy, Inc., a Delaware corporation (the "Borrower"), the banks from time to time party hereto (each a "Bank," and collectively the "Banks") and ABN AMRO Bank N.V. in its capacity as agent for the Banks hereunder (in such capacity, the "Agent").

WITNESSETH THAT:

WHEREAS, the Borrower desires to obtain the several commitments of the Banks to make available a revolving credit for loans (the "Revolving Credit"), as described herein; and

WHEREAS, the Banks are willing to extend such commitments subject to all of the terms and conditions hereof and on the basis of the representations and warranties hereinafter set forth;

NOW, THEREFORE, in consideration of the recitals set forth above and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. DEFINITIONS; INTERPRETATION.

Section 1.1 Definitions. The following terms when used herein have the following meanings:

"Adjusted LIBOR" is defined in Section 2.3(b) hereof.

"Affiliate" means, as to any Person, any other Person which directly or indirectly controls, or is under common control with, or is controlled by, such Person. As used in this definition, "control" (including, with their correlative meanings, "controlled by" and "under common control with") means possession, directly or indirectly, of power to direct or cause the direction of management or policies of a Person (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise), provided that, in any event for purposes of this definition: (i) any Person which owns directly or indirectly 5% or more of the securities having ordinary voting power for the election of directors or other governing body of a corporation or 5% or more of the partnership or other ownership interests of any other Person (other than as a limited partner of such other Person) will be deemed to control such corporation or other Person; and (ii) each director and executive officer of the Borrower or any Subsidiary shall be deemed an Affiliate of the Borrower and each Subsidiary.

"Agent" is defined in the first paragraph of this Agreement and includes any successor Agent pursuant to Section 10.7 hereof.

"Agreement" means this 364-Day Revolving Credit Agreement, including all Exhibits and Schedules hereto, as it may be amended, supplemented or otherwise modified from time to time in accordance with the terms hereof.

"Applicable Margin" means, at any time (i) with respect to Base Rate Loans, the Base Rate Margin and (ii) with respect to Eurocurrency Loans, the Eurocurrency Margin.

"Applicable Telerate Page" is defined in Section 2.3(b) hereof.

"Authorized Representative" means those persons shown on the list of officers provided by the Borrower pursuant to Section 6.1(e) hereof, or on any updated such list provided by the Borrower to the Agent, or any further or different officer of the Borrower so named by any Authorized Representative of the Borrower in a written notice to the Agent.

"Bank" is defined in the first paragraph of this Agreement.

"Base Rate" is defined in Section 2.3(a) hereof.

"Base Rate Loan" means a Loan bearing interest prior to maturity at a rate specified in Section 2.3(a) hereof.

"Base Rate Margin" means the percentage set forth in Schedule 1 hereto beside the then applicable Rating.

"Borrower" is defined in the first paragraph of this Agreement.

"Borrowing" means the total of Loans of a single type advanced, continued for an additional Interest Period, or converted from a different

type into such type by the Banks on a single date and for a single Interest Period. Borrowings of Loans are made and maintained ratably from each of the Banks according to their Percentages. A Borrowing is "advanced" on the day Banks advance funds comprising such Borrowing to the Borrower, is "continued" on the date a new Interest Period for the same type of Loan commences for such Borrowing, and is "converted" when such Borrowing is changed from one type of Loan to the other, all as requested by the Borrower pursuant to Section 2.5(a).

"Business Day" means any day other than a Saturday or Sunday on which Banks are not authorized or required to close in Chicago, Illinois and, if the applicable Business Day relates to the borrowing or payment of a Eurocurrency Loan, on which dealings in U.S. Dollars may be carried on by the Agent in the interbank eurodollar market.

"Capital Lease" means at any date any lease of Property which, in accordance with GAAP, would be required to be capitalized on the balance sheet of the lessee.

"Capitalized Lease Obligations" means, for any Person, the amount of such Person's liabilities under Capital Leases determined at any date in accordance with GAAP.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commitments" means the Revolving Credit Commitments.

"Compliance Certificate" means a certificate in the form of Exhibit B hereto.

"Consolidated Capitalization" means Consolidated Net Worth plus Indebtedness of the Borrower.

"Consolidated Current Liabilities" mean such liabilities of the Borrower on a consolidated basis as shall be determined in accordance with GAAP to constitute current liabilities.

"Consolidated Net Income" means, for any period, the net income (or net loss) of the Borrower for such period computed on a consolidated basis in accordance with GAAP.

"Consolidated Net Tangible Assets" means, as of the date of determination thereof, Consolidated Total Assets as of such date less the sum of (i) Consolidated Current Liabilities and (ii) Intangible Assets.

"Consolidated Net Worth" means, as of the date of determination thereof, the amount which would be reflected as stockholders' equity upon a consolidated balance sheet of the Borrower (determined in accordance with GAAP) prior to making any adjustment thereto in connection with the account entitled "currency translation account" on such balance sheet.

"Consolidated Total Assets" means, as of the date of determination thereof, the total amount of all assets of the Borrower determined on a consolidated basis in accordance with GAAP.

"Contractual Obligation" means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or undertaking to which such Person is a party or by which it or any of its Property is bound.

"Controlled Group" means all members of a controlled group of

corporations and all trades and businesses (whether or not incorporated) under common control that, together with the Borrower or any of its Subsidiaries, are treated as a single employer under Section 414 of the Code.

"Credit Documents" means this Agreement, the Notes and the Fee Letter.

"Credit Event" means the advancing of any Loan or the continuation of or conversion into a Eurocurrency Loan.

"Debt" means, for any Person, any Indebtedness of such Person only of the types described in clauses (i) through (vi) of the definition of such term.

"Default" means any event or condition the occurrence of which would, with the passage of time or the giving of notice, or both, constitute an Event of Default.

"Effective Date" means the date on which the Agent has received signed counterpart signature pages of this Agreement from each of the signatories (or, in the case of a Bank, confirmation that such Bank has executed such a counterpart and dispatched it for delivery to the Agent) and the documents required by Section 6.1 hereof.

"Environmental Law" means the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq., the Hazardous Materials Transportation Act, 49 U.S.C. Section 1802 et seq., the Toxic Substances Control Act, 15 .S.C. Section 2601 et seq., the Federal Water Pollution Control Act, 33 U.S.C. Section 1252 et seq., the Clean Water Act, 33 U.S.C. Section 1321 et seq., the Clean Air Act, 42 U.S.C. Section 7401 et seq., and any other federal, state, county, municipal, local or other statute, law, ordinance or regulation which may relate to or deal with human health or the environment, all as may be from time to time amended.

"ERISA" is defined in Section 5.8 hereof.

"Eurocurrency Loan" means a Loan bearing interest prior to maturity at the rate specified in Section 2.3(b) hereof.

"Eurocurrency Margin" means the percentage set forth in Schedule 1 hereto beside the then applicable Rating.

"Eurocurrency Reserve Percentage" is defined in Section 2.3(b) hereof.

"Event of Default" means any of the events or circumstances specified in Section 8.1 hereof.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Facility Fee Rate" means the percentage set forth in Schedule 1 hereto beside the then applicable Rating.

"Federal Funds Rate" means the fluctuating interest rate per annum described in part (x) of clause (ii) of the definition of Base Rate set forth in Section 2.3(a) hereof.

"Fee Letter" means that certain letter between the Agent and the Borrower dated as of the date hereof pertaining to fees to be paid by the Borrower to the Agent for the Agent's sole account and benefit.

"GAAP" means generally accepted accounting principles as in effect in the United States from time to time, applied by the Borrower and its Subsidiaries on a basis consistent with the preparation of the Borrower's financial statements furnished to the Banks.

"Guaranty" by any Person means all obligations (other than endorsements in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any Indebtedness, dividend or other obligation (including, without limitation, limited or full recourse obligations in connection with sales of receivables or any other Property) of any other Person (the "primary obligor") in any manner, whether directly or indirectly, including, without limitation, all obligations incurred through an agreement, contingent or otherwise, by such Person: (i) to purchase such Indebtedness or obligation or any Property or assets constituting security therefor, (ii) to advance or supply funds (x) for the purchase or payment of such Indebtedness or obligation, or (y) to maintain working capital or other balance sheet condition, or otherwise to advance or make available funds for the purchase or payment of such Indebtedness or obligation, or (iii) to lease property or to purchase Securities or other property or services primarily for the purpose of assuring the owner of such Indebtedness or obligation of the ability of the primary obligor to make payment of the Indebtedness or obligation, or (iv) otherwise to assure the owner of the Indebtedness or obligation of the primary obligor against loss in respect thereof. For the purpose of all computations made under this Agreement, the amount of a Guaranty in respect of any obligation shall be deemed to be equal to the maximum aggregate amount of such obligation or, if the Guaranty is limited to less than the full amount of such obligation, the maximum aggregate potential liability under the terms of the Guaranty. Notwithstanding anything in this definition to the contrary, a Person's support of its subsidiary's obligation to (a) make equity contributions or (b) pay liquidated damages under an operating and maintenance agreement should such subsidiary fail to comply with the terms thereof shall not be considered a "Guaranty" by such Person.

"Hazardous Material" means any substance or material which is hazardous or toxic, and includes, without limitation, (a) asbestos, polychlorinated biphenyls, dioxins and petroleum or its by-products or derivatives (including crude oil or any fraction thereof) and (b) any other material or substance classified or regulated as "hazardous" or "toxic" pursuant to any Environmental Law.

"Indebtedness" means and includes, for any Person, all obligations of such Person, without duplication, which are required by GAAP to be shown as liabilities on its balance sheet, and in any event shall include all of the following whether or not so shown as liabilities (i) obligations of such Person for borrowed money, (ii) obligations of such Person representing the deferred purchase price of property or services, (iii) obligations of such Person evidenced by notes, acceptances, or other instruments of such Person or arising out of letters of credit issued for such Person's account, (iv) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from Property now or hereafter owned or acquired by such Person, (v) Capitalized Lease Obligations of such Person and (vi) obligations for which such Person is obligated pursuant to a Guaranty. All calculations of the Indebtedness of any Person (and the components thereof) shall be performed on a consolidated basis, provided, that Indebtedness shall not include obligations which are required by GAAP to be shown as liabilities on such Person's balance sheet, but which are non-recourse to such Person.

"Interest Period" is defined in Section 2.6 hereof.

"Intangible Assets" means, as of the date of determination thereof, all assets of the Borrower properly classified as intangible assets determined on a consolidated basis in accordance with GAAP.

"Lending Office" is defined in Section 9.4 hereof.

"LIBOR" is defined in Section 2.3(b) hereof.

"LIBOR Index Rate" is defined in Section 2.3(b) hereof.

"Lien" means any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether such interest is based on the common law, statute or contract, including, but not limited to, the security interest lien arising from a mortgage, encumbrance, pledge, conditional sale, security agreement or trust receipt, or a lease, consignment or bailment for security purposes. The term "Lien" shall also include reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other title exceptions and encumbrances affecting Property. For the purposes of this definition, a Person shall be deemed to be the owner of any Property which it has acquired or holds subject to a conditional sale agreement, Capital Lease or other arrangement pursuant to which title to the Property has been retained by or vested in some other Person for security purposes, and such retention of title shall constitute a "Lien."

"Loan" is defined in Section 2.1(a) hereof and, as so defined, includes a Base Rate Loan or Eurocurrency Loan, each of which is a "type" of Loan hereunder.

"Long-Term Credit Agreement" means that certain Revolving Credit Agreement dated as of March 17, 1997 among NRG Energy, Inc., ABN AMRO Bank N.V., as agent and the banks from time to time party thereto, as amended or otherwise modified from time to time.

"Material Adverse Effect" means any material adverse change in, or any adverse development which materially affects or could reasonably be expected to affect, the business, financial position or results of operations of the Borrower and its Subsidiaries, taken as a whole, or the ability of the Borrower to perform its obligations under the Credit Documents.

"Material Subsidiary" means a Subsidiary of the Borrower (i) whose total assets represent at least 5% of the total assets of the Borrower and its Subsidiaries determined based upon the most recent financial statements delivered pursuant to Section 7.6 (as determined in accordance with GAAP.

"Minimum Consolidated Net Worth" means an amount, as of any determination thereof, equal to the sum of $175,000,000 plus 25% of Consolidated Net Income for the period from and including April 1, 1996 to such determination date but which amount shall in no event be less than $175,000,000.

"Note" is defined in Section 2.10(a) hereof.

"Obligations" means all fees payable hereunder, all obligations of the Borrower to pay principal or interest on Loans and all other payment obligations of the Borrower arising under or in relation to any Credit Document.

"Original Dollar Amount" means the amount of any Loan.

"Percentage" means, for each Bank, the percentage of the Revolving Credit Commitments represented by such Bank's Revolving Credit Commitment or, if the Revolving Credit Commitments have been terminated, the percentage held by such Bank of the aggregate principal amount of all outstanding Obligations.

"Person" means an individual, partnership, corporation, association, trust, unincorporated organization or any other entity or organization, including a government or any agency or political subdivision thereof.

"Plan" means at any time an employee pension benefit plan covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code that is either (i) maintained by a member of the Controlled Group or (ii) maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which a member of the Controlled Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

"PBGC" is defined in Section 5.9 hereof.

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, whether now owned or hereafter acquired.

"Rating" means the rating given to senior unsecured debt obligations of the Borrower by Moody's Investors Service, Inc. and Standard & Poor's Ratings Service, Inc., and any successors thereto.

"Reference Banks" means ABN AMRO Bank N.V., and one other representative of the Banks. In the event that any of such Banks ceases to be a "Bank" hereunder or fails to

provide timely quotations of interests rates to the Agent as and when required by this Agreement, then such Bank shall be replaced by a new reference bank jointly designated by the Agent and the Borrower.

"Replaceable Bank" is defined in Section 11.13(iii).

"Replacement Bank" is defined in Section 11.13(iii).

"Required Banks" means, as of the date of determination thereof, Banks holding at least 66-2/3% of the Percentages.

"Revolving Credit Commitment" is defined in Section 2.1 hereof.

"SEC" means the Securities and Exchange Commission.

"Security" has the same meaning as in Section 2(1) of the Securities Act of 1933, as amended.

"Subsidiary" means, as to the Borrower, any active, domestic corporation or other entity of which one hundred percent (100%) of the outstanding stock or comparable equity interests having ordinary voting power for the election of the Board of Directors of such corporation or similar governing body in the case of a non corporation (irrespective of whether or not, at the time, stock or other equity interest of any other class or classes of such corporation or other entity shall have or might have voting power by reason of the happening of any contingency) is at the time directly owned by the Borrower.

"Telerate Service" means the Dow Jones Telerate Service.

"Termination Date" means the date occurring 364 days from the date of this Agreement, subject to any extension of such date pursuant to Section 3.2 hereof.

"Unfunded Vested Liabilities" means, with respect to any Plan at any time, the amount (if any) by which (i) the present value of all vested nonforfeitable accrued benefits under such Plan exceeds (ii) the fair market value of all Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the Controlled Group to the PBGC or the Plan under Title IV of ERISA.

"U.S. Dollars" and "$" each means the lawful currency of the United States of America.

"Voting Stock" of any Person means capital stock of any class or classes or other equity interests (however designated) having ordinary voting power for the election of directors or similar governing body of such Person.

"Welfare Plan" means a "welfare plan", as defined in Section 3(1) of ERISA.

"Wholly-Owned" when used in connection with any Subsidiary of the Borrower means a Subsidiary of which all of the issued and outstanding shares of stock or other equity interests (other than directors? qualifying shares as required by law) shall be owned by the Borrower and/or one or more of its Wholly-Owned Subsidiaries.

Section 1.2 Interpretation. The foregoing definitions shall be equally applicable to both the singular and plural forms of the terms defined. All references to times of day in this Agreement shall be references to Chicago, Illinois time unless otherwise specifically provided. Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, the same shall be done in accordance with GAAP, to the extent applicable, except where such principles are inconsistent with the specific provisions of this Agreement.

SECTION 2. THE REVOLVING CREDIT.

Section 2.1 The Loan Commitment. General Terms. Subject to the terms and conditions hereof, each Bank, by its acceptance hereof, severally agrees to make a loan or loans (individually a "Loan" and collectively "Loans") to the Borrower from time to time on a revolving basis in U.S. Dollars in an aggregate outstanding Original Dollar Amount up to the amount of its revolving credit commitment set forth on the applicable signature page hereof (such amount, as reduced pursuant to Section 2.1(b) or Section 2.12 or changed as a result of one or more assignments under Section 3.2, 11.12 or 11.13(iii), its "Revolving Credit Commitment" and, cumulatively for all the Banks, the "Revolving Credit Commitments") before the Termination Date. The sum of the aggregate Original Dollar Amount of Loans at any time outstanding shall not exceed the Revolving Credit Commitments in effect at such time. Each Borrowing of Loans shall be made ratably from the Banks in proportion to their respective Percentages. As provided in Section 2.5(a) hereof, the Borrower may elect that each Borrowing of Loans be either Base Rate Loans or Eurocurrency Loans. Loans may be repaid and the principal amount thereof reborrowed before the Termination Date, subject to all the terms and conditions hereof.

Section 2.2 [Intentionally Omitted].

Section 2.3 Applicable Interest Rates.

(a) Base Rate Loans. Each Base Rate Loan made or maintained by a Bank shall bear interest during each Interest Period it is outstanding computed on the basis of a year of 365 or 366 days, as applicable, and actual days elapsed on the unpaid principal amount thereof from the date such Loan is advanced, continued or created by conversion from a Eurocurrency Loan until maturity (whether by acceleration or otherwise) at a rate per annum equal to the sum of the Applicable Margin plus the Base Rate from time to time in effect, payable on the last day of its Interest Period and at maturity (whether by acceleration or otherwise).

"Base Rate" means for any day the greater of:

(i) the rate of interest announced by the Agent at its offices in Chicago, Illinois, from time to time as its prime rate, or equivalent, for U.S. Dollar loans as in effect on such day, with any change in the Base Rate resulting from a change in said prime rate to be effective as of the date of the relevant change in said prime rate; and

(ii) the sum of (x) the rate determined by the Agent to be the prevailing rate per annum (rounded upwards, if necessary, to the nearest one hundred-thousandth of a percentage point) at approximately 10:00 a.m. (New York time) (or as soon thereafter as is practicable) on such day (or, if such day is

not a Business Day, on the immediately preceding Business Day) for the purchase at face value of overnight Federal funds, as published by the Federal Reserve bank of New York, in an amount comparable to the principal amount owed to the Agent for which such rate is being determined, plus (y) 1/2 of 1% (0.50%).

(b) Eurocurrency Loans. Each Eurocurrency Loan made or maintained by a Bank shall bear interest during each Interest Period it is outstanding (computed on the basis of a year of 360 days and actual days elapsed) on the unpaid principal amount thereof from the date such Loan is advanced, continued, or created by conversion from a Base Rate Loan until maturity (whether by acceleration or otherwise) at a rate per annum equal to the sum of the Applicable Margin plus the Adjusted LIBOR applicable for such Interest Period, payable on the last day of the Interest Period and at maturity (whether by acceleration or otherwise), and, if the applicable Interest Period is longer than three months, on each day occurring every three months after the commencement of such Interest Period. All payments of principal and interest on a Loan (whether a Base Rate Loan or Eurocurrency Loan) shall be made in U.S. Dollars.

"Adjusted LIBOR" means, for any Borrowing of Eurocurrency Loans, a rate per annum determined in accordance with the following formula:

$$\text{Adjusted LIBOR} = \frac{\text{LIBOR}}{1 - \text{Eurocurrency Reserve Percentage}}$$

"LIBOR" means, for an Interest Period, (a) the LIBOR Index Rate for such Interest Period as from time to time quoted by the Telerate Service, if such rate is available, and (b) if the LIBOR Index Rate is not quoted by the Telerate Service, the arithmetic average of the rates of interest per annum (rounded upwards, if necessary, to the nearest one-sixteenth of one percent) at which deposits in U.S. Dollars in immediately available funds are offered to each Reference Bank at 11:00 a.m. (London, England time) two

(2) Business Days before the beginning of such Interest Period by major banks in the interbank eurocurrency market for delivery on the first day of and for a period equal to such Interest Period in an amount equal or comparable to the principal amount of the Eurocurrency Loan scheduled to be made by the Agent as part of such Borrowing.

"LIBOR Index Rate" means, for any Interest Period, the rate per annum (rounded upwards, if necessary, to the next higher one-sixteenth of one percent) for deposits in U.S. Dollars for delivery on the first day of and for a period equal to such Interest Period in an amount equal or comparable to the principal amount of the Loan scheduled to be made by the Agent as part of such Borrowing, which appears on the Applicable Telerate Page, as of 11:00 a.m. (London, England time) on the day two (2) Business Days before the commencement of such Interest Period.

"Applicable Telerate Page" means the display page designated as "Page 3750" on the Telerate Service (or such other page as may replace such pages, as appropriate, on that service or such other service as may be nominated by the British Bankers' Association as the information vendor for the purpose of displaying British Bankers' Association Interest Settlement Rates for deposits in U.S. Dollars).

"Eurocurrency Reserve Percentage" means the daily average for the applicable Interest Period of the maximum rate, expressed as a decimal, at which reserves (including,

without limitation, any supplemental, marginal and emergency reserves) are imposed during such Interest Period by the Board of Governors of the Federal Reserve System (or any successor) on "eurocurrency liabilities", as defined in such Board's Regulation D (or in respect of any other category of liabilities that includes deposits by reference to which the interest rate is determined or any category of extensions of credit or other assets that include loans by non-United States offices of any Bank to United States residents), subject to any amendments of such reserve requirement by such Board or its successor, taking into account any transitional adjustments thereto. For purposes of this definition, the Eurocurrency Loans shall be deemed to be "eurocurrency liabilities" as defined in Regulation D without benefit or credit for any prorations, exemptions or offsets under Regulation D.

(c) Rate Determinations. The Agent shall determine each interest rate applicable to Obligations and the Original Dollar Amount of Loans, and a determination thereof by the Agent shall be conclusive and binding except in the case of manifest error.

Section 2.4 Minimum Borrowing Amounts. Each Borrowing of Base Rate Loans and Eurocurrency Loans denominated in U.S. Dollars shall be in an amount not less than $1,000,000 and in integral multiples of $1,000,000.

Section 2.5 Manner of Borrowing Loans and Designating Interest Rates Applicable to Loans.

(a) Notice to the Agent. The Borrower shall give written notice to the Agent by no later than 10:00 a.m. (Chicago time) (i) at least three (3) Business Days before the date on which the Borrower requests the Banks to advance a Borrowing of Eurocurrency Loans and (ii) on the date the Borrower requests the Banks to advance a Borrowing of Base Rate Loans. The Loans included in each Borrowing shall bear interest initially at the type of rate specified in such notice of a new Borrowing. Thereafter, the Borrower may from time to time elect to change or continue the type of interest rate borne by each Borrowing or, subject to Section 2.4's minimum amount requirement for each

outstanding Borrowing, a portion thereof, as follows: (i) if such Borrowing is of Eurocurrency Loans, on the last day of the Interest Period applicable thereto, the Borrower may continue part or all of such Borrowing as Eurocurrency Loans for an Interest Period or Interest Periods specified by the Borrower or convert part or all of such Borrowing into Base Rate Loans, (ii) if such Borrowing is of Base Rate Loans, on any Business Day, the Borrower may convert all or part of such Borrowing into Eurocurrency Loans for an Interest Period or Interest Periods specified by the Borrower. The Borrower shall give all such notices requesting the advance, continuation, or conversion of a Borrowing to the Agent by telephone or telecopy (which notice shall be irrevocable once given and, if by telephone, shall be promptly confirmed in writing). Notices of the continuation of a Borrowing of Eurocurrency Loans for an additional Interest Period or of the conversion of part or all of a Borrowing of Eurocurrency Loans into Base Rate Loans or of Base Rate Loans into Eurocurrency Loans must be given by no later than 10:00 a.m. (Chicago time) at least three (3) Business Days before the date of the requested continuation or conversion. All such notices concerning the advance, continuation, or conversion of a Borrowing shall specify the date of the requested advance, continuation or conversion of a Borrowing (which shall be a Business Day), the amount of the requested Borrowing to be advanced, continued, or converted, the type of Loans to comprise such new, continued or converted Borrowing and, if such Borrowing is to be comprised of Eurocurrency Loans, the Interest Period applicable thereto. The Borrower agrees that the Agent may rely on any such telephonic or telecopy notice given by any

person it in good faith believes is an Authorized Representative without the necessity of independent investigation, and in the event any such notice by telephone conflicts with any written confirmation, such telephonic notice shall govern if the Agent has acted in reliance thereon. There may be no more than five different Interest Periods in effect at any one time.

(b) Notice to the Banks. The Agent shall give prompt telephonic or telecopy notice to each Bank of any notice from the Borrower received pursuant to Section 2.5.(a) above. The Agent shall give notice to the Borrower and each Bank by like means of the interest rate applicable to each Borrowing of Eurocurrency Loans and the Original Dollar amount thereof.

(c) Borrower's Failure to Notify. Any outstanding Borrowing of Base Rate Loans shall, subject to Section 6.2 hereof, automatically be continued for an additional Interest Period on the last day of its then current Interest Period unless the Borrower has notified the Agent within the period required by Section 2.5(a) that it intends to convert such Borrowing into a Borrowing of Eurocurrency Loans or notifies the Agent within the period required by Section 2.8(a) that it intends to prepay such Borrowing. If the Borrower fails to give notice pursuant to Section 2.5(a) above of the continuation or conversion of any outstanding principal amount of a Borrowing of Eurocurrency Loans before the last day of its then current Interest Period within the period required by Section 2.5(a) and has not notified the Agent within the period required by Section 2.8(a) that it intends to prepay such Borrowing, such Borrowing shall automatically be converted into a Borrowing of Base Rate Loans, subject to Section 6.2 hereof.

(d) Disbursement of Loans. Not later than 11:00 a.m. (Chicago time) on the date of any requested advance of a new Borrowing of Eurocurrency Loans, and not later than 12:00 noon (Chicago time) on the date of any requested advance of a new Borrowing of Base Rate Loans, subject to Section 6 hereof,

each Bank shall make available its Loan comprising part of such Borrowing in funds immediately available at the principal office of the Agent in Chicago, Illinois. The Agent shall make available to the Borrower Loans at the Agent's principal office in Chicago, Illinois or such other office as the Agent has previously agreed to, in writing, with the Borrower.

(e) Agent Reliance on Bank Funding. Unless the Agent shall have been notified by a Bank before the date on which such Bank is scheduled to make payment to the Agent of the proceeds of a Loan (which notice shall be effective upon receipt) that such Bank does not intend to make such payment, the Agent may assume that such Bank has made such payment when due and the Agent may in reliance upon such assumption (but shall not be required to) make available to the Borrower the proceeds of the Loan to be made by such Bank and, if any Bank has not in fact made such payment to the Agent, such Bank shall, on demand, pay to the Agent the amount made available to the Borrower attributable to such Bank together with interest thereon in respect of each day during the period commencing on the date such amount was made available to the Borrower and ending on (but excluding) the date such Bank pays such amount to the Agent at a rate per annum equal to the Federal Funds Rate. If such amount is not received from such Bank by the Agent immediately upon demand, the Borrower will, on demand, repay to the Agent the proceeds of the Loan attributable to such Bank with interest thereon at a rate per annum equal to the interest rate applicable to the relevant Loan.

Section 2.6 Interest Periods. As provided in Section 2.5(a) hereof, at the time of each request to advance, continue, or create by conversion a Borrowing of Eurocurrency Loans, the Borrower shall select an Interest Period applicable to such Loans from among the available options. The term "Interest Period" means the period commencing on the date a Borrowing of Loans is advanced, continued, or created by conversion and ending: (a) in the case of Base Rate Loans, on the last Business Day of the calendar quarter in which such Borrowing is advanced, continued, or created by conversion (or on the last day of the following calendar quarter if such Loan is advanced, continued or created by conversion on the last Business Day of a calendar quarter), and (b) in the case of Eurocurrency Loans, 1, 2, 3, or 6 months thereafter; provided, however, that:

(a) any Interest Period for a Borrowing of Base Rate Loans that otherwise would end after the Termination Date shall end on the Termination Date;

(b) for any Borrowing of Eurocurrency Loans, the Borrower may not select an Interest Period that extends beyond the Termination Date;

(c) whenever the last day of any Interest Period would otherwise be a day that is not a Business Day, the last day of such Interest Period shall be extended to the next succeeding Business Day, provided that, if such extension would cause the last day of an Interest Period for a Borrowing of Eurocurrency Loans to occur in the following calendar month, the last day of such Interest Period shall be the immediately preceding Business Day; and

(d) for purposes of determining an Interest Period for a Borrowing of Eurocurrency Loans, a month means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month; provided, however, that if there is no numerically corresponding day in the month in which such an Interest Period is to end or if such an Interest Period begins on the last Business Day of a calendar month, then such Interest Period shall end on the last Business Day of the calendar month in which such Interest Period is to end.

Section 2.7 Maturity of Loans. Unless an earlier maturity is provided

for hereunder (whether by acceleration or otherwise), each Loan shall mature and become due and payable by the Borrower on the Termination Date.

Section 2.8 Prepayments.

(a) The Borrower may prepay without premium or penalty and in whole or in part (but, if in part, then: (i) if such Borrowing is of Base Rate Loans, in an amount not less than $1,000,000, (ii) if such Borrowing is of Eurocurrency Loans in an amount not less than $1,000,000, and (iii) in an amount such that the minimum amount required for a Borrowing pursuant to Section 2.4 hereof remains outstanding) any Borrowing of Eurocurrency Loans upon three Business Days prior notice to the Agent or, in the case of a Borrowing of Base Rate Loans, notice delivered to the Agent no later than 10:00 a.m. (Chicago time) on the date of prepayment, such prepayment to be made by the payment of the principal amount to be prepaid and accrued interest thereon to the date fixed for prepayment. In the case of Eurocurrency Loans, such prepayment may only be made on the last day of the Interest Period then applicable to such Loans. The Agent will promptly advise each Bank of any such prepayment notice it receives from the Borrower.

Any amount paid or prepaid before the Termination Date may, subject to the terms and conditions of this Agreement, be borrowed, repaid and borrowed again.

(b) If the aggregate principal amount of outstanding Loans shall at any time for any reason exceed the Revolving Credit Commitments then in effect, the Borrower shall, immediately and without notice or demand, pay the amount of such excess to the Agent for the ratable benefit of the Banks as a prepayment of the Loans. Immediately upon determining the need to make any such prepayment the Borrower shall notify the Agent of such required prepayment.

(c) Each such prepayment shall be accompanied by a payment of all accrued and unpaid interest on the Loans prepaid and shall be subject to Section 2.11.

Section 2.9 Default Rate. If any payment of principal on any Loan is not made when due (whether by acceleration or otherwise), such Loan shall bear interest, computed on the basis of a year of 360 days and actual days elapsed (except for Loans based on the rate described in clause (i) of the definition of Base Rate, in which case such Loan shall bear interest computed on the basis of a year of 365 or 366 days, as applicable, and the actual number of days elapsed) from the date such payment was due until paid in full, payable on demand, at a rate per annum equal to:

(a) for any Base Rate Loan, the sum of two percent (2%) plus the Applicable Margin plus the Base Rate from time to time in effect; and

(b) for any Eurocurrency Loan, the sum of two percent (2%) plus the rate of interest in effect thereon at the time of such default until the end of the Interest Period applicable thereto and, thereafter, at a rate per annum equal to the sum of two percent (2%) plus the Applicable Margin plus the Base Rate from time to time in effect.

Section 2.10 The Notes.

(a) The Loans made to the Borrower by a Bank shall be evidenced by a single promissory note of the Borrower issued to such Bank in the form of Exhibit A hereto. Each such promissory note is hereinafter referred to as a "Note" and collectively such promissory notes are

referred to as the "Notes."

(b) Each Bank shall record on its books and records or on a schedule to its Note the amount of each Loan advanced, continued, or converted by it, all payments of principal and interest and the principal balance from time to time outstanding thereon, the type of such Loan, and, for any Eurocurrency Loan, the Interest Period and the interest rate applicable thereto. The record thereof, whether shown on such books and records of a Bank or on a schedule to any Note, shall be prima facie evidence as to all such matters; provided, however, that the failure of any Bank to record any of the foregoing or any error in any such record shall not limit or otherwise affect the obligation of the Borrower to repay all Loans made to it hereunder together with accrued interest thereon. At the request of any Bank and upon such Bank tendering to the Borrower the Note to be replaced, the Borrower shall furnish a new Note to such Bank to replace any outstanding Note, and at such time the first notation appearing on a schedule on the reverse side of, or attached to, such Note shall set forth the aggregate unpaid principal amount of all Loans, if any, then outstanding thereon.

Section 2.11 Funding Indemnity. If any Bank shall incur any loss, cost or expense (including, without limitation, any loss of profit, and any loss, cost or expense incurred by reason of the liquidation or re-employment of deposits or other funds acquired by such Bank to fund or maintain any Eurocurrency Loan or the relending or reinvesting of such deposits or amounts paid or prepaid to such Bank) as a result of:

(a) any payment (whether by acceleration or otherwise), prepayment or conversion of a Eurocurrency Loan on a date other than the last day of its Interest Period,

(b) any failure (because of a failure to meet the conditions of Section 6 or otherwise) by the Borrower to borrow or continue a Eurocurrency Loan, or to convert a Base Rate Loan into a Eurocurrency Loan, on the date specified in a notice given pursuant to Section 2.5(a) or established pursuant to Section 2.5(c) hereof,

(c) any failure by the Borrower to make any payment of principal on any Eurocurrency Loan when due (whether by acceleration or otherwise), or

(d) any acceleration of the maturity of a Eurocurrency Loan as a result of the occurrence of any Event of Default hereunder, then, upon the demand of such Bank, the Borrower shall pay to such Bank such amount as will reimburse such Bank for such loss, cost or expense. If any Bank makes such a claim for compensation, it shall provide to the Borrower, with a copy to the Agent, a certificate executed by an officer of such Bank setting forth the amount of such loss, cost or expense in reasonable detail (including an explanation of the basis for and the computation of such loss, cost or expense) and the amounts shown on such certificate if reasonably calculated shall be conclusive absent manifest error.

Section 2.12 Commitment Terminations. The Borrower shall have the right at any time and from time to time, upon five (5) Business Days prior written notice to the Agent, to terminate the Revolving Credit Commitments without premium or penalty, in whole or in part, any partial termination to be (i) in an amount not less than $5,000,000, and (ii) allocated ratably among the Banks in proportion to their respective Percentages, provided that the Revolving Credit Commitments may not be reduced to an amount less than the sum of the Original Dollar Amount of all Loans then outstanding. The Agent shall give prompt notice to each Bank of any such termination of Commitments. Any termination of Revolving Credit Commitments pursuant to

this Section 2.12 may not be reinstated.

SECTION 3. FEES AND EXTENSIONS.

Section 3.1 Fees.

(a) Certain Fees. The Borrower shall pay, or cause to be paid, to the Agent certain fees set forth in the Fee Letter at the time specified in the Fee Letter for payment of such amounts.

(b) Facility Fee. For the period from the Effective Date to and including the Termination Date, the Borrower shall pay to the Agent for the ratable account of the Banks in accordance with their Percentages a facility fee accruing at a rate per annum equal to the Facility Fee Rate on the average daily amount of the Commitments (whether used or unused), or if the Commitments have expired or terminated, on the principal amount of Loans. Such facility fee is payable in arrears on the last Business Day of each

calendar quarter quarterly and on the Termination Date, unless the Revolving Credit Commitments are terminated in whole on an earlier date, in which event the fee for the period to but not including the date of such termination shall be paid in whole on the date of such termination.

(c) Fee Calculations. All fees payable under this Agreement shall be payable in U.S. Dollars and shall be computed on the basis of a year of 360 days, for the actual number of days elapsed. All determinations of the amount of fees owing hereunder (and the components thereof) shall be made by the Agent and shall be conclusive absent manifest error.

Section 3.2 Extension of Termination Date

(a) No later than sixty (60) days before the Termination Date the Borrower may make a request for a one year extension of the Termination Date in a written notice to the Agent. The Agent will promptly inform the Banks of any such request. Each Bank may, in its sole and absolute discretion, determine whether to consent to such request and may by a revocable written notice (a "Consent Notice") to the Agent and the Borrower given no later than forty (40) days prior to the Termination Date (the period from sixty (60) days prior to such Termination Date to and including forty (40) days prior to the Termination Date being the "Consent Period") notify the Agent and the Borrower of its determination to consent to such request. Failure by any Bank to respond within the Consent Period shall be deemed to be a denial of the Borrower's request by such Bank. Promptly after the Consent Period the Agent shall notify the Banks and the Borrower of which Banks have delivered a Consent Notice. Any Bank may revoke its Consent Notice at any time after the date forty (40) days prior to the Termination Date to and including the date thirty (30) days prior to the Termination Date (the "Revocation Period") by giving written notice to the Agent and the Borrower of such revocation (a "Revocation Notice"). If the Agent does not receive a Revocation Notice within the Revocation Period from a Bank who has previously delivered a Consent Notice, such Bank's Consent Notice shall become irrevocable. If the Required Banks or the Agent in its capacity as a Bank have not delivered Consent Notices which shall have become irrevocable in accordance with the foregoing, the Termination Date shall not be extended and the Agent shall promptly notify the Banks and the Borrower of such circumstance. If the Required Banks and the Agent in its capacity as a Bank shall have delivered Consent Notices which

shall have become irrevocable in accordance with the foregoing, the Agent shall promptly notify the Borrower of such circumstance and the Borrower shall, no later than twenty (20) days prior to the Termination Date, notify the Agent if it still desires the extension of the Termination Date. If the Borrower notifies the Agent in writing no later than twenty (20) days prior to the Termination Date that it no longer desires the extension of the Termination Date, then the Termination Date shall not be extended and the Agent shall promptly notify the Banks and the Borrower of such circumstance. If the Agent does not receive a written notice from the Borrower no later than twenty (20) days prior to the Termination Date stating that it no longer desires the extension of the Termination Date or the Borrower delivers written notice by such date to the Agent that it still desires the extension of the Termination Date, then, subject to any conditions precedent that the Agent may require in connection with such extension (e.g., the remaking of representations and warranties, no Default or Event of Default having occurred and the delivery of a legal opinion and other appropriate documentation) and as to such consenting Banks only, the Termination Date shall be so extended, such extension to be

effective as of the Termination Date and the Agent shall promptly notify the Banks and the Borrower of such circumstance.

(b) In the event any Bank shall fail to agree to any extension requested by the Borrower pursuant to Section 3.2(a) (each such Bank a "Dissenting Bank"), the Borrower shall have the right to arrange with one or more Banks acceptable to the Agent that have consented to the extension of the Termination Date or other lenders acceptable to the Agent to assume all or a part of such Dissenting Bank's obligations under this Agreement. If the Borrower shall arrange for such a Bank or lender to assume all or part of the obligations of any Dissenting Bank, then such Dissenting Bank and such Bank or lender shall execute and deliver to the Agent, for its acceptance and recording, an assignment agreement along with the accompanying documentation prescribed in Section 11.12 hereof. If the Borrower can not arrange for such a Bank or lender to assume the obligations of such Dissenting Bank, then (i) the Commitment of such Dissenting Bank shall terminate on the Termination Date in effect immediately before such extension, (ii) the Borrower shall repay in full on such Termination Date all Obligations payable to such Dissenting Bank under this Agreement (including all accrued interest and fees) and (iii) such Dissenting Bank will not be obligated to make any Loan with a maturity date later than such Termination Date.

SECTION 4. PLACE AND APPLICATION OF PAYMENTS.

Section 4.1 Place and Application of Payments. All payments of principal of and interest on the Loans, and of all other amounts payable by the Borrower under this Agreement, shall be made by the Borrower to the Agent by no later than 12:00 Noon (Chicago time) on the due date thereof at the principal office of the Agent in Chicago, Illinois (or such other location in the United States as the Agent may designate to the Borrower). Any payments received after such time shall be deemed to have been received by the Agent on the next Business Day. All such payments shall be made free and clear of, and without deduction for, any set-off, counterclaim, levy, withholding or any other deduction of any kind in U.S. Dollars, in immediately available funds at the place of payment. The Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest on Loans or applicable fees ratably to the Banks and like funds relating to the payment of any other amount payable to any Person to such Person, in each case to be applied in accordance with

the terms of this Agreement.

SECTION 5. REPRESENTATIONS AND WARRANTIES.

The Borrower hereby represents and warrants to each Bank as to itself and, where the following representations and warranties apply to Subsidiaries, as to each of its Subsidiaries, as follows:

Section 5.1 Corporate Organization and Authority. The Borrower and each of its Subsidiaries is, and at the Closing Date will be, duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, except where such failure to be in good standing would not, individually or in the aggregate, have a Material Adverse Effect. Each is duly qualified to transact business in each jurisdiction in which such qualification is required, whether by reason of ownership or leasing of property or the conduct of business or otherwise, except where failure to be so qualified would not, individually or in the aggregate, have a Material Adverse Effect. Each has the power and authority required to own, lease and operate its properties and to conduct its business as currently conducted, except where failure to have such power and authority would not, individually or in the aggregate, have a Material Adverse Effect.

Section 5.2 Subsidiaries. Schedule 5.2 (as updated quarterly pursuant to Section 7.6(b) hereof or otherwise from time to time in writing by the Borrower) hereto identifies each Subsidiary and the jurisdiction of its incorporation. All of the issued and outstanding shares of capital stock of each Subsidiary are validly issued and outstanding and fully paid and nonassessable except as set forth on Schedule 5.2 hereto. All such shares owned by the Borrower are owned beneficially, and of record, free of any Lien.

Section 5.3 Corporate Authority and Validity of Obligations. The Borrower has full right and authority to enter into this Agreement and the other Credit Documents to which it is a party, to make the borrowings herein provided for, to issue its Notes in evidence thereof, and to perform all of its obligations under the Credit Documents to which it is a party. Each Credit Document to which it is a party has been duly authorized, executed and delivered by the Borrower and constitutes valid and binding obligations of the Borrower enforceable in accordance with its terms. No Credit Document, nor the performance or observance by the Borrower of any of the matters or things therein provided for, contravenes any provision of law or any charter or by-law provision of the Borrower or any material Contractual Obligation of or affecting the Borrower or any of its Properties or results in or requires the creation or imposition of any Lien on any of the Properties or revenues of the Borrower.

Section 5.4 Financial Statements. All financial statements heretofore delivered to the Banks showing historical performance of the Borrower for each of the Borrower's fiscal years ending on or before December 31, 1996, and for the Borrower's quarter ended September 30, 1997 have been prepared in accordance with generally accepted accounting principles applied on a basis consistent, except as otherwise noted therein, with that of the previous fiscal year. Each of such financial statements fairly presents on a consolidated basis the financial condition of the Borrower as of the dates thereof and the results of operations for the periods covered thereby. The Borrower and its Subsidiaries have no material contingent liabilities other than those disclosed in such financial statements referred to in this Section 5.4 or in comments or footnotes thereto, or in any report supplementary thereto, heretofore furnished to the Banks. Since December 31, 1996, there has been no material adverse change in the business, operations, Property or financial or other condition, or business prospects, of the Borrower or any of its Subsidiaries.

Section 5.5 No Litigation; No Labor Controversies.

(a) Except as set forth on Schedule 5.5 (as updated quarterly pursuant to Section 7.6(b) hereof or as otherwise from time to time in writing by the Borrower), there is no litigation or governmental proceeding pending, or to the knowledge of the Borrower, threatened, against the Borrower or any Subsidiary which, if adversely determined, could (individually or in the aggregate) have a Material Adverse Effect.

(b) Except as set forth on Schedule 5.5 (as updated quarterly pursuant to Section 7.6(b) hereof or as otherwise from time to time in writing by the Borrower), there are no labor controversies pending or, to the best knowledge of the Borrower, threatened against the Borrower or any Subsidiary which could have a Material Adverse Effect.

Section 5.6 Taxes. The Borrower and its Subsidiaries have filed all United States federal tax returns, and all other tax returns, required to be filed and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Borrower or any Subsidiary, except such taxes, if any, as are being contested in good faith and for which adequate reserves have been provided. No notices of tax liens have been filed and no claims are being

asserted concerning any such taxes, which liens or claims are material to the financial condition of the Borrower or any of its Subsidiaries (individually or in the aggregate). The charges, accruals and reserves on the books of the Borrower and its Subsidiaries for any taxes or other governmental charges are adequate.

Section 5.7 Approvals. Except as contemplated by Section 7.14, no authorization, consent, license, exemption, filing or registration with any court or governmental department, agency or instrumentality, nor any approval or consent of the stockholders of the Borrower or any Subsidiary or from any other Person, is necessary to the valid execution, delivery or performance by the Borrower or any Subsidiary of any Credit Document to which it is a party.

Section 5.8 Validity of Notes. When executed, authenticated and delivered pursuant to the provisions of this Agreement against payment of the consideration therefor, the Notes will be duly issued and will constitute legal, valid and binding obligations of the Borrower, enforceable in accordance with their terms, except for the effect of bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting the rights of creditors generally, and will rank pari passu with all other outstanding unsecured indebtedness of the Borrower.

Section 5.9 ERISA. With respect to each Plan, the Borrower and each other member of the Controlled Group has fulfilled its obligations under the minimum funding standards of and is in compliance in all material respects with the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and with the Code to the extent applicable to it and has not incurred any liability to the Pension Benefit Guaranty Corporation ("PBGC") or a Plan under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA. The Borrower does not have any contingent liabilities for any post-retirement benefits under a Welfare Plan, other than liability for continuation coverage described in Part 6 of Title I of ERISA.

Section 5.10 Government Regulation. Neither the Borrower nor any Subsidiary is an "investment company" within the meaning of the Investment

Company Act of 1940, as amended.

Section 5.11 Margin Stock; Use of Proceeds. Neither the Borrower nor any Subsidiary is engaged principally, or as one of its primary activities, in the business of extending credit for the purpose of purchasing or carrying margin stock ("margin stock" to have the same meaning herein as in Regulation U of the Board of Governors of the Federal Reserve System). The proceeds of the Loans are to be used solely for the purposes set forth in and permitted by Section 7.10. The Borrower will not use the proceeds of any Loan in a manner that violates any provision of Regulation U or X of the Board of Governors of the Federal Reserve System.

Section 5.12 Licenses and Authorizations; Compliance Laws. The Borrower and each of its Subsidiaries has all necessary licenses, permits and governmental authorizations to own and operate its Properties and to carry on its business as currently conducted and contemplated. The Borrower and each of its Subsidiaries is in compliance with all applicable laws, regulations, ordinances and orders of any governmental or judicial authorities except for any such law, regulation, ordinance or order which, the failure to comply therewith, could not reasonably expected to have a Material Adverse Effect.

Section 5.13 Ownership of Property; Liens. The Borrower and each Subsidiary has good title to or valid leasehold interests in all its Property. None of the Borrower's Property is subject to any Lien, except as permitted in Section 7.9.

Section 5.14 No Burdensome Restrictions; Compliance with Agreements. Neither the Borrower nor any Subsidiary is (a) party or subject to any law, regulation, rule or order, or any Contractual Obligation that (individually or in the aggregate) could have a Material Adverse Effect or (b) in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in, nor has any event occurred (and is continuing) that constitutes or would (whether or not with the giving of notice and/or with the passage of time and/or the fulfillment of any other requirement) constitute, to the knowledge of the Borrower, a default or any breach or failure to perform by the Borrower under any indenture, mortgage, loan agreement lease or other agreement or instrument to which it is a party, which default could have a Material Adverse Effect.

Section 5.15 Full Disclosure. All information heretofore furnished by the Borrower to the Agent or any Bank for purposes of or in connection with the Credit Documents or any transaction contemplated thereby is, and all such information hereafter furnished by the Borrower to the Agent or any Bank will be, true and accurate in all material respects and not misleading on the date as of which such information is stated or certified.

SECTION 6. CONDITIONS PRECEDENT.

The obligation of each Bank to advance, continue, or convert any Loan shall be subject to the following conditions precedent:

Section 6.1 Initial Credit Event. Before or concurrently with the initial Credit Event:

(a) The Agent shall have received for each Bank the favorable written opinion of counsel to the Borrower in substantially the form attached hereto as Exhibit C hereto;

(b) The Agent shall have received for each Bank copies of (i) the Articles of Incorporation, together with all amendments, and a certificate of good standing, for the Borrower, both certified as of a date not earlier than 20 days prior to the date hereof by the appropriate governmental officer of the Borrower's jurisdiction of

incorporation and (ii) the Borrower's bylaws (or comparable constituent documents) and any amendments thereto, certified in each instance by its Secretary or an Assistant Secretary;

(c) The Agent shall have received for each Bank copies of resolutions of the Borrower's Board of Directors authorizing the execution and delivery of the Credit Documents and the consummation of the transactions contemplated thereby together with specimen signatures of the persons authorized to execute such documents on the Borrower's behalf, all certified in each instance by its Secretary or Assistant Secretary;

(d) The Agent shall have received for each Bank such Bank's duly executed Note of the Borrower dated the date hereof and otherwise in compliance with the provisions of Section 2.10(a) hereof;

(e) The Agent shall have received for each Bank a list of the Borrower's Authorized Representatives and such other documents as any Bank may reasonably request;

(f) All legal matters incident to the execution and delivery of the Credit Documents shall be satisfactory to the Banks; and

(g) The Agent shall have received a certificate by the chief financial officer, treasurer, vice president of finance or corporate controller of the Borrower, stating that on the date of such initial Credit Event no Default or Event of Default has occurred and is continuing.

Section 6.2 All Credit Events. As of the time of each Credit Event hereunder (including the initial Credit Event):

(a) The Agent shall have received the notice required by Section 2.5 hereof;

(b) Each of the representations and warranties set forth in Section 5 hereof shall be and remain true and correct in all material respects as of said time, taking into account any amendments to such Section (including, without limitation, any amendments to the Schedules referenced therein) made after the date of this Agreement in accordance with its provisions, except that if any such representation or warranty relates solely to an earlier date it need only remain true as of such date, provided that solely for purposes of this Section 6.2(b) the representations relating to the Borrower's Subsidiaries set forth in Section 5.2 hereof shall be deemed representations relating only to the Borrower's Material Subsidiaries;

(c) The Borrower shall be in full compliance with all of the terms and conditions hereof, and no Default or Event of Default shall have occurred and be continuing or would occur as a result of such Credit Event;

(d) No event of default by the Borrower has been declared and is continuing under any existing debt agreements; and

(e) Such Credit Event shall not violate any order, judgment or decree of any court or other authority or any provision of law or regulation applicable to any Bank (including, without limitation, Regulation U of the Board of Governors of the Federal Reserve System).

Each request for a Borrowing hereunder shall be deemed to be a representation and warranty by the Borrower on the date of such Credit Event as to the facts specified in paragraphs (b) and (c) of this Section 6.2, provided, that

solely in the case of a Credit Event which is a continuation of a previous Borrowing, the Borrower shall not be deemed to have made any representation or warranty with regard to the matters set forth in Section 5.5(a) and (b) hereof.

SECTION 7. COVENANTS.

The Borrower covenants and agrees that, so long as any Loan is outstanding hereunder, or any Commitment is available to or in use by the Borrower hereunder, except to the extent compliance in any case is waived in writing by the Required Banks:

Section 7.1 Corporate Existence; Subsidiaries. The Borrower shall, and shall cause each of its Subsidiaries to, preserve and maintain its corporate existence, subject to the provisions of Section 7.11 hereof.

Section 7.2 Maintenance. The Borrower will maintain, preserve and keep its plants, Properties and equipment necessary to the proper conduct of its business in reasonably good

repair, working order and condition and will from time to time make all reasonably necessary repairs, renewals, replacements, additions and betterments thereto so that at all times such plants, Properties and equipment shall be reasonably preserved and maintained, and the Borrower will cause each of its Subsidiaries to do so in respect of Property owned or used by it; provided, however, that nothing in this Section 7.2 shall prevent the Borrower or a Subsidiary from discontinuing the operation or maintenance of any such Properties if such discontinuance is not disadvantageous to the Banks or the holders of the Notes, and is, in the judgment of the Borrower, desirable in the conduct of its business or the business of its Subsidiary.

Section 7.3 Taxes. The Borrower will duly pay and discharge, and will cause each of its Subsidiaries duly to pay and discharge, all taxes, rates, assessments, fees and governmental charges upon or against it or against its Properties, in each case before the same becomes delinquent and before penalties accrue thereon, unless and to the extent that the same is being contested in good faith by appropriate proceedings and reserves in conformity with GAAP have been provided therefor on the books of the Borrower.

Section 7.4 ERISA. The Borrower will promptly pay and discharge all obligations and liabilities arising under ERISA of a character which if unpaid or unperformed might result in the imposition of a Lien against any of its properties or assets and will promptly notify the Agent of (i) the occurrence of any reportable event (as defined in ERISA) affecting a Plan, other than any such event of which the PBGC has waived notice by regulation, (ii) receipt of any notice from PBGC of its intention to seek termination of any Plan or appointment of a trustee therefor, (iii) its intention to terminate or withdraw from any Plan, and (iv) the occurrence of any event affecting any Plan which could result in the incurrence by the Borrower of any material liability, fine or penalty, or any material increase in the contingent liability of the Borrower under any post-retirement Welfare Plan benefit. The Agent will promptly distribute to each Bank any notice it receives from the Borrower pursuant to this Section 7.4.

Section 7.5 Insurance. The Borrower will insure, and keep insured, and will cause each of its Subsidiaries to insure, and keep insured, with good and responsible insurance companies, all insurable Property owned by it of a character usually insured by companies similarly situated and operating like Property. To the extent usually insured (subject to self-insured

retentions) by companies similarly situated and conducting similar businesses, the Borrower will also insure, and cause each of its Subsidiaries to insure, employers and public and product liability risks with good and responsible insurance companies. The Borrower will upon request of the Agent furnish to the Agent a summary setting forth the nature and extent of the insurance maintained pursuant to this Section 7.5.

Section 7.6 Financial Reports and Other Information.

(a) The Borrower will maintain a system of accounting in accordance with GAAP and will furnish to the Banks and their respective duly authorized representatives such information respecting the business and financial condition of the Borrower and its subsidiaries as any Bank may reasonably request; and without any request, the Borrower will furnish each of the following to each Bank:

(i) within 120 days after the end of each fiscal year of the Borrower, (A) a copy of the Borrower's audited financial statements for such fiscal year, including the consolidated balance sheet of the Borrower for such year and the related statement of income and statement of cash flow, as certified by independent public accountants of recognized national standing selected by the

Borrower in accordance with GAAP with such accountants' unqualified opinion to the effect that the financial statements have been prepared in accordance with GAAP and present fairly in all material respects in accordance with GAAP the consolidated financial position of the Borrower and its subsidiaries as of the close of such fiscal year and the results of their operations and cash flows for the fiscal year then ended and that an examination of such accounts in connection with such financial statements has been made in accordance with generally accepted auditing standards and, accordingly, such examination included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances; (B) a copy of the Borrower's unaudited consolidating financials for such fiscal year, including a consolidating unaudited balance sheet of the Borrower, and the related statement of income and shall use its best efforts to provide a statement of cash flow in a format acceptable to the Agent; all of the foregoing prepared by the Borrower in reasonable detail in accordance with GAAP and certified by the Borrower's chief financial officer, treasurer, vice president of finance or corporate controller as fairly presenting the financial condition as at the dates thereof and the results of operations for the periods covered thereby;

(ii) within 60 days after the end of each of the first three quarterly fiscal periods of the Borrower, a condensed consolidated unaudited balance sheet of the Borrower, and the related statement of income and statement of cash flow, as of the close of such period, all of the foregoing prepared by the Borrower in reasonable detail in accordance with GAAP and certified by the Borrower's chief financial officer, treasurer, vice president of finance or corporate controller as fairly presenting the financial condition as at the dates thereof and the results of operations for the periods covered thereby (subject to year end adjustments);

(iii) within the period provided in subsection (i) above, the written statement of the accountants who certified the audit report thereby required that in the course of their audit they

have obtained no knowledge of any Default or Event of Default, or, if such accountants have obtained knowledge of any such Default or Event of Default, they shall disclose in such statement the nature and period of the existence thereof;

(iv) promptly after the sending or filing thereof, copies of all proxy statements, financial statements and reports the Borrower sends to its shareholders, and copies of all other regular, periodic and special reports and all registration statements the Borrower files with the SEC or any successor thereto, or with any national securities exchanges.

(b) Each financial statement furnished to the Banks pursuant to subsection (i) or (ii) of Section 7.6(a) shall be accompanied by (A) a written certificate signed by the Borrower's chief financial officer, vice president of finance, corporate controller or treasurer (i) to the effect that no Default or Event of Default has occurred during the period covered by such statements or, if any such Default or Event of Default has occurred during such period, setting forth a description of such Default or Event of Default and specifying the action, if any, taken by the Borrower to remedy the same, (ii) to the effect that the representations and warranties contained in Section 5 hereof are true and correct in all material respects as though made on the date of such certificate (other than those made solely as of an earlier date, which need only remain true as of such date),

taking into account any amendments to such Section (including, without limitation, any amendments to the Schedules referenced therein) made after the date of this Agreement in accordance wit its provisions and except as otherwise described therein, (iii) notifying the Banks (x) of any litigation or governmental proceeding of the type described in Section 5.5 hereof or (y) of any change in the information set forth on the Schedules hereto and (B) a Compliance Certificate in the form of Exhibit B hereto showing the Borrower's compliance with the covenants set forth in Sections 7.9, 7.11, 7.12 and 7.13 hereof.

(c) The Borrower will (i) promptly (and in any event within three Business Days after an officer of the Borrower has knowledge thereof) give notice to the Agent and each Bank (x) of the occurrence of any Default or Event of Default or (y) of any payment default or payment event of default aggregating $20,000,000 or more under any Contractual Obligation of the Borrower and (ii) promptly (and in any event within ten Business Days after an officer of the Borrower has knowledge thereof) give notice to the Agent and each Bank of any material adverse change in the business, operations, Property or financial or other condition of the Borrower and its Subsidiaries (individually or in the aggregate).

Section 7.7 Bank Inspection Rights. Upon reasonable notice from any Bank, the Borrower will, at the Borrower's expense, (such expenses to be reasonably incurred) permit such Bank (and such Persons as any Bank may designate) during normal business hours to visit and inspect, under the Borrower's guidance, any of the properties of the Borrower or any of its Subsidiaries, to examine all of their books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers, employees and with their independent public accountants (and by this provision the Borrower authorizes such accountants to discuss with the Banks (and such Persons as any Bank may designate subject to confidentiality agreements reasonably acceptable to the Borrower) the finances and affairs of the Borrower and its Subsidiaries) all at such reasonable times and as often as may be reasonably requested; provided,

however, that except upon the occurrence and during the continuation of any Default or Event of Default, not more than one such set of visits and inspections may be conducted each calendar quarter.

Section 7.8 Conduct of Business. The Borrower will not engage in any line of business other than business associated with or related to energy generation, transmission and distribution or other infrastructure lines of business.

Section 7.9 Liens. The Borrower will not create, incur, permit to exist or to be incurred any Lien of any kind on any Property owned by the Borrower; provided, however, that this Section 7.9 shall not apply to nor operate to prevent:

(a) Liens upon any Property acquired by the Borrower to secure any Indebtedness of the Borrower incurred at the time of the acquisition of such Property to finance the purchase price of such Property, provided that any such Lien shall apply only to the Property that was so acquired and the aggregate principal amount of Indebtedness secured by such Liens shall not exceed the cost or value of the acquired Property;

(b) Liens existing on the date of the Long-Term Credit Agreement and listed on Schedule 7.9 hereto which were in existence as of the date of issue of the Borrower's 7.625% senior notes due 2006;

(c) Other liens not to exceed 10% of Consolidated Net Tangible Assets; and

(d) Any extension, renewal or replacement (or successive extensions, renewals or replacements) in whole or in part of any Lien referred to in the foregoing paragraphs (a) through (c), inclusive.

Section 7.10 Use of Proceeds; Regulation U. The proceeds of each Borrowing will be used by the Borrower for working capital and general corporate purposes. The Borrower will not use any part of the proceeds of any of the Borrowings directly or indirectly to purchase or carry any margin stock (as defined in Section 5.11 hereof) or to extend credit to others for the purpose of purchasing or carrying any such margin stock.

Section 7.11 Mergers, Consolidations and Sales of Assets.

(a) The Borrower will not consolidate with or merge into any other Person or sell, convey, transfer or lease its properties and assets substantially as an entirety to any Person, and the Borrower shall not permit any Person to consolidate with or merge into the Borrower, unless: (i) immediately prior to and immediately following such consolidation, merger, sale or lease, and after giving effect thereto, no Default or Event of Default shall have occurred and be continuing; and (ii) the Borrower is the surviving or continuing corporation, or the surviving or continuing corporation that acquires by sale, conveyance, transfer or lease is incorporated in the United States or Canada and expressly assumes the payment and performance of all Obligations of the Borrower under the Credit Documents.

(b) Except for the sale of the properties and assets of the Borrower substantially as an entirety pursuant to subsection (a) above, and other than assets required to be sold to conform with governmental regulations, the Borrower shall not sell or otherwise dispose of any assets (other than short-term, readily marketable investments purchased for cash management purposes with funds not representing the proceeds of other asset sales) if on a pro forma basis, the aggregate net book value of all such sales during the most recent 12-month period would exceed 10 percent of Consolidated Net

Tangible Assets computed as of the end of the most recent fiscal quarter preceding such sale; provided, however, that any such sales shall be disregarded for purposes of this 10 percent limitation if the proceeds are invested in assets in similar or related lines of business of the Borrower and, provided further, that the Borrower may sell or otherwise dispose of assets in excess of such 10 percent if the proceeds from such sales or dispositions, which are not reinvested as provided above, are retained by the Borrower as cash or cash equivalents.

Section 7.12 Consolidated Net Worth. (a) The Borrower will at all times maintain a ratio of Consolidated Net Worth to Consolidated Capitalization of at least 0.32 to 1.00, and (b) the Borrower will at all times cause its Consolidated Net Worth to be equal to or greater than the Minimum Consolidated Net Worth.

Section 7.13 Compliance with Laws. Without limiting any of the other covenants of the Borrower in this Section 7, the Borrower will conduct its business, and otherwise be, in compliance with all applicable laws, regulations, ordinances, writs, judgments, injunctions, decrees, awards and orders of any governmental or judicial authorities; provided, however, that the Borrower shall not be required to comply with any such law, rule, regulation, ordinance, writ,

judgments, injunction, decree, award or order if the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

Section 7.14 PUHCA. The Borrower will obtain, or cause to be obtained, all necessary approvals, if any, under the Public Utility Holding Company Act of 1935, as amended, in connection with the Borrower's performance under the Credit Documents.

SECTION 8. EVENTS OF DEFAULT AND REMEDIES.

Section 8.1 Events of Default. Any one or more of the following shall constitute an Event of Default:

(a) The Borrower shall (i) fail to make when due any payment of principal on the Notes, or (ii) fail to make when due, and continuance of such failure for three or more Business Days, payment of interest on the Notes or any fee or other amount required to be made to the Agent pursuant to the Credit Documents;

(b) Any representation or warranty made or deemed to have been made by or on behalf of the Borrower in the Credit Documents or on behalf of the Borrower in any certificate, statement, report or other writing furnished by or on behalf of the Borrower to the Agent pursuant to the Credit Documents or any other instrument, document or agreement shall prove to have been false or misleading in any material respect on the date as of which the facts set forth are stated or certified or deemed to have been stated or certified;

(c) The Borrower shall fail to comply with Section 7 hereof and such failure to comply shall continue for 30 calendar days after notice thereof to the Borrower by the Agent;

(d) The Borrower shall fail to comply with any agreement, covenant, condition, provision or term contained in the Credit Documents (and such failure shall not constitute an Event of Default under any of the other provisions of this Section 8) and such failure to comply shall continue for 30 calendar days after notice thereof to

the Borrower by the Agent;

(e) The Borrower shall become insolvent or shall generally not pay its debts as they mature or shall apply for, shall consent to, or shall acquiesce in the appointment of a custodian, trustee or receiver of the Borrower or for a substantial part of the property thereof or, in the absence of such application, consent or acquiescence, a custodian, trustee or receiver shall be appointed for the Borrower or for a substantial part of the property thereof and shall not be discharged within 90 days;

(f) Any bankruptcy, reorganization, debt arrangement or other proceedings under any bankruptcy or insolvency law shall be instituted by or against the Borrower, and, if instituted against the Borrower, shall have been consented to or acquiesced in by the Borrower, or shall remain undismissed for 90 days, or an order for relief shall have been entered against the Borrower, or the Borrower shall take any corporate action to approve institution of, or acquiescence in, such a proceeding;

(g) Any dissolution or liquidation proceeding shall be instituted by or against the Borrower and, if instituted against the Borrower, shall be consented to or acquiesced in

by the Borrower or shall remain for 90 days undismissed, or the Borrower shall take any corporate action to approve institution of, or acquiescence in, such a proceeding;

(h) A judgment or judgments, decrees or orders of any court, tribunal, arbitrator, administrative or other governmental body or entity for the payment of money in excess of the sum of $20,000,000 in the aggregate shall be rendered against the Borrower (excluding the amount thereof covered by insurance) or any of the Borrower's properties and such judgment, decree or order shall remain unvacated and undischarged and unstayed for 90 consecutive days, except while being contested in good faith by appropriate proceedings;

(i) The institution by the Borrower of steps to terminate any Plan if in order to effectuate such termination, the Borrower would be required to make a contribution to such Plan, or would incur a liability or obligation to such Plan, in excess of $20,000,000, or the institution by the PBGC of steps to terminate any Plan;

(j) A default in payment of any principal of or any interest aggregating $20,000,000 or more on any bond, debenture, note or other evidence of indebtedness of the Borrower or under any indenture or other instrument under which any such evidence of indebtedness has been issued or by which it is governed that has resulted in the acceleration of such indebtedness;

(k) if at any time Northern States Power Company, a Minnesota corporation, or its successors, ceases to own a majority of the outstanding Voting Stock of the Borrower; or

(l) an "event of default" occurs under the Long-Term Credit Agreement.

Section 8.2 Non-Bankruptcy Defaults. When any Event of Default other than those described in subsections (e) or (f) of Section 8.1 hereof has occurred and is continuing, the Agent shall, by written notice to the Borrower: (a) if so directed by the Required Banks, terminate the remaining Commitments and all other obligations of the Banks hereunder on the date

stated in such notice (which may be the date thereof); and (b) if so directed by the Required Banks, declare the principal of and the accrued interest on all outstanding Notes to be forthwith due and payable and thereupon all outstanding Notes, including both principal and interest thereon, shall be and become immediately due and payable together with all other amounts payable under the Credit Documents without further demand, presentment, protest or notice of any kind. The Agent, after giving notice to the Borrower pursuant to Section 8.1(c), 8.1(d) or this Section 8.2, shall also promptly send a copy of such notice to the other Banks, but the failure to do so shall not impair or annul the effect of such notice.

Section 8.3 Bankruptcy Defaults. When any Event of Default described in subsections (e) or (f) of Section 8.1 hereof has occurred and is continuing, then all outstanding Notes shall immediately become due and payable together with all other amounts payable under the Credit Documents without presentment, demand, protest or notice of any kind and the obligation of the Banks to extend further credit pursuant to any of the terms hereof shall immediately terminate.

Section 8.4 [Intentionally Omitted]

Section 8.5 Notice of Default. The Agent shall give notice to the Borrower under Section 8.1(c) or 8.1(d) hereof promptly upon being requested to do so by any Bank and shall thereupon notify all the Banks thereof.

Section 8.6 Expenses. The Borrower agrees to pay to the Agent and each Bank, and any other holder of any Note outstanding hereunder, all reasonable costs and expenses incurred or paid by the Agent or such Bank or any such holder, including attorneys? fees and court costs, in connection with any Default or Event of Default by the Borrower hereunder or in connection with the enforcement of any of the Credit Documents.

SECTION 9. CHANGE IN CIRCUMSTANCES.

Section 9.1 Change of Law. Notwithstanding any other provisions of this Agreement or any Note if at any time after the date hereof any change in applicable law or regulation or in the interpretation thereof makes it unlawful for any Bank to make or continue to maintain Eurocurrency Loans or to perform its obligations as contemplated hereby, such Bank shall promptly give notice thereof to the Borrower and such Bank's obligations to make or maintain Eurocurrency Loans under this Agreement shall terminate until it is no longer unlawful for such Bank to make or maintain Eurocurrency Loans. The Borrower shall prepay on demand the outstanding principal amount of any such affected Eurocurrency Loans, together with all interest accrued thereon at a rate per annum equal to the interest rate applicable to such Loan; provided, however, subject to all of the terms and conditions of this Agreement, the Borrower may then elect to borrow the principal amount of the affected Eurocurrency Loans from such Bank by means of Base Rate Loans from such Bank, which Base Rate Loans shall not be made ratably by the Banks but only from such affected Bank.

Section 9.2 Unavailability of Deposits or Inability to Ascertain, or Inadequacy of, LIBOR. If on or prior to the first day of any Interest Period for any Borrowing of Eurocurrency Loans:

(a) the Agent determines that deposits in U.S. Dollars (in the applicable amounts) are not being offered to it in the eurocurrency interbank market for such Interest Period, or that by reason of circumstances affecting the interbank eurocurrency market adequate and reasonable means do not exist for ascertaining the applicable LIBOR; or

(b) Banks having 25% or more of the aggregate amount of the

Revolving Credit Commitments reasonably determine and so advise the Agent that LIBOR as reasonably determined by the Agent will not adequately and fairly reflect the cost to such Banks or Bank of funding their or its Eurocurrency Loans or Loan for such Interest Period; then the Agent shall forthwith give notice thereof to the Borrower and the Banks, whereupon until the Agent notifies the Borrower that the circumstances giving rise to such suspension no longer exist, the obligations of the Banks or of the relevant Bank to make Eurocurrency Loans in the currency so affected shall be suspended.

Section 9.3 Increased Cost and Reduced Return.

(a) If, on or after the date hereof, the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or its Lending Office) with any request or directive (whether or not having the force of law but, if not

having the force of law, compliance with which is customary in the relevant jurisdiction) of any such authority, central bank or comparable agency:

(i) shall subject any Bank (or its Lending Office) to any tax, duty or other charge with respect to its Eurocurrency Loans, its Notes, or its obligation to make Eurocurrency Loans, or shall change the basis of taxation of payments to any Bank (or its Lending Office) of the principal of or interest on its Eurocurrency Loans, or any other amounts due under this Agreement in respect of its Eurocurrency Loans or its obligation to make Eurocurrency Loans, (except for changes in the rate of tax on the overall net income or profits of such Bank or its Lending Office imposed by the jurisdiction in which such Bank or its lending office is incorporated in which such Bank's principal executive office or Lending Office is located); or

(ii) shall impose, modify or deem applicable any reserve, special deposit or similar requirement (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System, but excluding with respect to any Eurocurrency Loans any such requirement included in an applicable Eurocurrency Reserve Percentage) against assets of, deposits with or for the account of, or credit extended by, any Bank (or its Lending Office) or shall impose on any Bank (or its Lending Office) or on the interbank market any other condition affecting its Eurocurrency Loans, its Notes, or its obligation to make Eurocurrency Loans; and the result of any of the foregoing is to increase the cost to such Bank (or its Lending Office) of making or maintaining any Eurocurrency Loan, or to reduce the amount of any sum received or receivable by such Bank (or its Lending Office) under this Agreement or under its Notes with respect thereto, by an amount deemed by such Bank to be material, then, within fifteen (15) days after demand by such Bank (with a copy to the Agent), the Borrower shall be obligated to pay to such Bank such additional amount or amounts as will compensate such Bank for such increased cost or reduction. In the event any law, rule, regulation or interpretation described above is revoked, declared invalid or inapplicable or is otherwise rescinded, and as a result thereof a Bank is determined to be entitled to a refund from the applicable authority for any amount

or amounts which were paid or reimbursed by Borrower to such Bank hereunder, such Bank shall refund such amount or amounts to Borrower without interest.

(b) If, after the date hereof, any Bank or the Agent shall have determined that the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change therein (including, without limitation, any revision in the Final Risk-Based Capital Guidelines of the Board of Governors of the Federal Reserve System (12 CFR Part 208, Appendix A; 12 CFR Part 225, Appendix A) or of the Office of the Comptroller of the Currency (12 CFR Part 3, Appendix A), or in any other applicable capital rules heretofore adopted and issued by any governmental authority), or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or its Lending Office) with any request or directive regarding capital adequacy (whether or not having the force of law but, if not having the force of law, compliance with which is customary in the applicable jurisdiction) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Bank's capital, or on the capital of any corporation controlling

such Bank, as a consequence of its obligations hereunder to a level below that which such Bank could have achieved but for such adoption, change or compliance (taking into consideration such Bank's policies with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time, within fifteen (15) days after demand by such Bank (with a copy to the Agent), the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such reduction.

(c) Each Bank that determines to seek compensation under this Section 9.3 shall notify the Borrower and the Agent of the circumstances that entitle the Bank to such compensation pursuant to this Section 9.3 and will designate a different Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the sole judgment of such Bank, be otherwise disadvantageous to such Bank. A certificate of any Bank claiming compensation under this Section 9.3 and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Bank may use any reasonable averaging and attribution methods.

(d) If any Bank (other than ABN AMRO Bank N.V.) has demanded compensation or given notice of its intention to demand compensation under this Section 9.3 or the Borrower is required to pay any additional amount to any Bank under Section 9.3, the Borrower shall have the right, with the assistance of the Agent, to seek a substitute Bank or Banks reasonably satisfactory to the Agent (which may be one or more of the Banks) to replace such Bank under this Agreement and on the date of replacement, the Borrower shall pay all accrued interest and fees to the Bank being replaced. The Bank to be so replaced shall cooperate with the Borrower and substitute Bank to accomplish such substitution, provided that all of such Bank's Loan Commitment is replaced.

Section 9.4 Lending Offices. Each Bank may, at its option, elect to make its Loans hereunder at the branch, office or affiliate specified on the appropriate signature page hereof or in the assignment agreement which any assignee bank executes pursuant to Section 11.12 hereof (each a

"Lending Office") for each type of Loan available hereunder or at such other of its branches, offices or affiliates as it may from time to time elect and designate in a written notice to the Borrower and the Agent.

Section 9.5 Discretion of Bank as to Manner of Funding. Notwithstanding any other provision of this Agreement, each Bank shall be entitled to fund and maintain its funding of all or any part of its Loans in any manner it sees fit, it being understood, however, that for the purposes of this Agreement all determinations hereunder shall be made as if each Bank had actually funded and maintained each Eurocurrency Loan through the purchase of deposits of U.S. Dollars in the eurocurrency interbank market having a maturity corresponding to such Loan's Interest Period and bearing an interest rate equal to LIBOR for such Interest Period.

SECTION 10. THE AGENT.

Section 10.1 Appointment and Authorization of Agent. Each Bank hereby appoints ABN AMRO Bank N.V. as the Agent under the Credit Documents and hereby authorizes the agent to take such action as Agent on its behalf and to exercise such powers under the Credit Documents as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto. The relationship between the Agent and the Banks is and shall be

that of agent and principal only, and nothing contained in this Agreement or any other Credit Document shall be construed to constitute the Agent as a trustee or fiduciary for any Bank or the Borrower.

Section 10.2 Agent and its Affiliates. The Agent shall have the same rights and powers under this Agreement and the other Credit Documents as any other Bank and may exercise or refrain from exercising the same as though it were not the Agent, and the Agent and its affiliates may accept deposits from, lend money to, and generally engage in any kind of business with the Borrower or any Affiliate of the Borrower as if it were not the Agent under the Credit Documents. The term "Bank" as used herein and in all other Credit Documents, unless the context otherwise clearly requires, includes the Agent in its individual capacity as a Bank. References in Section 2 hereof to the Agent's Loans, or to the amount owing to the Agent for which an interest rate is being determined, refer to the Agent in its individual capacity as a Bank.

Section 10.3 Action by Agent. If the Agent receives from the Borrower a written notice of an Event of Default pursuant to Section 7.6(c)(i) hereof, the Agent shall promptly give each of the Banks written notice thereof. The obligations of the Agent under the Credit Documents are only those expressly set forth therein. Without limiting the generality of the foregoing, the Agent shall not be required to take any action hereunder with respect to any Default or Event of Default, except as expressly provided in Sections 8.2 and 8.5. In no event, however, shall the Agent be required to take any action in violation of applicable law or of any provision of any Credit Document, and the Agent shall in all cases be fully justified in failing or refusing to act hereunder or under any other Credit Document unless it shall be first indemnified to its reasonable satisfaction by the Banks against any and all costs, expense, and liability which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall be entitled to assume that no Default or Event of Default exists unless notified to the contrary by a Bank or the Borrower. In all cases in which this Agreement and the other Credit Documents do not require the Agent to take certain actions, the Agent shall be fully justified in using its discretion in failing to take or in taking any action hereunder and thereunder.

Section 10.4 Consultation with Experts. The Agent may consult with

legal counsel, independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

Section 10.5 Liability of Agent; Credit Decision. Neither the Agent nor any of its directors, officers, agents, or employees shall be liable for any action taken or not taken by it in connection with the Credit Documents (i) with the consent or at the request of the Required Banks or (ii) in the absence of its own gross negligence or willful misconduct. Neither the Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into or verify: (i) any statement, warranty or representation made in connection with this Agreement, any other Credit Document or any Credit Event; (ii) the performance or observance of any of the covenants or agreements of the Borrower or any other party contained herein or in any other Credit Document; (iii) the satisfaction of any condition specified in Section 6 hereof, except receipt of items required to be delivered to the Agent; or (iv) the validity, effectiveness, genuineness, enforceability, perfection, value, worth or collectability hereof or of any other Credit Document or of any other documents or writing furnished in connection with any Credit Document; and the Agent makes no representation of any kind or character with respect to any such matter mentioned in this sentence. The Agent may execute any of its duties under any of the Credit Documents by or through employees, agents, and attorneys-in-fact and shall not be answerable to the Banks, the Borrower, or any other Person for the default or

misconduct of any such agents or attorneys-in-fact selected with reasonable care. The Agent shall not incur any liability by acting in reliance upon any notice, consent, certificate, other document or statement (whether written or oral) believed by it to be genuine or to be sent by the proper party or parties. In particular and without limiting any of the foregoing, the Agent shall have no responsibility for confirming the accuracy of any Compliance Certificate or other document or instrument received by it under the Credit Documents. The Agent may treat the payee of any Note as the holder thereof until written notice of transfer shall have been filed with the Agent signed by such payee in form satisfactory to the Agent. Each Bank acknowledges that it has independently and without reliance on the Agent or any other Bank, and based upon such information, investigations and inquiries as it deems appropriate, made its own credit analysis and decision to extend credit to the Borrower in the manner set forth in the Credit Documents. It shall be the responsibility of each Bank to keep itself informed as to the creditworthiness of the Borrower and any other relevant Person, and the Agent shall have no liability to any Bank with respect thereto.

Section 10.6 Indemnity. The Banks shall ratably, in accordance with their respective Percentages, indemnify and hold the Agent, and its directors, officers, employees, agents and representatives harmless from and against any liabilities, losses, costs or expenses suffered or incurred by it under any Credit Document or in connection with the transactions contemplated thereby, regardless of when asserted or arising, except to the extent they are promptly reimbursed for the same by the Borrower and except to the extent that any event giving rise to a claim was caused by the gross negligence or willful misconduct of the party seeking to be indemnified. The obligations of the Banks under this Section 10.6 shall survive termination of this Agreement.

Section 10.7 Resignation of Agent and Successor Agent. The Agent may resign at any time by giving written notice thereof to the Banks and the Borrower. Upon any such resignation of the Agent, the Required Banks shall have the right to appoint a successor Agent with the consent of the

Borrower. If no successor Agent shall have been so appointed by the Required Banks, and shall have accepted such appointment, within thirty (30) days after the retiring Agent's giving of notice of resignation, then the retiring Agent may, on behalf of the Banks, with the consent of the Borrower, appoint a successor Agent, which shall be any Bank hereunder or any commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least $200,000,000. Upon the acceptance of its appointment as the Agent hereunder, such successor Agent shall thereupon succeed to and become vested with all the rights and duties of the retiring or removed Agent under the Credit Documents, and the retiring Agent shall be discharged from its duties and obligations thereunder. After any retiring Agent's resignation hereunder as Agent, the provisions of this Section 10 and all protective provisions of the other Credit Documents shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent.

SECTION 11. MISCELLANEOUS.

Section 11.1 Withholding Taxes.

(a) Payments Free of Withholding. Subject to Section 11.1(b) hereof, each payment by the Borrower under this Agreement or the other Credit Documents shall be made without withholding for or on account of any present or future taxes (other than overall net income taxes on the recipient). If any such withholding is so required, the Borrower shall make the withholding, pay the amount withheld to the appropriate governmental authority before penalties attach thereto or interest accrues thereon and forthwith pay such additional amount as may be necessary to ensure that the net amount

actually received by each Bank and the Agent free and clear of such taxes (including such taxes on such additional amount) is equal to the amount which that Bank or the Agent (as the case may be) would have received had such withholding not been made. If the Agent or any Bank pays any amount in respect of any such taxes, penalties or interest the Borrower shall reimburse the Agent or that Bank for that payment on demand in the currency in which such payment was made. If the Borrower pays any such taxes, penalties or interest, it shall deliver official tax receipts evidencing that payment or certified copies thereof to the Bank or Agent on whose account such withholding was made (with a copy to the Agent if not the recipient of the original) on or before the thirtieth day after payment. If any Bank or the Agent determines it has received or been granted a credit against or relief or remission for, or repayment of, any taxes paid or payable by it because of any taxes, penalties or interest paid by the Borrower and evidenced by such a tax receipt, such Bank or Agent shall, to the extent it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower such amount as such Bank or Agent determines is attributable to such deduction or withholding and which will leave such Bank or Agent (after such payment) in no better or worse position than it would have been in if the Borrower had not been required to make such deduction or withholding. Nothing in this Agreement shall interfere with the right of each Bank and the Agent to arrange its tax affairs in whatever manner it thinks fit nor oblige any Bank or the Agent to disclose any information relating to its tax affairs or any computations in connection with such taxes.

(b) U.S. Withholding Tax Exemptions. Each Bank that is not a United States person (as such term is defined in Section 7701(a)(30) of the Code) shall submit to the Borrower and the Agent on or before the earlier of the date the initial Borrowing is made hereunder and thirty (30) days after the date hereof, two duly completed and signed

copies of either Form 1001 (relating to such Bank and entitling it to a complete exemption from withholding under the Code on all amounts to be received by such Bank, including fees, pursuant to the Credit Documents and the Loans) or Form 4224 (relating to all amounts to be received by such Bank, including fees, pursuant to the Credit Documents and the Loans) of the United States Internal Revenue Service. Thereafter and from time to time, each Bank shall submit to the Borrower and the Agent such additional duly completed and signed copies of one or the other of such Forms (or such successor forms as shall be adopted from time to time by the relevant United States taxing authorities) as may be (i) requested by the Borrower in a written notice, directly or through the Agent, to such Bank and (ii) required under then-current United States law or regulations to avoid or reduce United States withholding taxes on payments in respect of all amounts to be received by such Bank, including fees, pursuant to the Credit Documents or the Loans.

(c) Inability of Bank to Submit Forms. If any Bank determines, as a result of any change in applicable law, regulation or treaty, or in any official application or interpretation thereof, that it is unable to submit to the Borrower or Agent any form or certificate that such Bank is obligated to submit pursuant to subsection (b) of this Section 11.1. or that such Bank is required to withdraw or cancel any such form or certificate previously submitted or any such form or certificate otherwise becomes ineffective or inaccurate, such Bank shall promptly notify the Borrower and Agent of such fact and the Bank shall to that extent not be obligated to provide any such form or certificate and will be entitled to withdraw or cancel any affected form or certificate, as applicable.

Section 11.2 No Waiver of Rights. No delay or failure on the part of the Agent or any Bank or on the part of the holder or holders of any Note in the exercise of any power or right under any Credit Document shall operate as a waiver thereof, nor as an acquiescence in any default, nor shall any single or partial exercise thereof preclude any other or further exercise of any other power or right, and the rights and remedies hereunder of the Agent, the Banks and the holder or holders of any Notes are cumulative to, and not exclusive of, any rights or remedies which any of them would otherwise have.

Section 11.3 Non-Business Day. If any payment of principal or interest on any Loan or of any other Obligation shall fall due on a day which is not a Business Day, interest or fees (as applicable) at the rate, if any, such Loan or other Obligation bears for the period prior to maturity shall continue to accrue on such Obligation from the stated due date thereof to and including the next succeeding Business Day, on which the same shall be payable.

Section 11.4 Documentary Taxes. The Borrower agrees that it will pay any documentary, stamp or similar taxes payable in respect to any Credit Document, including interest and penalties, in the event any such taxes are assessed, irrespective of when such assessment is made and whether or not any credit is then in use or available hereunder.

Section 11.5 Survival of Representations. All representations and warranties made herein or in certificates given pursuant hereto shall survive the execution and delivery of this Agreement and the other Credit Documents, and shall continue in full force and effect with respect to the date as of which they were made as long as any credit is in use or available hereunder.

Section 11.6 Survival of Indemnities. All indemnities and all other provisions relative to reimbursement to the Banks of amounts sufficient to protect the yield of the Banks with respect to the Loans, including, but not limited to, Section 2.11, Section 9.3 and Section 11.15 hereof, shall

survive the termination of this Agreement and the other Credit Documents and the payment of the Loans and all other Obligations.

Section 11.7 Set-Off.

(a) In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence of any Event of Default, each Bank and each subsequent holder of any Note is hereby authorized by the Borrower at any time or from time to time, without notice to the Borrower or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and to apply any and all deposits (general or special, including, but not limited to, Indebtedness evidenced by certificates of deposit, whether matured or unmatured, and in whatever currency denominated) and any other Indebtedness at any time held or owing by that Bank or that subsequent holder to or for the credit or the account of the Borrower, whether or not matured, against and on account of the obligations and liabilities of the Borrower to that Bank or that subsequent holder under the Credit Documents, including, but not limited to, all claims of any nature or description arising out of or connected with the Credit Documents, irrespective of whether or not (a) that Bank or that subsequent holder shall have made any demand hereunder or (b) the principal of or the interest on the Loans or Notes and other amounts due hereunder shall have become due and payable pursuant to Section 8 and although said obligations and liabilities, or any of them, may be contingent or unmatured.

(b) Each Bank agrees with each other Bank a party hereto that if such Bank shall receive and retain any payment, whether by set-off or application of deposit balances or otherwise, on any of the Loans in excess of its ratable share of payments on all such obligations then outstanding to the Banks, then such Bank shall purchase for cash at face value, but without recourse, ratably from each of the other Banks such amount of the Loans, or participations therein, held by each such other Banks (or interest therein) as shall be necessary to cause such Bank to share such excess payment ratably with all the other Banks; provided, however, that if any such purchase is made by any Bank, and if such excess payment or part thereof is thereafter recovered from such purchasing Bank, the related purchases from the other Banks shall be rescinded ratably and the purchase price restored as to the portion of such excess payment so recovered, but without interest.

Section 11.8 Notices. Except as otherwise specified herein, all notices under the Credit Documents shall be in writing (including telecopy or other electronic communication) and shall be given to a party hereunder at its address or telecopier number set forth below or such other address or telecopier number as such party may hereafter specify by notice to the Agent and the Borrower, given by courier, by United States certified or registered mail, or by other telecommunication device capable of creating a written record of such notice and its receipt. Notices under the Credit Documents to the Banks shall be addressed to their respective addresses, telecopier or telephone numbers set forth on the signature pages hereof or in the assignment agreement which any assignee bank executes pursuant to Section 11.12 hereof, and to the Borrower and to the Agent to:

If to the Borrower:

NRG Energy, Inc.
1221 Nicollet Mall
Suite 700
Minneapolis, MN 55403-2445
Attention: Treasurer

Facsimile: (612) 373-5341
Telephone: (612) 373-5306

If to the Agent:

ABN AMRO Bank
Agency Services
1325 Avenue of the Americas
9th Floor
New York, New York 10019
Attention: Linda Boardman
Facsimile: (212) 314-1712
Telephone: (212) 314-1724

With copies to:

ABN AMRO Bank
135 South LaSalle Street
Suite 711

Chicago, Illinois 60603
Attention: David B. Bryant/Kevin McFadden
Facsimile: (312) 904-6217
Telephone: (312) 904-2799/904-2131

ABN AMRO Bank
135 South LaSalle Street
Suite 625
Chicago, Illinois 60603
Attention: Novona Dillard
Facsimile: (312) 904-8840
Telephone: (312) 904-2676

Each such notice, request or other communication shall be effective (i) if given by telecopier, when such telecopy is transmitted to the telecopier number specified in this Section 11.8 or on the signature pages hereof and a confirmation of receipt of such telecopy has been received by the sender, (ii) if given by courier, when delivered, (iii) if given by mail, three business days after such communication is deposited in the mail, registered with return receipt requested, addressed as aforesaid or (iv) if given by any other means, when delivered at the addresses specified in this Section 11.8; provided that any notice given pursuant to Section 2 hereof shall be effective only upon receipt.

Section 11.9 Counterparts. This Agreement may be executed in any number of counterpart signature pages, and by the different parties on different counterparts, each of which when executed shall be deemed an original but all such counterparts taken together shall constitute one and the same instrument.

Section 11.10 Successors and Assigns. This Agreement shall be binding upon the Borrower and its successors and assigns, and shall inure to the benefit of each of the Banks and the benefit of their respective successors and assigns, including any subsequent holder of any Note. The Borrower may not assign any of its rights or obligations under any Credit Document without the written consent of all of the Banks.

Section 11.11 Participants and Note Assignees. Each Bank shall have the right at its own cost to grant participations (to be evidenced by one or more agreements or certificates of participation) in the Loans made and/or Revolving Credit Commitments held by such Bank at any time and from time to time, and to assign its rights under such Loans or the Note evidencing such Loans to a federal reserve bank; provided that (i) no such

participation or assignment shall relieve any Bank of any of its obligations under this Agreement, (ii) no such assignee or participant shall have any rights under this Agreement except as provided in this Section 11.11, and (iii) the Agent shall have no obligation or responsibility to such participant or assignee, except that nothing herein is intended to affect the rights of an assignee of a Note to enforce the Note assigned. Any party to which such a participation or assignment has been granted shall have the benefits of Section 2.11 and Section 9.3, but shall not be entitled to receive any greater payment under either such Section than the Bank granting such participation would have been entitled to receive in connection with the rights transferred. Any agreement pursuant to which any Bank may grant such a participating interest shall provide that such Bank shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder, including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided that such participation agreement may provide that such Bank will not agree to any modification, amendment or waiver of this Agreement that would (A) increase any Revolving

Credit Commitment of such Bank if such increase would also increase the participant's obligations, (B) forgive any amount of or postpone the date for payment of any principal of or interest on any Loan or of any fee payable hereunder in which such participant has an interest or (C) reduce the stated rate at which interest or fees in which such participant has an interest accrue hereunder.

Section 11.12 Assignment of Commitments by Banks. Each Bank shall have the right at any time, with the written consent of the Borrower and Agent (which consent shall not be unreasonably withheld), to assign all or any part of its Revolving Credit Commitment (including the same percentage of its Note and outstanding Loans) to one or more other Persons; provided that such assignment is in an amount of at least $10,000,000 or the entire Revolving Credit Commitment of such Bank, and if such assignment is not for such Bank's entire Revolving Credit Commitment then such Bank's Revolving Credit Commitment after giving effect to such assignment shall not be less than $10,000,000; and provided further that neither the consent of the Borrower nor of the Agent shall be required for any Bank to assign all or part of its Revolving Credit Commitment to any Affiliate of the assigning Bank. Each such assignment shall set forth the assignees address for notices to be given under Section 11.8 hereof hereunder and its designated Lending Office pursuant to Section 9.4 hereof. Upon any such assignment, delivery to the Agent of an executed copy of such assignment agreement and the forms referred to in Section 11.1 hereof, if applicable, and the payment of a $3,500 recordation fee to the Agent, the assignee shall become a Bank hereunder, all Loans and the Revolving Credit Commitment it thereby holds shall be governed by all the terms and conditions hereof and the Bank granting such assignment shall have its Revolving Credit Commitment, and its obligations and rights in connection therewith, reduced by the amount of such assignment; provided, however, in the event a Bank assigns all of its Revolving Credit Commitment at the request of the Borrower, pursuant to Section 3.2(b) or 11.13(iii), no recordation fee shall be required hereunder. A Bank may not assign its Revolving Credit Commitment hereunder unless it shall simultaneously assign the same percentage of its commitment, if any, under the Long-Term Credit Agreement in accordance with the terms thereof. If the Borrower replaces a Dissenting Bank or Replaceable Bank with another entity, it shall also cause the assignment of such Dissenting Bank or Replaceable Bank's commitment, if any, under the Long-Term Credit Agreement in accordance with the terms thereof, and such Dissenting Bank or Replaceable Bank agrees to cooperate in the making of such assignment.

Section 11.13 Amendments. Any provision of the Credit Documents may be amended or waived if, but only if, such amendment or waiver is in writing

and is signed by (a) the Borrower, (b) the Required Banks, and (c) if the rights or duties of the Agent are affected thereby, the Agent; provided that:

(i) no amendment or waiver pursuant to this Section 11.13 shall (A) increase any Commitment of any Bank without the consent of such Bank or (B) reduce the stated rate at which interest or fees accrue or reduce the amount of or postpone any fixed date for payment of any principal of or interest on any Loan or of any fee payable hereunder without the consent of each Bank; and

(ii) no amendment or waiver pursuant to this Section 11.13 shall, unless signed by each Bank, change this Section 11.13, or the definition of Required Banks, or affect the number of Banks required to take any action under the Credit Documents.

(iii) if the Borrower requests an amendment to this Agreement which requires the approval of all of the Banks and one of the Banks (a "Replaceable Bank") does not approve it, the Borrower may propose that another bank which is reasonably acceptable to the Agent (a "Replacement Bank") be substituted for and replace the Replaceable Bank for purposes of this Agreement. If a Replacement Bank is so substituted for the Replaceable Bank, the Replaceable Bank shall enter into an assignment agreement with the Replacement Bank, the Borrower and the Agent to assign and transfer to the Replacement Bank, the Replaceable Bank's Commitment hereunder; provided, however, if a Replacement Bank can't be found, then the Borrower may elect to take out the Replaceable Bank and reduce the facility accordingly by making a prepayment in the amount of such Replaceable Bank's Commitment (including the same percentage of its Note and outstanding Loans) plus all accrued and unpaid interest thereon and all fees due and owing on the date of replacement. Notwithstanding anything to the contrary contained herein, in no event shall the Agent be a Replaceable Bank.

Section 11.14 Headings. Section headings used in this Agreement are for reference only and shall not affect the construction of this Agreement.

Section 11.15 Legal Fees, Other Costs and Indemnification. The Borrower agrees to pay all reasonable costs and expenses of the Agent in connection with the preparation and negotiation of the Credit Documents, including, without limitation, the reasonable fees and disbursements of Foley & Lardner, counsel to the Agent, in connection with the preparation and execution of the Credit Documents and any amendment, waiver or consent related hereto, whether or not the transactions contemplated herein are consummated. The Borrower further agrees to indemnify each Bank, the Agent, and their respective Affiliates, directors, agents, officers and employees, against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation therefor, whether or not the indemnified Person is a party thereto) which any of them may incur or reasonably pay arising out of or relating to any Credit Document or any of the transactions contemplated thereby or the direct or indirect application or proposed application of the proceeds of any Loan other than those which arise from the gross negligence or willful misconduct of the party claiming indemnification. The Borrower, upon demand by the Agent or a Bank at any time, shall reimburse the Agent or Bank for any reasonable legal or other expenses incurred in connection with investigating or defending against any of the foregoing except if the same is directly due to the gross negligence or willful misconduct of the party to be indemnified.

Section 11.16 Entire Agreement. The Credit Documents constitute the entire understanding of the parties thereto with respect to the subject matter thereof and any prior or contemporaneous agreements, whether written or oral, with respect thereto are superseded thereby.

Section 11.17 Construction. The parties hereto acknowledge and agree that neither this Agreement nor the other Credit Documents shall be construed more favorably in favor of one than the other based upon which party drafted the same, it being acknowledged that all parties hereto contributed substantially to the negotiation of this Agreement and the other Credit Documents.

Section 11.18 Governing Law. This Agreement and the other Credit Documents, and the rights and duties of the parties hereto, shall be construed and determined in accordance with the internal laws of the State of New York.

Section 11.19 Submission to Jurisdiction; Waiver of Jury Trial. THE BORROWER HEREBY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND OF ANY NEW YORK STATE COURT SITTING IN THE CITY OF NEW YORK FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE OTHER CREDIT DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY. THE BORROWER IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO ANY CREDIT DOCUMENT OR THE TRANSACTIONS CONTEMPLATED THEREBY.

In Witness Whereof, the parties hereto have caused this Agreement to be duly executed and delivered in Chicago, Illinois by their duly authorized officers as of the day and year first above written.

NRG ENERGY, INC.

By:_____

Name: _____

Title:_____

Commitment: $20,000,000

ABN AMRO BANK N.V., in its individual

capacity as a Bank and as Agent

By:_____
Name: _____
Title:_____

By:_____
Name: _____
Title:_____

Address for notices:
ABN AMRO Bank N.V.
135 South LaSalle Street
Suite 711
Chicago, Illinois 60603
Attention: David B. Bryant\Kevin McFadden
Facsimile: (312) 904-6217
Telephone: (312) 904-2799\904-2131

With copy to:
ABN AMRO Bank N.V.
135 South LaSalle Street
Suite 625
Chicago, Illinois 60603
Attention: Novona Dillard
Facsimile: (312) 606-8435
Telephone: (312) 904-2676

Lending Offices:
Base Rate Loans:
135 South LaSalle Street
Suite 625
Chicago, Illinois 60603
Attention: Loan Administration

Eurocurrency Loans:
135 South LaSalle Street
Suite 625
Chicago, Illinois 60603
Attention: Loan Administration

Commitment: $15,000,000

NATIONSBANK, N.A.

By:_____

Name: _____

Title:_____

Address for notices:

Lending Offices:
Base Rate Loans:

Eurocurrency Loans:

Commitment: $15,000,000

SOCIETE GENERALE, CHICAGO BRANCH

By:_____

Name: _____

Title:_____

Address for notices:

Lending Offices:
Base Rate Loans:

Eurocurrency Loans:

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Commitment: $5,000,000

CIBC INC.

By:_____

Name: _____

Title:_____

Address for notices:

Lending Offices:
Base Rate Loans:

Eurocurrency Loans:

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Commitment: $10,000,000

THE CHASE MANHATTAN BANK

By:_____

Name: _____

Title:_____

Address for notices:

Lending Offices:
Base Rate Loans:

Eurocurrency Loans:

Commitment: $10,000,000

WESTDEUTSCHE LANDERSBANK

GIROZENTRALE, NEW YORK BRANCH

By:_____

Name: _____

Title:_____

Address for notices:

By:_____

Name: _____

Title:_____

Lending Offices:
Base Rate Loans:

Eurocurrency Loans:

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EXHIBIT A

NOTE

_____, 19___

For Value Received, the undersigned, NRG Energy, Inc., a Delaware corporation (the "Borrower"), promises to pay to the order of _____ (the "Bank") on the Termination Date of the hereinafter defined Credit Agreement, at the principal office of ABN AMRO Bank N.V., Chicago Branch, in Chicago, Illinois, in U.S. Dollars, the aggregate unpaid principal amount of all Loans made by the Bank to the Borrower pursuant to the Credit Agreement, together with interest on the principal amount of each Loan from time to time outstanding hereunder at the rates, and payable in the manner and on the dates, specified in the Credit Agreement.

The Bank shall record on its books or records or on a schedule attached to this Note, which is a part hereof, each Loan made by it pursuant to the Credit Agreement, together with all payments of principal and interest and the principal balances from time to time outstanding hereon, whether the Loan is a Base Rate Loan or a Eurocurrency Loan, the interest rate and Interest Period applicable thereto, provided that prior to the transfer of this Note all such amounts shall be recorded on a schedule attached to this Note. The record thereof, whether shown on such books or records or on a schedule to this Note, shall be prima facie evidence of the same, provided, however, that the failure of the Bank to record any of the foregoing or any error in any such record shall not limit or otherwise affect the obligation of the Borrower to repay all Loans made to it pursuant to the Credit Agreement together with accrued interest thereon.

This Note is one of the Notes referred to in the 364-Day Revolving Credit Agreement dated as of March 17, 1998, among the Borrower, ABN AMRO Bank N.V., as Agent, and the Banks party thereto (the "Credit Agreement"), and this Note and the holder hereof are entitled to all the benefits provided for thereby or referred to therein, to which Credit Agreement reference is hereby made for a statement thereof. All defined terms used in this Note, except terms otherwise defined herein, shall have the same meaning as in the Credit Agreement. This Note shall be governed by and construed in accordance with the internal laws of the State of New York.

Prepayments may be made hereon and this Note may be declared due prior to the expressed maturity hereof, all in the events, on the terms and in the manner as provided for in the Credit Agreement.

The Borrower hereby waives demand, presentment, protest or notice of any kind hereunder.

NRG Energy, Inc.
By:_____
Its: _____

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EXHIBIT B

COMPLIANCE CERTIFICATE

This Compliance Certificate is furnished to ABN AMRO Bank N.V., as Agent pursuant to the 364-Day Revolving Credit Agreement (the "Credit Agreement") dated as of March 17, 1998, by and among NRG Energy, Inc., the Banks from time to time party thereto and ABN AMRO Bank N.V., as Agent. Unless otherwise defined herein, the terms used in this Compliance Certificate have the meanings ascribed thereto in the Credit Agreement.

The undersigned hereby certifies that:

1. I am the duly elected or appointed _____ of NRG Energy, Inc.;

2. I have reviewed the terms of the Credit Agreement and I have made, or have caused to be made under my supervision, a detailed review of the transactions and conditions of NRG Energy, Inc. and its Subsidiaries during the accounting period covered by the attached financial statements;

3. The examinations described in paragraph 2 did not disclose, and I have no knowledge of, the existence of any condition or event which constitutes a Default or an Event of Default during or at the end of the accounting period covered by the attached financial statements or as of the date of this Compliance Certificate, except as set forth below; and

4. Schedule B-1 attached hereto sets forth financial data and computations evidencing compliance with certain covenants of the Credit Agreement, all of which data and computations are true, complete and correct. All computations are made in accordance with the terms of the Credit Agreement.

Described below are the exceptions, if any, to paragraph 3 by listing, in detail, the nature of the condition or event, the period during which it has existed and the action which the Borrower has taken, is taking, or proposes to take with respect to each such condition or event:

_____
_____
_____
_____

The foregoing certifications, together with the computations set forth in Schedule 1 hereto and the financial statements delivered with this Compliance Certificate in support hereof, are made and delivered this _____ day of _____, 19___.

_____

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COMPLIANCE CERTIFICATE
SCHEDULE B-1

COMPLIANCE CALCULATIONS FOR CREDIT AGREEMENT

CALCULATION AS OF _____, 19_____

A. Liens (Section 7.9)

1. Total Liens $_____

2. Existing Liens $_____

3. Balance of Liens $_____ (Line A1 minus Line A2) (Line A3 not to exceed 10% of Consolidated Net Tangible Assets)

B. Sale of Assets (Section 7.11)

1. Net book value of assets sold during this fiscal year $_____

(Line B1 not to exceed 10% of Consolidated Net Tangible Assets)

C. Consolidated Net Worth (Section 7.12)

1. Consolidated stockholders' equity $_____

2. Less currency translation account $_____

3. Consolidated Net Worth

(Line C1 minus Line C2) $_____

D. Consolidated Capitalization

1. Consolidated Net Worth (Line C3) $_____

2. Indebtedness of the Borrower $_____

3. Consolidated Capitalization (Sum of line D1 and D2) $_____

E. ___ to ___
(ratio must be at least 0.32 to 1.00)

EXHIBIT C

FORM OF LEGAL OPINION OF COUNSEL TO THE BORROWER

MARCH 17, 1998

ABN AMRO Bank N.V.,
in its individual capacity as
a Bank and as Agent
135 South LaSalle Street
Suite 711
Chicago, Illinois 60603

Ladies and Gentlemen:

I am Vice President and General Counsel of NRG Energy, Inc., a Delaware corporation ("Borrower"), and have represented the Borrower in connection with the transactions to be effected pursuant to the terms and conditions of that certain 364-Day Revolving Credit Agreement dated as of the date hereof among the Borrower, the Banks party thereto and ABN AMRO Bank, N.V., individually as a Bank and as Agent (the "Credit Agreement").

This opinion is delivered to you pursuant to Section 6.1(a) of the Credit Agreement. Capitalized terms used in this opinion and not otherwise defined herein shall have the meanings ascribed thereto in the Credit Agreement.

In connection with this opinion I have examined:

A. the Credit Agreement;

B. the Notes; and

C. the Fee Letter.

The foregoing documents, together with the other documents executed and delivered by the Borrower to the Agent in connection with the Credit Agreement, are sometimes referred to herein as the "Loan Documents."

I have also examined such corporate documents and records of the Borrower and such certificates of public officials and officers of the Borrower as I have deemed necessary or appropriate for purposes of rendering this opinion. In stating my opinion, I have assumed the genuineness of all signatures (except the Borrower), the authority of persons signing the Loan Documents on behalf of all parties thereto (except the Borrower), the authenticity of all documents submitted to us as originals and the conformity to authentic original documents of all documents submitted to us as certified, conformed or photostatic copies.

Based on the foregoing, and subject to the qualifications set forth herein, we are of the opinion that:

1. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

2. The Borrower has the corporate power and authority to execute, deliver and perform the

Loan Documents and all corporate action necessary to authorize the execution, delivery and performance of the Loan Documents has been taken.

3. The Loan Documents have been duly executed and delivered on behalf of the Borrower and constitute valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their respective terms, except as limited by applicable bankruptcy, insolvency, moratorium or other similar laws affecting the rights of creditors or the application of general principles of equity (whether considered in a proceeding in equity or at law).

4. The Execution, delivery and performance by the Borrower of the Loan Documents do not: (i) result in a breach or other violation of any of the terms, conditions or provisions of any indenture, loan or credit agreement or any other agreement, lease or instrument to which the Borrower is a party or by which it or any of its properties may be bound; (ii) result in a breach or other violation of any of the terms, conditions or provisions of any order, writ, injunction or decree of any court or other governmental authority or instrumentality to which the Borrower is subject; or (iii) result in the creation or imposition of any lien, charge, security interest or encumbrance upon any property of the Borrower under any indenture, loan or credit agreement or any other material agreement, lease, instrument, order, writ, injunction or decree referred to in clauses (i) and (ii) above; where any such breach, violation or lien could have a Material Adverse Effect. The execution, delivery and performance by the Borrower of the Loan Documents and the transactions contemplated thereby do not result in a breach or other violation of any of the terms, conditions or provisions of any applicable federal, or Delaware statute or regulation where such breach or violation could have a Material Adverse Effect.

5. Except as set forth on Schedule 5.5 to the Credit Agreement, no judgments are outstanding against the Borrower, nor is there pending or, to the best of our knowledge, threatened, any litigation, investigation, contested claim or governmental proceeding by or against the Borrower which could have a Material Adverse Effect.

6. The extension, arranging and obtaining of the credit represented by the Credit Agreement do not result in any violation of Regulation G. T, U or X of the Board of Governors of the Federal Reserve System.

7. Neither the Borrower nor any Subsidiary is an "investment company" within the meaning of the Investment Company Act of 1940, as amended. No approvals by the SEC under the Public Utility Holding Company Act of 1935, as amended ("PUHCA") are required in connection with the execution by the Borrower of the Loan Documents or the performance by the Borrower of any of the transactions contemplated thereby.

8. No authorization, consent, license, order or approval of, or other action by, any governmental authority is required to be obtained or made in connection with the due execution, delivery and performance of the Loan Documents.

9. I am a member of the bar of the State of Minnesota, and I am not licensed to practice in the States of Delaware or New York. I express no opinion on the law of any other jurisdiction other than the State of Minnesota and the provisions of the Delaware General Corporation Law and the federal laws of the United States applicable therein or thereto. The opinions expressed herein are based upon the law and circumstances as they are in effect or exist on the date hereof, and I assume no obligation to revise or supplement this letter in the event of future changes in the law or interpretations thereof with respect to circumstances or events that may occur subsequent to the date hereof. I express no opinion as to the effect of the laws of any other jurisdiction.

For purposes of the opinion rendered in paragraph 3, I have assumed that the laws of the State of New York are substantially the same as the laws of the State of Minnesota.

Minnesota Statutes ss.290.371, Subd. 4, provides that any corporation

required to file a Notice of Business Activities Report does not have a cause of action upon which it may bring suit under Minnesota law unless the corporation has filed a Notice of Business Activities Report and provides that the use of the courts of the State of Minnesota for all contracts executed and all causes of action that arose before the end of any period for which a corporation failed to file a required report is precluded. Insofar as our opinion may relate to the valid, binding and enforceable character of any agreement under Minnesota law or in a Minnesota court, we have assumed that any party seeking to enforce such agreement has at all times been, and will continue at all times to be, exempt from the requirement of filing a Notice of Business Activities Report or, if not exempt, has duly filed, and will continue to duly file, all Notice of Business Activities Report or, if not exempt, has duly filed, and will continue to duly file, all Notice of Business Activities Reports.

This opinion is furnished by me as General Counsel of the Borrower to you pursuant to the Agreement. This opinion is solely for your benefit and may not be relied upon by any other person or by you in any other context. This opinion may not be quoted, in whole or in part, or copies hereof furnished, to any other person without my prior express written consent.

Very truly yours,

SCHEDULE 1

PRICING GRID

LEVEL	IF THE BORROWER'S SENIOR UNSECURED DEBT RATING IS (MOODY'S\STANDARD AND POOR'S, RESPECTIVELY)	THE ANNUAL FACILITY FEE IS	THE EUROCURRENCY MARGIN IS	THE BASE RATE MARGIN IS
I	Greater than or equal to Baa2/BBB	0.125%	0.250%	0.000%
II	Below Level I, but greater than or equal to Baa3/BBB-	0.175%	0.275%	0.000%
III	Below Level II, but greater than or equal to Ba1/BB+	0.325%	0.550%	0.000%
IV	Below Level III	0.450%	1.050%	0.550%

Any change in Rating (and in any fees or interest payable hereunder based on Ratings) shall be effective as of the date on which S&P or Moody's, as the case may be, announces the applicable change in such Rating. In the event of a split rating, the lower rating shall prevail.

SCHEDULE 5.2

SUBSIDIARIES

SUBSIDIARY	STATE OF INCORPORATION
Cobee Holdings Inc.	Delaware
Elk River Resource Recovery, Inc.	Minnesota
Fresh Kills Cogen Inc.	Delaware
Graystone Corporation	Minnesota

NEO Corporation (NEO)	Minnesota
NRG Asia-Pacific, Ltd.	Delaware
NRG Cadillac Inc.	Delaware
NRG del Corondo Inc.	Delaware
NRG El Segundo Inc.	Delaware
NRG Energy Center, Inc.	Minnesota
NRG Energy Jackson Valley I, Inc.	California
NRG Energy Jackson Valley II, Inc.	California
NRG International, Inc.	Delaware
NRG International Services Company	Delaware
NRG Latin America Inc.	Delaware
NRG Long Beach Inc.	Delaware
NRG Operating Services, Inc.	Delaware
NRG PacGen Inc.	Delaware
NRG Parlin Inc.	Delaware
NRG Power Marketing Inc.	Delaware
NRG San Diego Inc.	Delaware
NRG Services Corporation	Delaware
NRG Sunnyside Inc.	Delaware
NRG Sunnyside Operations GP Inc.	Delaware
NRG Sunnyside Operations LP Inc.	Delaware
NRG Pittsburgh Thermal Inc.	Delaware
New Roads Generating, LLC	Delaware
O'Brien Cogeneration, Inc. II	Delaware
Okeechobee Power I, Inc.	Delaware
Okeechobee Power II, Inc.	Delaware
Okeechobee Power III, Inc.	Delaware
Oklahoma Loan Acquisition Corporation	Delaware
Power Operations, Inc.	Delaware
San Joaquin Valley Energy I, Inc.	California
San Joaquin Valley Energy IV, Inc.	California
Scoria Incorporated	Minnesota

Updated 3/16/1998

SCHEDULE 5.5

LITIGATION SUMMARY

Sunnyside

NRG Energy, Inc. (the "Company") and its subsidiary NRG Sunnyside, Inc., along with certain other parties, are plaintiffs in an action filed on May 2, 1996 in the Seventh District Court for Carbon County, Utah, against Environmental Power Corporation, Sunnyside Power Corporation, Kaiser Systems, Inc. and Kaiser Power of Sunnyside, Inc. in connection with a Purchase and Sale Agreement by and among the plaintiffs and defendants. The plaintiffs are seeking damages for breach of certain representations and warranties and indemnification obligations included in the Purchase and Sale Agreement, as well as a declaration that the related Promissory Note executed by NRG Sunnyside, Inc. is subject to NRG Sunnyside, Inc.'s defenses and/or setoffs for any and all claims arising under or in connection with the Purchase and Sale Agreement, thereby reducing the principal amount due under said note to zero.

The defendants have filed an answer denying liability and asserting counterclaims against plaintiffs, seeking an award of unspecified compensatory and punitive damages and the entry of a preliminary permanent injunction requiring the plaintiffs to pay the entire balance of the Promissory Note ($1,750,000) plus interest at a rate of 13 percent. The plaintiffs deny the defendants' counterclaims and intend to prosecute their action and contest the case vigorously.

NRG Generating (U.S.), Inc. ("NRGG")

NRGG has commenced arbitration with the Company regarding a dispute arising out

of a Co-Investment Agreement dated April 30, 1996, executed by the Company and NRGG. NRGG asserts, in that arbitration, that the Company violated its obligations under the Co-Investment Agreement by entering into a Stock Purchase Agreement with OGE Energy Corp. ("OGE", the parent of Oklahoma Gas & Electric Company), pursuant to which the Company has agreed to sell its interest in the Mid-Continent Power Company project ("MCPC") to OGE. NRGG asserts that, under the Co-Investment Agreement, NRG has a right of first refusal with respect to any sale of MCPC. NRGG is seeking to enjoin the sale of MCPC to OGE and has claimed unspecified damages. The Company vigorously disputes NRGG's claims. The arbitration hearing is scheduled for May 1998, and the Company expects the arbitration to be completed before the sale of MCPC to OGE is consummated.

LABOR DISPUTE SUMMARY

None.

SCHEDULE 7.9

EXISTING LIENS

MARCH 17, 1998

TOTAL LIENS	AMOUNT $
Norwest Bank Minnesota, N.A. Certificate of Deposit Held by Lumbermans Insurance Underwriters	150,000
U.S. Treasury Bills Collateral for foreign exchange forward contracts with Salomon Brothers	0
TOTAL LIEN BALANCE	150,000
EXISTING LIENS AT 2/1/96	
Norwest Bank Minnesota, N.A. Certificate of Deposit	150,000
U.S. Treasury Bills- 3% of Notional Value of Contracts	3,665,745
TOTAL EXISTING LIENS	3,815,745
BALANCE OF LIENS	(3,665,745)

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EXHIBIT 99.1 Financial statements of Mitteldeutsche Braunkohlengesellschaft mbH ("MIBRAG")

MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT mbH

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of
MIBRAG mbH
Theissen, Germany

We have audited the accompanying consolidated balance sheets of Mitteldeutsche Braunkohlengesellschaft mbH and its subsidiaries (MIBRAG or Group) as of December 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1997. These financial statements are the responsibility of the Group'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 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

audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MIBRAG as of December 31, 1997 and 1996, and the consolidated results of its operations and cash flows for each of the years in the three-year period ended December 31, 1997, 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 each of the years in the three-year period ended December 31, 1997 and shareholders' equity as of December 31, 1997, 1996, and 1995 to the extent summarized in Note C to the consolidated financial statements.

Halle, Germany
February 26, 1998

/s/ DELOITTE & TOUCHE GmbH

DELOITTE & TOUCHE GmbH
Wirtschaftsprufungsgesellschaft

MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT mbH

CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS DM)

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Sales revenue	533,025	621,439	650,705
Changes in inventories	23,826	-3,719	-9,462
Capitalized own services	11,046	4,249	6,143
Other operating income	49,520	84,904	76,900
Total performance	617,417	706,873	724,286
Cost of materials	125,266	138,468	133,670
Personnel expenses	227,632	249,437	251,509
Depreciation on intangible and tangible fixed assets	166,949	201,362	317,457
Other operating expenses	169,557	264,998	229,235
Total operating expenses	689,404	854,265	931,871
Operating result	-71,987	-147,392	-207,585
Income from associated company and from companies in which participations are held	10,046	5,224	1,252
Income from financial assets	8,392	7,035	--
Interest expense (income) net	-1,405	3,906	15,607
Net loss from ordinary activities	-54,954	-131,227	-190,726
Property tax	1,086	825	1,612
Net loss	-56,040	-132,052	-192,338

See accompanying Notes to Consolidated Financial Statements,

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MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT mbH
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS DM)

		At December 31,	
ASSETS	Note	1997	1996
Non-current assets			
Intangible assets			
Concessions, trade marks, patents and licenses	B, E	20,722	18,368
Property, plant and equipment			
1. Land	B, E	67,837	63,482
2. Buildings	B, E	104,676	116,051
3. Strip mines	B, E	47,154	47,955
4. Technical equipment and machinery	B, E	289,378	367,327
5. Factory and office equipment	B, E	38,974	59,566
6. Payments on account and assets under construction		96,734	40,132
		644,753	694,513
Financial assets			
1. Participations (including associated company)	B, F	26,276	28,973
2. Loans granted to participation	B, G	16,133	16,867
3. Long-term investments	B, H	20,010	20,260
4. Other loans	B, I	80,400	94,500
		142,819	160,600
Total non-current assets		808,294	873,481
Overburden	B, J	327,001	304,911
Current assets			
Inventories			
1. Raw materials and supplies	B	10,105	8,359
2. Unfinished services	B	-	170
3. Finished and trade goods	B	3,743	1,837
		13,848	10,366
Receivables and other assets			
1. Trade receivables	B, K	72,994	74,397
2. Receivables from enterprises in which participations	B	4,669	5,513
3. Other assets	B	38,589	62,731
		116,252	142,641
Investments			
Other investments	B, L	218,550	210,289
Cash	B	103,579	183,690
Total current assets		452,229	546,986
Prepaid expenses	B	6,781	6,528
TOTAL ASSETS		1,594,305	1,731,906

		At December 31,	
	Note	1997	1996
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' Equity			
Subscribed capital		60,000	60,000
Capital reserve		689,649	730,208
Balance sheet profit DM 5,000,000 each year thereof distributed: DM 4,950,000 in 1997; DM 5,000,000 in 1996 and in 1995		50	-
Minority interest		-63,213	-19,007
Total Shareholders' Equity		686,486	771,201
Special item for investment subsidies and incentives	B	45,115	45,013
Provisions			
1. Accruals for pensions and similar obligations	M	5,277	3,621
2. Taxation accruals	N	2,761	2,600
3. Environmental ("Altlasten") and mining provisions	B, O	378,836	392,056
4. Other accruals	P	38,912	39,148
		425,786	437,425

Liabilities			
1. Liabilities to banks	B, Q, R	345,277	325,307
2. Downpayments received	B, R	-	140
3. Trade payables	B, R	42,499	75,737
4. Payables to participations	B, R	1,984	8,615
5. Other payables	B, R	47,142	68,467
		436,902	478,266
Deferred income		16	1
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,594,305	1,731,906

See accompanying Notes to Consolidated Financial Statements

MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT mbH
CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS DM)

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Cash flows from operating activities:			
Net loss for the year	-56,040	-132,052	-192,338
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization intangible and tangible assets	166,949	201,362	317,457
Planned release of the special item for investment subsidies and incentives	-10,439	-8,979	-8,181
Loss on disposal of non-current assets	770	1,997	13,701
Change in assets and liabilities:			
Overburden	-22,090	3,488	11,533
Inventories	-3,482	-1,186	-2,379
Receivables and other assets	26,697	8,209	-26,572
Accruals	-11,640	-612	23,112
Liabilities	-61,331	-1,432	31,626
Other prepaid and deferred items	-547	-78	-330
CASH PROVIDED BY OPERATING ACTIVITIES	28,847	70,717	167,629
Cash flows from investing activities:			
Capital expenditures	-124,190	-219,444	-362,534
Additions to the special item for investment subsidies and incentives	10,540	13,499	20,569
Proceeds from disposal of non-current assets	41,668	12,451	35,666
Increase in long-term and other investments	-28,272	-230,549	-
Cash used for investing activities	-100,254	-424,043	-306,299
Cash flows from financing activities:			
Change in equity:			
Distributions	-4,950	-5,000	-5,000
Investors capital contribution	-	43,674	172,689
Withdrawal by MI KG investors	-23,775	-18,259	-
Capital contribution	50	15,942	-
Increase in loans	34,523	110,792	91,310
Redemption of loans	-14,552	-16,018	-2,236
CASH USED FOR/PROVIDED BY FINANCING ACTIVITIES	-8,704	131,131	256,763
NET DECREASE (1995: INCREASE) IN CASH	-80,111	-222,195	118,093
CASH AT BEGINNING OF YEAR	183,690	405,885	287,792
CASH AT YEAR-END	103,579	183,690	405,885

See accompanying Notes to Consolidated Financial Statements

MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT mbH

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS DM)

	Subscribed capital	Capital reserve	Balance sheet profit	Minority interest	Total
BALANCE AS OF JANUARY 1, 1995	60,000	831,547	0	-2	891,545
Net loss 1995			-48,377	-143,961	-192,338
Transfer from capital reserve		-53,377	53,377		0
Distributions			-5,000		-5,000
Contributions by minority shareholders				172,689	172,689
BALANCE AS OF DECEMBER 31, 1995	60,000	778,170	0	28,726	866,896
Net loss 1996			-58,904	-73,148	-132,052
Transfer from capital reserve		-63,904	63,904		0
Distributions			-5,000		-5,000
Contributions by minority shareholders				43,674	43,674
Withdrawals by minority shareholders				-18,259	-18,259
Capital contribution - settlement agreement		15,942			15,942
BALANCE AS OF DECEMBER 31, 1996	60,000	730,208	0	-19,007	771,201
Net loss 1997			-35,609	-20,431	-56,040
Transfer from capital reserve		-40,609	40,609		0
Distributions			-4,950		-4,950
Contributions		50			50
Withdrawals by minority shareholders				-23,775	-23,775
BALANCE AS OF DECEMBER 31, 1997	60,000	689,649	50	-63,213	686,486

See accompanying Notes to the Financial Statements

MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT mbH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS OF DM)

NOTE A ORIGINATION AND NATURE OF BUSINESS

ORIGINATION: Mitteldeutsche Braunkohlengesellschaft mbH ("MIBRAG" or "MIBRAG mbH") was created from split-up of MIBRAG AG, previously owned by the Treuhandanstalt (the German government privatization agency), into three separate entities. Effective January 1, 1994 a consortium comprised of NRG Energy, Inc., Morrison Knudsen Corporation, and PowerGen plc. jointly acquired 99% of the active mining, power generation and related assets and liabilities from the Treuhandanstalt through its Dutch holding company, MIBRAG B.V.. The remaining 1% was transferred on December 18, 1996 from the German government privatization agency to Lambique Beheer B.V., Amsterdam, a subsidiary of NRG Energy, Inc., Morrison Knudsen B.V., Amsterdam, and PowerGen Netherlands B.V., Amsterdam in equal portions (1/3%) for each partner.

NATURE OF BUSINESS: The operations of MIBRAG mbH include two open-cast brown coal mines in Profen and Schleenhain, a lease on a third mine in Zwenkau, and rights to future mining reserves. The operations also include over 200 MW of power generation and one coal briquetting plant. A significant portion of the sales of MIBRAG is made pursuant to long-term coal and energy supply contracts.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Mitteldeutsche Braunkohlengesellschaft mbH and subsidiaries have been prepared in accordance with the German Commercial Code, which represents accounting principles generally accepted in Germany ("German GAAP"). German GAAP varies in certain significant respects from accounting principles generally accepted in the United States of America ("U.S. GAAP"). Application of U.S. GAAP would have affected the results of operations for each of the years in the three-year period ended December 31, 1997 and stockholders' equity as of December 31, 1997 and 1996 to the extent summarized in note C to the consolidated financial statements. All amounts herein are shown in thousands of Deutsche Mark ("DM") unless otherwise noted.

PRINCIPLES OF CONSOLIDATION: All material companies in which MIBRAG has legal or effective control are fully consolidated. In 1997, MIBRAG consolidated 5 (1996: 5, 1995: 4) domestic subsidiaries.

One significant investment, MUEG, in which MIBRAG has an ownership interest of 50% is accounted for in accordance with the equity method. This investment is referred to as an associated company in these financial statements.

All other investments in which MIBRAG has an ownership in the range of 20% to 50% are either not considered to be significant for the presentation of the consolidated financial statements of MIBRAG or MIBRAG does not have significant influence in these companies. These companies are included at cost and referred to as participations in these financial statements.

All significant intercompany accounts and transactions have been eliminated in consolidation.

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 assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

TOTAL COST METHOD: The income statement has been 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.

INTANGIBLE ASSETS: Intangible assets are valued at acquisition cost and are amortized over their respective useful lives (5 to 15 years).

PROPERTY, PLANT, AND EQUIPMENT: Property, plant, and equipment acquired is recorded on the basis of acquisition or manufacturing cost, including capitalized mine development costs and subsequently reduced by scheduled depreciation charges over the assets' useful lives as follows: buildings - 3 to 25 years, technical facilities and machinery - 4 to 33 years; and facilities, factory and office equipment - 5 to 10 years. Maintenance and repair costs are expensed as incurred. Depreciation is computed principally by the straight-line method over the expected useful lives of the assets. The amortization of mine development costs is provided on the basis of tonnage mined in relation to total estimated recoverable tonnage. Depreciation on additions during the first or the

second half of the year are estimated using full-year or half-year rates, respectively. Low value items are expensed in the year of acquisition. Opportunities for special tax deductible depreciation are utilized for both book and tax purposes.

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

OVERBURDEN: Overburden represents the costs of removing the surface above a coal field subsequent to the initial opening of the field to the extent that the removal exceeds what is needed for the current years coal extraction. These are costs incurred in advance in respect of future coal production. The overburden of the individual mines on the balance sheet dates were consolidated and valued on an average cost basis.

LONG LIVED ASSETS: The Company reviews long lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If impairment is indicated, the carrying amount is reduced to its fair value.

INVENTORY: Inventories are carried at the lower of average cost or market. Obsolescence provisions are made to the extent that inventory risks are determinable.

RECEIVABLES AND OTHER ASSETS: All receivables are valued at cost, taking into account all known risks. A lump-sum allowance for doubtful accounts is deducted from the receivables in recognition of the general risk inherent in the receivables.

CASH: Cash includes cash-on-hand, checks, bank accounts and time deposits.

INVESTMENT GRANTS: To support the acquisition of certain tangible assets, investment allowances and subsidies were granted by the federal government and the German states of Saxony and Saxony-Anhalt. The application, conditions and payments of investment grants are ruled by German law and several regulations and statements. Investment allowances and subsidies received and formally claimed are credited to the special item account. The special item is amortized into income over the normal operating useful lives of the underlying assets to which the allowances and subsidies relate.

ENVIRONMENTAL AND MINING PROVISIONS: Accruals for environmental and mining-related matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. These accruals are adjusted periodically as assessment and remediation efforts progress or as additional technical or legal information becomes available.

LIABILITIES: Liabilities are shown at their repayment amounts.

SUPPLEMENTARY CASH FLOW INFORMATION: The company paid no income taxes in 1997, 1996 and 1995. Interest paid amounted to DM 17,350, DM 14,178 and DM 4,556 in 1997, 1996 and 1995, respectively.

PER SHARE AMOUNTS: Per share amounts are not disclosed in the financial statements. MIBRAG is a nonpublic enterprise.

PRIOR YEARS RECLASSIFICATION: Certain amounts of prior years were reclassified to conform with the current year presentation.

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MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT mbH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS OF DM)

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

The MIBRAG consolidated financial statements comply with German GAAP, which differs in certain significant respects from U.S. GAAP. The significant differences that affect the consolidated net income and stockholders' equity of MIBRAG are set out below.

I. APPLICATION OF THE PURCHASE METHOD OF ACCOUNTING

As of December 31, 1993 the predecessor of MIBRAG, MIBRAG AG, was split into three legal entities:

MIBRAG mbH
MBV GmbH and
Romonta GmbH.

The assets and liabilities of the predecessor company were allocated to the three newly founded companies according to a split-up plan, which is required under the applicable German split-up law. Under German GAAP the assets and liabilities of MIBRAG AG were transferred at book value to the financial statements of the three successor companies. The transaction resulted in an shareholders' equity of DM 887.7 million in MIBRAG's opening balance sheet as of January 1, 1994 according to German GAAP.

The acquisition of 99% of the shares in MIBRAG mbH on January 1, 1994 by MIBRAG B.V. was accounted for using the purchase method of accounting and the purchase price adjustments to the historical cost basis have been pushed down to the MIBRAG mbH for purposes of the reconciliation to U.S. GAAP. According to the purchase agreement the purchase price for 99% of the shares consists of two components - a fixed and a variable portion. The variable portion is a charge on future coal mined and briquettes sold.

The excess (DM 757.3 million) of the fair value of the net assets acquired over the purchase price was proportionally allocated to reduce the value assigned to noncurrent assets, excluding long-term investments.

II. SUBSEQUENT ADJUSTMENT OF THE U.S. GAAP OPENING BALANCE

The MIBRAG purchase agreement states that the amount payable by MIBRAG B.V. to the successor of the Treuhandanstalt (THA), the Bundesanstalt fur vereinigungsbedingte Sonderaufgaben (BvS), is to be reduced by the amount of certain incremental transportation costs incurred by MIBRAG for lignite transportation to one of its major customers. For U.S. GAAP purposes, this liability is reflected as a liability of MIBRAG mbH and results in a reduction of MIBRAG equity and an increase in liabilities.

III. NOTES TO SIGNIFICANT U.S. GAAP ADJUSTMENTS

1. Fixed assets other than financial investments

These adjustments are caused by different book values of fixed assets in German and U.S. GAAP financial statements. There are four primary reasons for differences in book values:

- - In the U.S. opening balance sheet as of January 1, 1994, according to purchase accounting, fixed asset balances, other than financial assets, were adjusted to their fair market values. Related unamortized investment subsidies were also included in these adjustments as of January 1, 1994.

- - As of January 1, 1994, the assets were reduced by the allocation of the difference between the net acquisition costs for the MIBRAG shares and the net fair market value of MIBRAG's assets and liabilities.

- - Special accelerated depreciation for tax purposes is recorded in the German financial statements.

- - The depreciation period of long term assets are based upon lives acceptable for German tax purposes, which differ from the useful lives for U.S. accounting purposes.

Upon disposal, the above differences also resulted in differing gains or losses on disposition.

Financial investment in MUEG

For German GAAP purposes, MIBRAG accounted for the investment in MUEG as of January 1, 1994 using the cost method. Under U.S. GAAP the book value was increased to account for the equity earnings that were not distributed to MIBRAG as of that date.

2. Relocation accruals

At January 1, 1994, MIBRAG had made a commitment to relocate the villages of Grossgrimma, Heuersdorf, Schwerzau and Breunsdorf at a total estimated cost of DM 273 million. Such amounts were provided for at January 1, 1994. Deferred costs, which are amortized in accordance with quantities of coal extracted, were recorded at the same amount.

The German GAAP balance as of January 1, 1994 included provisions for DM 56 million of this total. In accordance with German accounting principles such reserves and accruals for the relocation of villages can not be accrued earlier than 2 years prior to the relocation, and some of the relocation costs are to be expensed as incurred.

MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT mbH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS OF DM)

3. Investment in power plants

In 1995 and 1996, third party investors paid in DM 216 million into a MIBRAG subsidiary, MIBRAG Industriekraftwerke GmbH & Co. KG ("MI"). MI runs three lignite-fired power plants. The investment is structured such that the third party investors obtain the accelerated depreciation opportunities for tax purposes while retaining a put option to sell their investments back to MIBRAG at predetermined prices. The third party investments are considered additions to equity as minority interests for German GAAP, while these arrangements are accounted for as a financing in accordance with U.S. GAAP.

4. Schkopau transportation credits

The liability to BvS as described in item II above is reduced by the amount of excess incremental transportation costs, incurred by MIBRAG for certain lignite shipments. The transportation cost credits are not reflected in MIBRAG's German financial statements, but reduce the liability to BvS in the U.S. GAAP balance sheet.

5. Interest capitalization

Interest is expensed in the German financial statements, however interest expense related to qualified assets is capitalized for U.S. GAAP purposes.

6. Accrued liabilities

Certain mining and other accruals, which were provided for at January 1, 1994 in accordance with U.S. GAAP purchase accounting, were recorded in the German financial statements in 1994.

7. Receivables/payables at non-market interest rates

Certain accounts receivables or loans payable are recorded in the German GAAP financial statements at their nominal values. Because these carry non-market interest rates, such receivables and payables were adjusted to their market values

8. Overburden

Overburden in the German financial statements includes capitalized depreciation based upon the historical costs. Because of the purchase accounting adjustments, a different amount of depreciation is capitalized in overburden in the U.S. GAAP financial statements. In addition, purchase accounting adjustments as of January 1, 1994 included the write-down of overburden on a mine to be closed.

9. Other

Certain costs and income in the German financial statements are capitalized or deferred for U.S. GAAP purposes, respectively.

10. Unrealized security gains

Not realized security gains on available-for-sale securities are not accounted

(IN THOUSANDS OF DM)

for under German GAAP, but would be recorded in a separate component of equity for U.S. GAAP purposes.

11. Deferred taxes

The differences noted above would generally result in temporary differences to the balances recognized for tax purposes. Such temporary differences and net operating loss carryforwards would result in a net deferred tax asset of DM 309,600 and DM 299,900 at December 31, 1997 and 1996, respectively. Because of available negative evidence, a 100 % valuation allowance would have been recorded at each year end. Because no net deferred taxes would be recorded for German or U.S. GAAP purposes, no adjustment to net income or shareholders equity are listed in the following reconciliations.

RECONCILIATION TO U.S. GAAP

The following is a summary of the significant adjustments to net income for the years 1995, 1996 and 1997 and to shareholders' equity at December 31, 1996 and 1997, which would be required if U.S. GAAP had been applied instead of German GAAP.

		YEAR ENDED DECEMBER 31,		
	NOTE	1997	1996	1995
Net income as reported in the consolidated income statement under German GAAP		-56,040	-132,052	-192,338
Adjustments required to conform with U.S. GAAP:				
Long-term asset valuation	(1)	111,854	143,280	301,385
Relocation of villages	(2)	12,044	46,803	21,258
Investment in power plants	(3)	-8,330	7,208	0
Schkopau transportation credits	(4)	14,052	12,367	0
Interest capitalization	(5)	-359	4,549	-52
Receivable / payables at non-market interest rate	(7)	-7,497	-8,728	-9,628
Overburden	(8)	-2,582	-15,201	-1,253
Other	(9)	5,273	-2,012	-29,417
NET INCOME IN ACCORDANCE WITH U.S. GAAP		68,415	56,214	89,955

(IN THOUSANDS OF DM)

	NOTE	AT DECEMBER 31, 1997	1996
Shareholder's equity as in the consolidated balance sheet under German GAAP		686,486	771,201
Adjustments required to conform with U.S. GAAP:			
Long-term asset valuation	(1)	146,793	34,939
Relocation of villages	(2)	-28,289	-40,333
Investment in power plants	(3)	-175,451	-190,896
Payable to THA / BvS	(4)	-13,581	-27,633
Interest capitalization	(5)	5,680	6,039
Accrued liabilities	(6)	-30,153	-30,153
Receivable / payables at non-market interest rate	(7)	5,001	12,498
Overburden	(8)	-214,573	-211,991
Other	(9)	1,816	-3,457
Net unrealized security gains (net of income tax effects)	(10)	4,363	5,853
SHAREHOLDERS' EQUITY IN ACCORDANCE WITH U.S. GAAP		388,092	326,067

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NOTE D CONCENTRATION OF CREDIT RISK AND LONG-TERM COAL SALES AGREEMENTS

MIBRAG MBH markets its coal principally to electric utilities in Germany. As of December 31, 1997 and 1996 accounts receivable from electric utilities totaled DM 72,994 and DM 74,397, respectively. Credit is extended based on an evaluation of the customer's financial condition, and collateral is not generally required. Credit losses are provided for in the financial statements and consistently have been minimal.

MIBRAG mbH is committed under several long-term contracts to supply raw brown coal and whirl fine coal to the Schkopau power station and the Lippendorf power station. Under the terms of the Schkopau Agreement closed with VEBA Kraftwerke Ruhr AG (VKR), Gelsenkirchen, MIBRAG mbH may deliver annually up to 5.8 million tons of coal commencing 1995. The agreement will be in effect until 2010 with an option for VKR to extend the agreement for another 10 years. The price to be paid by the Schkopau power station is a fixed price adjusted by an annual escalation rate.

The Lippendorf Agreements provide for deliveries of up to 10 million tons per year from 1999 through 2040 with an option for the MIBRAG customers to extend for an additional 3 year period. These Agreements were closed with Vereinigte Energiewerke AG (VEAG), Berlin, and Bayernwerk AG, Munich, and replace the

(IN THOUSANDS OF DM)

agreements on deliveries to the old power station at Lippendorf. The price to be paid by the Lippendorf power station is a base-price with escalation and adjustment based on quality of the coal delivered. The new Lippendorf power station is still under construction.

A substantial portion of the Company's remaining coal reserves is dedicated to the production of coal for such agreements.

Sales to the two largest customers comprise, as a percentage of total sales, 53 %, 58% and 55 % in 1997, 1996 and 1995, respectively. Sales to the five largest customers comprise, as a percentage of total sale, 90 %, 86 % and 74 % in 1997, 1996 and 1995, respectively.

NOTE E INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

The group depreciation charges are as follows: DM 166,949 (1997), DM 201,362 (1996), and DM 317,457 (1995), including normal depreciation, unplanned depreciation and special tax depreciation in terms of section 4 of the German tax law, "Fordergebietsgesetz". According to that law certain tangible assets can be depreciated up to 50 % of the historical costs in the first five years of acquisition in addition to the normal depreciation.

Composition:

	1997			
	Normal depreciation	Special tax depreciation	Unplanned depreciation	Total
a) Intangible assets				
Concessions, trade marks, patents and licenses	2,140	-	-	2,140
b) Property, plant and equipment				
Buildings	19,528	6,674	400	26,602
Strip-mines	801	-	-	801
Technical equipment and machinery	67,655	36,333	-	103,0988
Factory and office equipment	15,916	17,502	-	33,418
	106,040	60,509	400	166,949

The unplanned depreciation (DM 400) refers to a building of the closed briquette plant Deuben.

	1996			
	Normal depreciation	Special tax depreciation	Unplanned depreciation	Total
a) Intangible assets				
Concessions, trade marks, patents and licenses	2,085	-	-	2,085
b) Property, plant and equipment				
Buildings	14,810	13,090	1,701	29,601
Strip-mines	985	-	-	985
Technical equipment and machinery	63,576	76,765	3,289	143,630
Factory and office equipment	16,627	8,143	291	25,061

(IN THOUSANDS OF DM)

98,083	97,998	5,281	201,362

The unplanned depreciation (DM 5,281) refers to the closed briquette plant Deuben (DM 4,281), to the former residence Holzberg (DM 556) and to the repair shop Naunhof (DM 179), which has been replaced by the repair shop Profen in 1996. Other assets from different locations were unplanned depreciated to the lower market value as of December 31, 1996 (DM 265).

NOTE F INVESTMENTS IN OTHER GROUP COMPANIES

MIBRAG mbH holds 20 % or more of the voting rights in 8 companies.

One of these companies - MUEG Mitteldeutsche Umwelt- und Entsorgungs GmbH, Braunsbedra, ("MUEG") - has been accounted for using the equity method. MUEG was founded in 1990 and coordinates the waste disposal activities in the Central German brown coal area. The equity value as of December 31, 1997 is as follows:

		DM
	Cost and contributions	12,387
+	Net profit share 1994-1997	10,009
./.	Distributed profits share 1994-1996	9,965
./.	Proportionate elimination of intercompany profit	1,089
=	Carrying amount "at equity" as of 12/31/1997	11,342

NOTE G LOAN TO FERNWAERME HOHENMOELSEN GMBH

In 1995, MIBRAG sold its district heating network assets to the Fernwarme Hohenmolsen GmbH at a net sales price of DM 19 million. After deducting a down payment of DM 1.4 million in 1995, the balance will be repaid in equal installments over a period of 25 years at an interest rate of 5 per cent, fixed until 1999. After 1999, the interest rate will be adjusted to the market rate at that time.

The fair market value of the loan was DM 16,133 and DM 16,867 at December 31, 1997 and 1996, respectively.

NOTE H LONG-TERM INVESTMENTS

At year-end of 1997, marketable debt securities with a face value of DM 20 million were disclosed. These securities are carried at cost. The acquisition cost approximates the fair value for this category of securities based on quoted market prices as of December 31, 1997. The securities will not be sold before 1999. Gains due to the accrual of interest of TDM 680 in 1997 are included in interest income. The maturity date will be in the period within one year through five years.

(IN THOUSANDS OF DM)

NOTE I OTHER LOANS

The other loans refer to loans granted to the third party investors in a subsidiary of MIBRAG mbH. In accordance with the first additional clause of the loan contract dated April 3, 1995 between KfW (Kreditanstalt fur Wiederaufbau) and MIBRAG mbH, KfW grant MIBRAG mbH a loan of DM 103,000 to December 30, 2005 at fixed interest rates between 6.26 % and 6.82 %. After redemptions in 1996 (DM 8,500) and 1997 (DM 14,100) the balance of the loan as of December 31, 1997 amounted to DM 80,400.

The loans to the new investors of the subsidiary of MIBRAG mbH were granted at the same conditions as those applicable to the loan between MIBRAG mbH and KfW.

NOTE J OVERBURDEN

The reconciliation of the overburden costs is as follows (in million DM):

	Dec.31,1997		Dec.31, 1996	
	tonnage metric tons	value DM	tonnage metric tons	value DM
Profen	16.7	126.2	12.7	113.6
Schleenhain	15.2	140.7	15.2	140.7
Zwenkau	6.8	60.1	5.8	50.6
	38.7	327.0	33.7	304.9

The basis for the determination of the overburden is the total quantity of partially exposed raw brown coal.

NOTE K TRADE RECEIVABLES

Trade receivables were disclosed in the balance sheet, net of allowances, as follows:

	Dec. 31,1997	Dec. 31, 1996
Trade receivables	74,017	75,351

(IN THOUSANDS OF DM)

Less allowances	(1,023)	(954)
	72,994	74,397

NOTE L OTHER INVESTMENTS

At December 31, 1997 marketable debt securities were disclosed at an amount of DM 218.6 million. MIBRAG mbH acquired these securities in 1996 at costs of DM 210.3 million. The increase in 1997 is due to the reinvestment of dividends distributed. The securities were set up to reinvest the additional liquidity resulting from the entry of new investors of a subsidiary of MIBRAG mbH in 1996. Realized gains of DM 10.1 million were disclosed in interest income. The maturity dates of the securities vary from one year to five years.

NOTE M ACCRUALS FOR PENSIONS AND SIMILAR OBLIGATIONS

The provision was mainly raised for briquette benefit claims of active employees on the basis of the collective agreement of November 9, 1993 in respect to allowances in kind. Employees entitled must be employees of the company at the date of retirement. The entitlement elapses with early ending of the working relationship or on receipt of social plan benefits.

The calculation is based on an actuarial valuation dated December 5, 1997. The valuation took into account the entitlement to the redemption value of DM 185.00 per metric ton of briquettes as specified in the collective agreement and the employees entitled to benefits as of June 30, 1997.

In addition, pension obligations for the compensation of pension credits and warrants granted to non-tariff employees were accrued. These amounts have also been calculated on the basis of actuarial valuations.

NOTE N TAXATION ACCRUALS

MIBRAG did not accrue for income taxes under German GAAP, because of net operating losses in 1995 through 1997. Deferred tax assets and liabilities have not been recorded because there are no significant differences between the German GAAP financial statement and tax bases of the assets and liabilities.

The German corporation income tax rate on undistributed income is 45%. Trade taxes on income are assessed at a rate of 14.9%. The company has an effective tax rate of 0% because the company has no taxable income and the recording of a deferred tax benefit for net loss carryforwards is prohibited under German GAAP.

(IN THOUSANDS OF DM)

Since 1991, land taxation payments have been made in advance based on 0.2% of the DM-opening balance sheet values until the land tax values have been determined. As the total strip mining and surrounding land have been valued at 0.00 DM/sqm, land tax has only been paid where specific assessments have been made. New assessments have been made for the outstanding payments from 1991 until 1996 taking into account the special tax authorities regulation "Einheitsbewertung des Grubengelandes bei Braunkohlenbergbau" (dated January 11, 1995), decrees of the new Federal States to the same topic (dated May 21, 1993) and the current tax authorities assessments.

At December 31, 1997 the Company had DM 342 million net operating loss carry-forwards, which do not expire and may be applied against future taxable income.

NOTE O ENVIRONMENTAL AND MINING PROVISIONS

The following is a summary of environmental and mining provisions (in DM):

	Balance as of Dec. 31,1997	Balance as of Dec. 31,1996
1) End-lake provision	291,492	287,262
2) Provision for environmental pollution	9,975	9,975
3) Landscaping	14,040	19,420
4) Planting	11,656	12,776
5) Relocation of villages	51,673	62,623
	378,836	392,056

1) End-lake provision

The duty of reclaiming mining fields can be derived from the obligation specified in section 2 of the Bundesberggesetz (BBergG) - Federal Mining Law. In terms thereof, a mine closure plan must be prepared (section 53 BBergG) for termination of surface mining. In this plan the actions must be described to protect third parties from dangers caused by the mining operation and to ensure the reusefulness of the earth surface (section 51 BBergG).

The duty of reclaiming of the mining fields applies to MIBRAG in respect to the mines Profen and Schleenhain. In terms of section 4 (3) of the operating lease agreement dated December 17, 1993 with MBV, a state-owned company responsible for reclamation of closed mines in the east German region, MIBRAG is exempted from this duty in respect to the Zwenkau mine.

The mining field reclamation of the Profen and Schleenhain mines after the ceasing of production is planned for 2029-2046 and 2041-2073, respectively. A legally binding closure plan laying down the principles for action plans in accordance with the BBergG is normally approved two years in advance to the commencement of production by the relevant mining authorities. The liability to

reclaim the area exists from the start of mining activities. The calculation of the total cost for reclaiming mining fields has been made on the basis of an expert opinion and estimations on the basis of current prices. During 1997 the costs for reclaiming of mining fields were recalculated.

The total restructuring costs consist mainly of cost for reconstruction bank reinforcement, dewatering and watering.

2) Provision for Environmental Pollution ("Altlasten")This provision for the clean-up/safeguarding of "Altlasten" is determined in respect to disposals sites and old locations of MIBRAG mbH in refinement and mining areas on which waste deposits can be found.

The duty for clean-up results from the waste disposal laws of Saxony and Saxony-Anhalt, in terms of which the subsequent use of the mine area must be possible without problems. The obligation to avoid danger results from the general applicable law of Germany and the individual states. A danger in terms of definitions established by police authorities exists when a danger affects the surrounding area. The company has listed areas that are suspect to contamination in a land register.

The obligation at the accrued amount is derived from article 19.3 of the purchase and sales agreement. Qualifying costs that exceed the provision are to be reimbursed by BvS.

3) Landscaping

This provision includes costs for reclaiming disposal areas and leveling the area outside the embankments. These costs relate solely to continuous landscaping, while cost for closing down landscaping are included in the end-lake provision.

The duty results from the ,,Bundesberggesetz", which states that land must be made reusable during production and after production has ended (sections 55, 2, 4 BBergG).

The provision for landscaping has been recalculated as of December 31, 1997 and 1996, based on the special strategic plans, recultivation plans for Profen and Schleenhain, the strategic plan for the Zwenkau mine, internal budget documentation as well as documentations prepared by the cost accounting department.

The strategic plans categorize the disposal areas according to future usage plans, e.g. agricultural or foresting uses and special uses (roads, flood areas, recreation etc.). The cost estimation has been prepared by the recultivation department based on use, technology, period of recultivation and expenses for material, personnel and equipment utilizing generally used market prices.

(IN THOUSANDS OF DM)

4) Planting

In this account, provision is made for costs in connection with temporary planting as of December 31, 1996 and 1997.

The duty for planting results from the environmental protection clauses contained in the general and mine closure strategic plans. Legal basis are the "Bundesberggesetz" (sections 55 and 66) and the "Bundesimmissionsschutzgesetz" (Federal Emission Law). The "Bundesberggesetz" determines that preventative measures must also be taken at the time of mining and the "Bundesimmissionsschutzgesetz" determines that mines have to be operated in such a way that harmful environmental effects are avoided, if prevention is technologically practicable.

The quantification results from the surveyed areas that have been used for disposal purposes and that have not been finally planted and the border embankments that have not been planted. Open cast areas have to be planted at the difference between actual and technically required areas. Temporary planting reduces dust pollution and earth erosion.

5) Relocation of villages

The provision for relocation of villages is in respect to the relocation of the municipalities of Schwerzau, Gro(beta)grimma, Breunsdorf and Heuersdorf, which is necessary for the expansion of the Profen and Schleenhain mines.

The obligation is determined by agreements that have been reached with the relevant municipalities. In addition the company has expressed through its appearance in the public that the relocations will take place at a specified date, which has created a factual obligation to fulfill.

The calculation of the provision is based on a method that has been accepted by the taxation authorities in western Germany for the Rhine brown coal area. This method takes into account the cost for project planning, infrastructural development, cemetery relocation, demolition and landmark preservation. The provision is built up in equal annual amounts, commencing two years before the relocation starts and ending in the middle of the relocation year.

For the almost completed village relocations in Schwerzau and Breunsdorf provisions still exist for liabilities that will become payable in the period from 1998 through 2000 (namely for landmark protection and for demolition costs).

NOTE P OTHER ACCRUALS

Accrued liabilities are as follows (in DM):

	Dec.31,1997	Dec.31,1996
1) Severance payments	25,700	20,875
2) Personnel expenses		
- Employment anniversaries	2,188	2,712
- Vacation and contractually agreed free shifts outstanding	417	377

(IN THOUSANDS OF DM)

- Equalization amount in terms of the Act on Handicapped Persons	211	217
	2,816	3,306
3) Remaining accruals	10,395	14,967
	38,911	39,148

1) Severance payments

Basis for the provisions are the social plan framework agreements in which the measures for the personnel adjustments are defined. For the period from January 1, 1998 to January 1, 2002, the planned personnel reductions according to the latest estimates will come up to 466 employees, which will be partly covered by early retirement programs.

The employees are entitled to a one-time severance payment if the company initiates termination or in the case of retrenchments. The severance payments are limited to DM 50 per person. Employees participating in early retirement programs are additionally entitled to further compensations, mainly for statutory pension credits they will lose due to early retirement.

2) Personnel expenses

MIBRAG mbH grants awards in recognition of long service in the company, based on the collective bargaining agreement dated January 1, 1992 and the company agreement dated October 1, 1995. The employees are entitled to financial awards, which increase in proportion to their employment periods. The valuations of the benefits were based on actuarial valuations taking into account commercial principles. Since a reduction in the personnel force is anticipated, the obligation has only been accrued for if the person has been employed by MIBRAG mbH for at least 10 years.

The liability for vacation and contractually agreed free shifts arises from the days and shifts outstanding at balance sheet dates, which have been determined for each employee.3) Remaining provisionsComposition (in DM):

	Dec. 31, 1997	Dec. 31, 1996
Mine damages	3,500	-
Outstanding invoices	2,459	5,651
Water usage fees	2,271	1,710
Inventory fees	64	149
Briquette sales returns	20	510
Consulting fees	-	781
Others	2,081	6,166
	10,395	14,967

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE Q LONG-TERM DEBT

Long-term debt consists of the following (in DM):

	Dec. 31, 1997	Dec. 31, 1996
KfW- loans	339,630	323,730
Deutsche Bank AG	3,910	-
Norddeutsche Landesbank (Nord LB)	1,737	1,577
	345,277	325,307

Liabilities to KfW-loans refer to three loans from the Kreditanstalt fur Wiederaufbau, Frankfurt/Main:

- - The first loan was granted by contract, dated December 9, 1992, for the construction of a raw brown coal powered industrial power station with a circulating ,,Wirbelschicht" power source in Wahlitz of DM 139,230. The interest rate has been fixed at 7 % p.a. until December 9, 2002, 5 % thereof is borne by the Federal Department of Environmental Affairs for the first 5 years. The redemption period is 20 years. The repayments in 40 equal amounts commence from June 30, 1998.

- - On April 3, 1995 MIBRAG mbH closed a loan agreement with Kreditanstalt fur Wiederaufbau (KfW). MIBRAG entered into the loan agreement to partially finance the limited partner capital contribution of the new investors in one subsidiary. The determination of the final loan amount (DM 103,000) was documented by the amendments, dated December 21, 1995 and January 15, 1996. The redemption period is 13 years. In 1996 the loan was fully called up by MIBRAG mbH, DM 8,500 were redeemed in December 1996 and DM 14,100 in December 1997, so that the balance as of December 31,1997 amounts to DM 80,400. The interest rates are as follows:

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Amount DM	Interest rate %	Fixed until year
64,170	6.67	2005
9,221	6.82	2005

(IN THOUSANDS OF DM)

4,172	6.26	2005
2,837	6.76	2005
80,400		

The interest rates after 2005 will be adjusted to the market rate at that time.

- - The third loan contract, which has also been closed on April 3, 1995 was granted to partially finance the modernization and reshaping of both industrial power plants in Deuben and Mumsdorf, especially for the construction of the flue gas desulferization plants. The total available credit is DM 134,000, of which DM 120,000 had been utilized at December 31, 1997. The redemption period is 13 years with the following interest rates:

Amount DM	Interest rate %	Fixed until date
70,000	6.80	January 12, 2006
20,000	6.18	January 30, 2007
20,000	6.25	January 20, 2007
10,000	6.04	December 30, 2007
120,000		

Interest expense for the three loans amounted to DM 17.4 million, DM 14.1 million and DM 2.8 million in 1997, 1996, and 1995, respectively.

The liabilities to Deutsche Bank AG refer to a long-term loan granted for home construction purposes in Hohenmoelsen. A 10 % annual redemption and an annual interest rate of 5.6 % have been agreed on.

The loans from the Norddeutsche LB granted for construction purposes in Draschwitz relate to the relocation of Schwerzau. A 1 % annual redemption has been agreed on. The loan is interest free until 2010. After that the interest rate amounts to 8 % p.a.

NOTE R MATURITY PERIODS OF LIABILITIES

The maturity periods of liabilities are as follows:

	Liabilities to banks *)	Trade payables	Payables to partici-pations	Other payables	Downpay-ments received	Total

Balance as of Dec. 31, 1996	325,307	75,737	8,615	68,467	140	478,266
thereof: maturity period						
- up to 1 year	14,118	73,628	8,615	58,152	140	154,653
- 1-5 years	82,910	2,109	-	2,420	-	87,439
- more than 5 years	228,279	-	-	7,895	-	236,174
Balance as of Dec. 31, 1997	345,277	42,499	1,984	47,142	-	436,902
thereof: maturity period						
- up to 1 year	21,345	38,325	1,984	39,157	-	100,811
- 1-5 years	98,178	4,174	-	4,355	-	106,707
- more than 5 years	225,754	-	-	3,630	-	229,384

*) Liabilities to banks are fully secured by mortgages

NOTE S COMMITMENTS AND CONTINGENCIES

(in DM)	At December 31,	
	1997	1996
Guarantees for indebtedness of others	61,946	86,430
Other contractual obligations	304,300	163,200

The other contractual obligations refer to long term investment projects in the mines Profen and Schleenhain.

MIBRAG leases office equipment and railway-carriages, expiring at various dates. Rental and lease expenses amounted to DM 2,355 and DM 2,502 in the years ended December 31, 1996 and 1997, respectively. The future minimum lease payments under operating leases are as follows: 1998: DM 1,298; 1999: DM 944; 2000 DM 821 and no obligations thereafter.

NOTE T RELATED PARTY TRANSACTIONS

Between MIBRAG and two subsidiaries of the common parent companies NRG Energy Inc., Morrison-Knudsen Corp. and PowerGen plc., agreements for consulting and management services were closed in respect to the mining operations and the refinement facilities.

These contracts determine certain consultancy services to be provided by the two subsidiaries Morrison-Knudsen Deutschland GmbH (MKD) and Saale Energie Services GmbH (SES) to MIBRAG or its subsidiaries.

MIBRAG is obliged to determine and pay the cost-related remuneration for these services. Expenditures for MIBRAG were as DM 20,225, DM 26,290 and DM 26,254 for 1997, 1996 and 1995, respectively.

NOTE U SETTLEMENT AGREEMENT

MIBRAG B.V., MIBRAG mbH and BvS, as the former shareholder of the MIBRAG AG,

entered into a settlement agreement which resulted in the payment of DM 15,942 by BvS to MIBRAG mbH for the undercapitalization of one of the power plants, which was included in the split-up to MIBRAG on December 31, 1993. The undercapitalization claim was raised by MIBRAG B.V. as the purchaser of the shares in MIBRAG mbH, because a loan for power plant financing was called up early in 1993, not in accordance with the loan contract.

The settlement of the claim by MIBRAG B.V. to BvS was accounted for as a 1996 capital contribution from MIBRAG B.V. to MIBRAG mbH, which resulted in an increase in the additional paid-in capital by DM 15.942 million.