NRG Energy Launches Transformation Plan

July 12, 2017

PRINCETON, N.J.--(BUSINESS WIRE)--Jul. 12, 2017-- NRG Energy, Inc. (NYSE: NRG) today announced its "Transformation Plan."

The Transformation Plan Targets:

- $1.065 Billion Recurring Cost and Margin Improvements, including:
  - $855 Million Recurring Annual Free Cash Flow before Growth (FCFbG) Accretive Improvements
  - $210 Million Permanent SG&A Reduction from Asset Sales and Divestments
- $2.5-$4.0 Billion Targeted Asset Sale Net Cash Proceeds, plus
- Removal of $13 Billion Total Debt From Balance Sheet

Pro Forma Effect of Transformation Plan[1]:

- Pro Forma Annual Adjusted EBITDA: $1.845 Billion
- Pro Forma Annual FCFbG: $1.230 Billion
- Pro Forma Net Debt: $6 Billion or 3.0x Net Debt / Adj EBITDA
- Excess Cash to Deploy: Up to approximately $6.3 Billion through 2020 ($20/share[2]), including $4 Billion by end of 2018 ($12.5/share[3])

The Business Review Committee (BRC) unanimously recommended the Transformation Plan and it received the unanimous support and approval by the NRG Board of Directors and management.

Mauricio Gutierrez, President and CEO, NRG: "The transformation plan announced today demonstrates our commitment to simplify and strengthen the company to thrive through any market cycle. This plan is the result of a comprehensive review of our entire business by the board and management to simplify our business, right-size our portfolio and strengthen our balance sheet to create significant value for all our stakeholders."

Larry Coben, Chairman of the NRG Board of Directors: "By establishing the BRC, the Board kick-started an exhaustive four-month review where nothing was sacred. The Board and management scrutinized and challenged every available opportunity that could create value for our shareholders - and embraced the plan being announced today. The Board unanimously and enthusiastically supports this transformational plan."

John Wilder, Chairman of the NRG Business Review Committee: "The BRC, composed of five experienced and skillful directors and supported by two exceptionally qualified independent advisors, worked continuously for four months on a comprehensive review of NRG's operations and cost structure to dramatically improve NRG's financial performance and competitiveness. We developed an extremely detailed transformation plan that was unanimously approved by the BRC and the board. We targeted divesting businesses that represent over 60% of NRG's EBITDA to generate $2.5-4.0 billion of net proceeds and facilitate $13 billion of debt reduction. We targeted rapidly executing annual improvements with 72% of run rate annual benefits of $1.07 billion achieved in 2018, 92% in 2019, and 100% achieved in 2020. Finally, we established a rigorous capital allocation process to ensure NRG is financially flexible for years to come and to ensure NRG wisely allocates its expected 2017-2020 $6 billion of excess cash flow in 12-15% or better unlevered internal rate of return investments, or distributes the excess cash to our shareholders."

Jeff Rosenbaum, Portfolio Manager at Elliott Management: "NRG's management and Board deserve substantial praise for the hard work and clear thinking reflected in their truly transformational plan announced today. This new business rightsizing strategy, recommended by CEO Mauricio Gutierrez and Business Review Committee Chair John Wilder and backed unanimously by the Board, will focus NRG on substantial cost cuts, portfolio streamlining, balance sheet deleveraging and a strong capital investment / shareholder return program. All of the stated objectives have transparent and achievable targets. We are pleased that this process has delivered such a strong plan for shareholders."

The Transformation Plan

The Transformation Plan is designed to significantly strengthen earnings and cost competitiveness, lower risk and volatility, and create significant shareholder value. The three-part, three-year plan is comprised of targets in the areas of operational and cost excellence, portfolio optimization, and capital structure and allocation enhancement. Importantly, the majority of targets and results are achievable by the end of 2018, providing investors and the company with clear line of sight to results. This plan is the product of a comprehensive, "blank slate" evaluation of all NRG businesses, assets, and functions, collectively conducted by the BRC, NRG management, and independent consultants and advisors to the BRC. The Transformation Plan's components consist of:

1. **Operations and cost excellence**:

$1.065 billion total annual cost and margin enhancement (approximately 70% expected to be achieved by year-end 2018), including $855 million recurring, annual FCFbG accretive cost and margin enhancement that consist of: $590 million Adj. EBITDA-accretive cost savings[4] (approximately 85% expected to be achieved by year-end 2018), $215 million Adj. EBITDA-accretive margin enhancement program (net of recurring costs), and $50 million maintenance capex reduction. The total cost reduction also targets $210 million in permanent SG&A reduction associated with asset sales and divestments (run rate realized in 2018).

The plan also expects to realize (i) $370 million non-recurring working capital improvements through 2020 and (ii) approximately $290 million in one-time costs to achieve.

2. **Portfolio optimization**:

Targeting $2.5-$4.0 billion of asset sale net cash proceeds[5], including divestitures of 6 gigawatts (GWs) of conventional generation and businesses[6] and 50-100% of NRG's interest in NRG Yield and its leading renewables platform.

NRG is well underway in a process to explore strategic alternatives for its interest in NRG Yield and the renewables platform. The strategic alternatives span a variety of ownership structures and partnership types, including the potential partial or full monetization of the renewables platform and NRG's interest in NRG Yield with a goal to optimize how NRG participates in renewables and to deconsolidate the associated debt. Beyond creating value, NRG seeks to simplify its corporate and business structure while preserving the ability to provide comprehensive energy solutions to customers.

In addition, as previously disclosed, NRG has entered into a restructuring support agreement to restructure and divest its ownership interest in GenOn Energy, Inc. (approximately 15 GW). On June 14, 2017, GenOn filed for a pre-arranged Chapter 11 bankruptcy with 93% noteholders' support and expects emergence before year-end 2017.

With respect to asset sales and the strategic alternatives process, NRG expects to announce signed agreements during the fourth quarter of 2017. NRG has engaged Citi, Goldman Sachs and Morgan Stanley for certain asset sale processes that are well underway.

3. **Capital structure and allocation enhancements**:

A clearly prioritized capital allocation strategy that targets a reduction in consolidated net debt from approximately $18 billion to approximately $6 billion of consolidated net debt / Adj. EBITDA from 6.4x[7] to 3.0x by year-end 2018. In addition to achieving the 3.0x target leverage ratio, the plan expects to provide up to $6.3 billion of excess cash for allocation through 2020, including up to $4 billion of excess cash by year-end 2018. NRG expects to deploy this excess cash in either projects or investments with at least 12-15% unlevered pre-tax returns or shareholder return programs.

The full Board of Directors will maintain oversight of the execution of the Transformation Plan with monthly updates provided to the Board's Finance and Risk Management Committee. A score card will be provided to the investment community and will be updated on future quarterly earnings calls.

Analyst Day

NRG plans to host an Analyst Day following the full announcement of asset sales and the NRG Yield and Renewable process to provide an updated comprehensive strategic plan. The Analyst Day is targeted for late 2017 / early 2018.

2017 Guidance

NRG is maintaining its guidance range for fiscal year 2017 with respect to both Adjusted EBITDA and FCFbG investments and adjusting for the deconsolidation of GenOn and the impact of the Transformation Plan on 2017.

[1] Pro Forma results assume the 100% sale of NRG's interest in NYLD and Renewables platform.
[2] Based on 4/30/2017 shares outstanding of 316,082,221.
[3] Based on 4/30/2017 shares outstanding of 316,082,221.
[4] Excludes recurring costs to support margin enhancement activities.
[5] In addition to consolidated net debt reduction of $8.5 billion related to these assets.
[6] Excluding the disposition of GenOn Energy, Inc. and its subsidiaries.
[7] Based on consolidated net debt as of March 31, 2017 and midpoint of 2017 Adjusted EBITDA guidance.

($ in millions)	2017 Guidance	2017 Revised Guidance
Adjusted EBITDA[a]	$2,700 - $2,900	$2,565 - $2,765
Cash From Operations	$1,355 - $1,555	$1,760 - $1,960
Free Cash Flow before Growth Investments	$800 - $1,000	$1,290 - $1,490

a.Non-GAAP financial measure; see Appendix Table A-11 for GAAP Reconciliation to Net Income that excludes fair value adjustments related to derivatives. The Company is unable to provide guidance for Net Income due to the impact of such fair value adjustments related to derivatives in a given year.

Investor Conference Call

NRG will host a conference call today, July 12, 2017, at 8:30 a.m. Eastern to discuss the Transformation Plan. Investors, the news media and others may access the live webcast of the conference call and accompanying presentation materials by visiting NRG's investor website at http://investors.nrg.com and clicking on "Presentations & Webcasts." The webcast will be archived on the site for those unable to listen in real time.

About NRG

NRG is the leading integrated power company in the U.S., built on the strength of our diverse competitive electric generation portfolio and leading retail electricity platform. A Fortune 500 company, NRG creates value through best in class operations, reliable and efficient electric generation, and a retail platform serving residential and commercial businesses. Working with electricity customers, large and small, we implement sustainable solutions for producing and managing energy, developing smarter energy choices and delivering exceptional service as our retail electricity providers serve almost three million residential and commercial customers throughout the country. More information is available at www.nrg.com. Connect with NRG Energy on Facebook and follow us on Twitter @nrgenergy.

Safe Harbor Disclosure

In addition to historical information, the information presented in this press release includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. These statements involve estimates, expectations, projections, goals, assumptions, known and unknown risks and uncertainties and can typically be identified by terminology such as "may," "should," "could," "objective," "projection," "forecast," "goal," "guidance," "outlook," "expect," "intend," "seek," "plan," "think," "anticipate," "estimate," "predict," "target," "potential" or "continue" or the negative of these terms or other comparable terminology. Such forward-looking statements include, but are not limited to, statements about the anticipated benefits of acquisitions, the Company's future revenues, income, indebtedness, capital structure, plans, expectations, objectives, projected financial performance and/or business results and other future events, and views of economic and market conditions.

Although NRG believes that its expectations are reasonable, it can give no assurance that these expectations will prove to be correct, and actual results may vary materially. Factors that could cause actual results to differ materially from those contemplated herein include, among others, general economic conditions, hazards customary in the power industry, weather conditions, including wind and solar performance, competition in wholesale power markets, the volatility of energy and fuel prices, failure of customers to perform under contracts, changes in the wholesale power markets, changes in government regulations, the condition of capital markets generally, our ability to access capital markets, unanticipated outages at our generation facilities, adverse results in current and future litigation, failure to identify, execute or successfully implement acquisitions, repowerings or asset sales, our ability to implement value enhancing improvements to plant operations and companywide processes, our ability to implement and execute on our publicly announced transformation plan, including any cost savings, margin enhancement, asset sale, and net debt targets, our ability to proceed with projects under development or the inability to complete the construction of such projects on schedule or within budget, risks related to project siting, financing, construction, permitting, government approvals and the negotiation of project development agreements, our ability to progress development pipeline projects, the timing or completion of the GenOn restructuring, the inability to maintain or create successful partnering relationships, our ability to operate our businesses efficiently including NRG Yield, our ability to retain retail customers, our ability to realize value through our commercial operations strategy and the creation of NRG Yield, the ability to successfully integrate businesses of acquired companies, our ability to realize anticipated benefits of transactions (including expected cost savings and other synergies) or the risk that anticipated benefits may take longer to realize than expected, our ability to close the Drop Down transactions with NRG Yield, and our ability to execute our Capital Allocation Plan. Debt and share repurchases may be made from time to time subject to market conditions and other factors, including as permitted by United States securities laws. Furthermore, any common stock dividend is subject to available capital and market conditions.

NRG undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. The adjusted EBITDA and free cash flow guidance are estimates as of July 12, 2017. These estimates are based on assumptions the company believed to be reasonable as of that date. NRG disclaims any current intention to update such guidance, except as required by law. The foregoing review of factors that could cause NRG's actual results to differ materially from those contemplated in the forward-looking statements included in this Earnings Presentation should be considered in connection with information regarding risks and uncertainties that may affect NRG's future results included in NRG's filings with the Securities and Exchange Commission at www.sec.gov.

Appendix Table A-1: 2017 and Pro Forma Adjusted EBITDA Guidance Reconciliation

The following table summarizes the calculation of Adjusted EBITDA providing reconciliation to net income:

	2017 Adjusted EBITDA Prior Guidance	
($ in millions)	**Low**	**High**
GAAP Net Income [1]	150	350
Income Tax	80	80
Interest Expense & Debt Extinguishment Costs	1,065	1,065
Depreciation, Amortization, Contract Amortization and ARO Expense	1,235	1,235
Adjustment to reflect NRG share of adjusted EBITDA in unconsolidated affiliates	110	110
Other Costs [2]	60	60
Adjusted EBITDA	**$2,700**	**$2,900**

	2017 Adjusted EBITDA Revised Guidance	
($ in millions)	**Low**	**High**
GAAP Net Income [1]	360	560
Income Tax	80	80
Interest Expense & Debt Extinguishment Costs	825	825
Depreciation, Amortization, Contract Amortization and ARO Expense	1,150	1,150
Adjustment to reflect NRG share of adjusted EBITDA in unconsolidated affiliates	110	110
Other Costs [2]	40	40
Adjusted EBITDA	**$2,565**	**$2,765**

($ in millions)	Pro Forma Adjusted EBITDA Low	Pro Forma Adjusted EBITDA High
GAAP Net Income [1]	790	990
Income Tax	60	60
Interest Expense & Debt Extinguishment Costs	355	355
Depreciation, Amortization, Contract Amortization and ARO Expense	440	440
Adjustment to reflect NRG share of adjusted EBITDA in unconsolidated affiliates	60	60
Other Costs [2]	40	40
Adjusted EBITDA	**$1,745**	**$1,945**

[1] For purposes of guidance, fair value adjustments related to derivatives are assumed to be zero.
[2] Includes deactivation costs, gain on sale of businesses, reorganization costs, asset write-offs, impairments and other non-recurring items.

Appendix Table A-2: 2017 and Pro Forma FCFbG Guidance Reconciliation

The following table summarizes the calculation of Free Cash Flow before Growth providing reconciliation to Cash from Operations:

($ in millions)	2017 Prior Guidance	2017 Revised Guidance	Pro Forma For Transformation Plan
Adjusted EBITDA	$2,700 - $2,900	$2,565 - $2,765	$1,745 - $1,945
Cash Interest payments	(1,065)	(825)	(355)
Cash Income tax	(40)	(40)	(40)
Collateral / working capital / other	(240)	60	(45)
Cash From Operations	$1,355 - $1,555	$1,760 - $1,960	$1,305 - $1,505
Adjustments: Acquired Derivatives, Cost-to-Achieve, Return of Capital Dividends, Collateral and Other	0	0	0
Adjusted Cash flow from operations	$1,355 - $1,555	$1,760 - $1,960	$1,305 - $1,505
Maintenance capital expenditures, net	(280) - (310)	(210) - (240)	(110) - (140)
Environmental capital expenditures, net	(40) - (60)	(25) - (45)	(25) - (45)
Preferred dividends	0	0	0
Distributions to non-controlling interests	(185) - (205)	(185) - (205)	0
Free Cash Flow – before Growth Investments	$800 - $1,000	$1,290 - $1,490	$1,130 - $1,330

EBITDA and Adjusted EBITDA are non-GAAP financial measures. These measurements are not recognized in accordance with GAAP and should not be viewed as an alternative to GAAP measures of performance. The presentation of Adjusted EBITDA should not be construed as an inference that NRG's future results will be unaffected by unusual or non-recurring items.

EBITDA represents net income before interest (including loss on debt extinguishment), taxes, depreciation and amortization. EBITDA is presented because NRG considers it an important supplemental measure of its performance and believes debt-holders frequently use EBITDA to analyze operating performance and debt service capacity. EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our operating results as reported under GAAP. Some of these limitations are:

- EBITDA does not reflect cash expenditures, or future requirements for capital expenditures, or contractual commitments;
- EBITDA does not reflect changes in, or cash requirements for, working capital needs;
- EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on debt or cash income tax payments;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and
- Other companies in this industry may calculate EBITDA differently than NRG does, limiting its usefulness as a comparative measure.

Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to use to invest in the growth of NRG's business. NRG compensates for these limitations by relying primarily on our GAAP results and using EBITDA and Adjusted EBITDA only supplementally. See the statements of cash flow included in the financial statements that are a part of this news release.

Adjusted EBITDA is presented as a further supplemental measure of operating performance. As NRG defines it, Adjusted EBITDA represents EBITDA excluding impairment losses, gains or losses on sales, dispositions or retirements of assets, any mark-to-market gains or losses from accounting for derivatives, adjustments to exclude the Adjusted EBITDA related to the non-controlling interest, gains or losses on the repurchase, modification or extinguishment of debt, the impact of restructuring and any extraordinary, unusual or non-recurring items plus adjustments to reflect the Adjusted EBITDA from our unconsolidated investments. The reader is encouraged to evaluate each adjustment and the reasons NRG considers it appropriate for supplemental analysis. As an analytical tool, Adjusted EBITDA is subject to all of the limitations applicable to EBITDA. In addition, in evaluating Adjusted EBITDA, the reader should be aware that in the future NRG may incur expenses similar to the adjustments in this news release.

Management believes Adjusted EBITDA is useful to investors and other users of NRG's financial statements in evaluating its operating performance because it provides an additional tool to compare business performance across companies and across periods and adjusts for items that we do not consider indicative of NRG’s future operating performance. This measure is widely used by debt-holders to analyze operating performance and debt service capacity and by equity investors to measure our operating performance without regard to items such as interest expense, taxes, depreciation and amortization, which can vary substantially from company to company depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired. Management uses Adjusted EBITDA as a measure of operating performance to assist in comparing performance from period to period on a consistent basis and to readily view operating trends, as a measure for planning and forecasting overall expectations, and for evaluating actual results against such expectations, and in communications with NRG's Board of Directors, shareholders, creditors, analysts and investors concerning its financial performance.

Adjusted cash flow from operating activities is a non-GAAP measure NRG provides to show cash from operations with the reclassification of net payments of derivative contracts acquired in business combinations from financing to operating cash flow, as well as the add back of merger, integration and related restructuring costs. The Company provides the reader with this alternative view of operating cash flow because the cash settlement of these derivative contracts materially impact operating revenues and cost of sales, while GAAP requires NRG to treat them as if there was a financing activity associated with the contracts as of the acquisition dates. The Company adds back merger, integration related restructuring costs as they are one time and unique in nature and do not reflect ongoing cash from operations and they are fully disclosed to investors.

Free cash flow (before Growth investments) is adjusted cash flow from operations less maintenance and environmental capital expenditures, net of funding, preferred stock dividends and distributions to non-controlling interests and is used by NRG predominantly as a forecasting tool to estimate cash available for debt reduction and other capital allocation alternatives. The reader is encouraged to evaluate each of these adjustments and the reasons NRG considers them appropriate for supplemental analysis. Because we have mandatory debt service requirements (and other non-discretionary expenditures) investors should not rely on free cash flow before Growth investments as a measure of cash available for discretionary expenditures.

Free Cash Flow before Growth Investment is utilized by Management in making decisions regarding the allocation of capital. Free Cash Flow before Growth Investment is presented because the Company believes it is a useful tool for assessing the financial performance in the current period. In addition, NRG’s peers evaluate cash available for allocation in a similar manner and accordingly, it is a meaningful indicator for investors to benchmark NRG's performance against its peers. Free Cash Flow before Growth Investment is a performance measure and is not intended to represent net income (loss), cash from operations (the most directly comparable U.S. GAAP measure), or liquidity and is not necessarily comparable to similarly titled measures reported by other companies.

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