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, 1998.
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO .
COMMISSION FILE NO. 333-33397

NRG ENERGY, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	41-1724239
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1221 NICOLLET MALL, SUITE 700 MINNEAPOLIS, MINNESOTA	55403
(Address of principal executive offices)	(Zip Code)

(612) 373-5300
(Registrant's telephone number, including area code)

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

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

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

Yes X No ____

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

Yes X No ____

As of March 26, 1999, 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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CONSOLIDATED STATEMENTS OF INCOME

NRG ENERGY, INC. AND SUBSIDIARIES

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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 has interests (including those under construction) as of December 31, 1998 have a total design capacity of 10,605 megawatts (MW), of which NRG has or will have total or shared operational responsibility for 6,966 MW, and net ownership of, or leasehold interests in 3,300 MW. In addition, NRG has substantial interests in district heating and cooling systems and steam generation and transmission operations. As of December 31, 1998, these thermal businesses had a steam capacity of approximately 3,750 million British thermal units (mmBtus). NRG's refuse-derived fuel (RDF) plants processed more than 1.35 million tons of municipal solid waste into approximately 1.1 million tons of RDF during 1998.

NRG has experienced significant growth in the last year, expanding from 2,650 MW of net ownership interests in power generation facilities (including those under construction) as of December 31, 1997 to 3,300 MW of net ownership interests as of December 31, 1998. 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 $118.3 million and $26.2 million, respectively, in 1997 to $182.1 million and $81.7 million, respectively, in 1998.

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 greenfield development and acquisition opportunities in those countries in which it believes that the legal, political and economic environment is conducive to increased foreign investment. In addition to acquiring and developing power production, thermal and RDF projects, NRG continually monitors the performance and strategic fit of its growing portfolio of projects and, based thereon, expects that it will decrease its ownership interest in projects from time to time, including the complete divestiture of its interests in projects where appropriate.

RECENT EVENTS -- PROPOSED MERGER

On March 24, 1999, Northern States Power Company (NSP), NRG's parent company, and New Century Energies, Inc., a Delaware corporation (NCE), entered into an Agreement and Plan of Merger (the "Merger Agreement") providing for a strategic business combination of NCE and NSP. Pursuant to the Merger Agreement, NCE will be merged with and into NSP with NSP as the surviving corporation in the Merger. Subject to the terms of the Merger Agreement, at the time of the Merger, each share of NCE common stock, par value $1.00 per share ("NCE Common Stock"), (other than certain shares to be canceled) together with any associated purchase rights, will be converted into the right to receive 1.55 shares of NSP common stock, par value $2.50 per share ("NSP Common Stock"). Cash will be paid in lieu of any fractional shares of NSP Common Stock which holders of NCE Common Stock would otherwise receive. The Merger is expected to be a tax-free stock-for-stock exchange for shareholders of both companies and to be accounted for as a pooling of interests.

Consummation of the Merger is subject to certain closing conditions, including, among others, approval by the shareholders of NSP and NCE, approval or regulatory review by certain state utilities regulators, the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935, as amended, the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission, the Federal Communications Commission and expiration or termination of the waiting period applicable to the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Each of NCE and NSP have agreed to certain undertakings and limitations regarding the conduct of their businesses prior to the closing of the transaction. The Merger is expected to take from 12 to 18 months to complete.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DIVESTITURES IN 1998

In March 1998, NRG together with its 50% partner, Dynegy, Inc. (Dynegy) acquired the Long Beach Generating Station from Southern California Edison for $29.8 million. The Long Beach Station is a gas-fired plant comprised of seven gas turbine generators and two steam turbines totaling 530 MW in the aggregate.

In April 1998, NRG together with its 50% partner, Dynegy, acquired the El Segundo Generating Station from Southern California Edison Company for $87.8 million. The El Segundo Generating Station is a gas-fired plant with a capacity rating of 1,020 MW.

Also during April 1998, NRG exercised its option to acquire 16.8 million convertible, non-voting preference shares of Energy Development Limited (EDL) for AUS $37.0 million (U.S. $24.8 million), bringing NRG's total investment in EDL to $44.5 million or approximately a 34 percent ownership interest. The preference shares do not become convertible into EDL's common stock unless a takeover bid is made for EDL by a person who is not an affiliate of the owner of the preference shares and such person is, or becomes, entitled to purchase more than 35% of EDL's outstanding common stock. In such event, if EDL fails to comply with an obligation to appoint directors nominated by the owner of the preference shares, the preference shares convert at the option of the owner to common shares of EDL on a share-for-share basis. EDL is a publicly traded company listed on the Australian Stock Exchange that owns and operates 262 MW of generation throughout Australia and the United Kingdom. Its closing share price as of March 23, 1999 was AUS$ 3.59.

In June 1998, NRG sold its interest in Wind Power Partners 1987 LP and Wind Power Partners 1988 LP for $9.2 million. These companies were acquired as a part of NRG's November 1997 acquisition of the Pacific Generation Company from Pacificorp, Inc. There was no gain or loss recorded from the sale.

In August 1998, NRG commenced plans to sell-down its ownership in the Enfield Energy Center project located in North London, England. Discussions with potential partners took place in September and October 1998 culminating in the sale in late December of one half of NRG's 50% interest in the project to an affiliate of El Paso International for a $26.2 million gain. NRG continues to own 25% of the Enfield project.

In October 1998, NRG sold its remaining 50% interest in Mid-Continent Power Company, a facility in Pryor Oklahoma, to Cogeneration Corporation of America, an affiliate of NRG, for a $2.1 million gain, after elimination of affiliate interest. Also in October, 1998, NRG sold a 13.35% interest in ECK Generating for a gain of $1.6 million. NRG continues to own 44.5% of the ECK Generating project.

SIGNIFICANT EQUITY INVESTMENTS

LOY YANG POWER

NRG has a 25.4% interest in Loy Yang Power (Loy Yang) which 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 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, including output used in the Power Station and the Mine) 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 (or 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 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 vesting contracts) cover approximately 61% of Loy Yang's forecast revenue from generation, thus providing considerable stability in its income over that period. 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 86% of Loy Yang's forecast load at December 31, 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 (SECV) have been issued 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, a nearby plant, 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.

On the basis of historical Australian power pool prices, absent project debt restructuring, the Loy Yang project company will experience difficulty in servicing its long-term debt obligations. This, in turn, could trigger a senior debt default under the loan documents on or about June 2002.

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 Power Trading Corporation ("QPTC") 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 QPTC system and QPTC is obligated to accept all electricity generated by the facility (subject to merit order dispatch), for an initial term of 35 years. QPTC also has agreed under the IPPA to permit the Smelter to interconnect to the QPTC 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 QPTC 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 QPTC also entered into a 35 year Capacity Purchase Agreement (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 QPTC. The capacity charge is designed to cover the projected fixed costs allocable to the QPTC, 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, 1998, the two-year average equivalent availability factor was 90.1%. The QPTC 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 Power Purchase Agreement (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. The Smelter expansion resulted in an increase in Gladstone capacity utilization from approximately 41% in 1994 to 65% in 1998. NRG anticipates that the capacity utilization will increase to 71% in 1999 when the Smelter expansion is completed.

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 the Australian Consumer Price Index (ACPI) (approximately U.S. $.850 million, based on exchange rates and ACPI in effect at December 31, 1998), and an annual bonus based on the capacity bonuses to which the Participants are entitled under the CPAs. NRG Gladstone is obligated to pay liquidated damages for shortfalls in availability in an amount calculated by reference to the liquidated damages payable by the Participants under the CPAs and the PPAs. NRG Gladstone's obligations under the operation and maintenance agreement are unconditionally guaranteed by NRG, subject to an aggregate liability cap of AUS$ 25 million indexed in accordance with ACPI (approximately U.S. $15.3 million, based on exchange rates and ACPI in effect at December 31, 1998).

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. (COPL), a 50% owned subsidiary of NRG. COPL has entered into a maintenance contract with Transfield to perform required maintenance on the facility and a technical services agreement with NRG for staffing and assistance with certain operational functions.

Collinsville Power Station commenced operations on August 11, 1998. NRG and Transfield have entered into an 18 year Power Purchase Agreement (PPA) with QPTC. Under this agreement QPTC will pay both a capacity and an energy charge to the participants. The capacity charge is designed to cover the projected fixed costs allocable to QPTC, including debt service and equity return. The energy charge is based on the fuel costs associated with the production of energy from the facility.

The Collinsville Power Station failed to achieve its scheduled commercial operation date of March 1, 1998. The joint venture is liable to QPTC under the PPA for liquidated damages of approximately AUS $27,000 per day until the commercial operation date of August 11, 1998 up to a maximum of AUS$ 5 million (indexed in April 1995 dollars). In late 1998 the joint venture settled the liquidated damages with QPTC for AUS$ 4.57 million. The joint venture's remedies under the turn-key refurbishment contract with Transfield's affiliate included a reduction in the contract price of AUS$ 110,000 per day from March 1, 1998 to August 11, 1998. In late 1998, NRG negotiated a settlement with Transfield, pursuant to which Transfield agreed to pay AUS$ 12.24 million for liquidated damages relating to the late commencement date of operations.

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 $599.3 million based on the exchange rate as of December 31, 1998) 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. Under the terms of the agreement, the obligation will be reduced by certain transportation costs incurred by MIBRAG. As of December 31, 1998 MIBRAG had accumulated transportation costs which fully offset the DM 40 million.

MIBRAG's cogeneration operations consist of the 110 MW Mumsdorf facility, the 86 MW Deuben facility and the 37 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 Energie Services GmbH, 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 the 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 1730 MW Lippendorf power station. MIBRAG is currently supplying coal for the existing Lippendorf and Thierbach power generation facilities, which are expected to close at the end of 1999. The first unit of the new Lippendorf facility is scheduled to commence initial operation in May of 2000.

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 41.9% 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. PreussenElecktra Kraftwerke Ag (PE), a German energy company, owns the remaining 58.1% interest in Schkopau and operates the plant. The partnership of Saale and PE 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.

PE 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 PE 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 PE. PE is paid a management fee 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 PE 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 which will be provided under a long-term contract by MIBRAG's Profen lignite mine.

Pursuant to the KS partnership agreement between Saale and PE, 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.

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 equally owned by subsidiaries of NRG and Vattenfall AB of Sweden (Vattenfall). In December 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.

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, another Bolivian distribution company, S.A. (ELF). 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.

COGENERATION CORPORATION OF AMERICA

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). On July 20, 1998, NRGG's name was changed to Cogeneration Corporation of America (CogenAmerica). NRG currently holds 45.21% of the common stock of CogenAmerica. The remaining 54.79% of the common stock is held publicly. CogenAmerica has interests in six domestic operating projects with an aggregate capacity of approximately 575 MW. CogenAmerica's principal operating projects include: (a) the 54 MW Newark Boxboard Project (which is owned 100% by a wholly-owned project subsidiary of CogenAmerica), a gas-fired cogeneration facility that sells electricity to Jersey Central Power & Light (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 CogenAmerica), 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; (d) a 33.33% interest in the 150 MW Grays Ferry project, a gas-fired cogeneration project located in Philadelphia, Pennsylvania, which sells electricity to Philadelphia Electricity 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 no basis for termination of such agreement. (See "Item 3 -- Legal Proceedings."); (e) the 117 MW Morris project, a gas-fired cogeneration project located in Morris, Illinois, which sells electricity and steam to Equistar Chemicals; (f) the 110 MW MCPC project, a gas-fired cogeneration project located in Pryor, Oklahoma, which sells electricity to Oklahoma Gas and Electric and steam to a number of industrial users.

On October 9, 1998, CogenAmerica acquired NRG's 50% interest in MCPC, a 110 MW cogeneration project located in Pryor, Oklahoma. CogenAmerica also acquired the remaining 50% interest in this project from Decker Energy International. Inc., and associated entities. The project sells electricity to Oklahoma Gas and Electric and steam to a number of industrial users. The purchase price was approximately $23.9 million. NRG loaned CogenAmerica approximately $23.9 million to finance the acquisition. The loan is a six-year term facility requiring interest and variable principal and interest payments on a quarterly basis, based on project cash flows.

On December 30, 1997 CogenAmerica acquired from NRG 100% of the membership interests in NRG (Morris) Cogen, LLC which was building a 117 MW cogeneration plant on the site of the Equistar Chemicals, LP (Equistar) manufacturing facility in Morris, Illinois. In connection with the sale, NRG committed to finance the acquisition price pursuant to a loan agreement between NRG and CogenAmerica and NRG guaranteed the obligation of CogenAmerica to invest equity into the project company. At December 31, 1998, CogenAmerica had borrowed $12 million from NRG to partially fund its equity investment for the project.

CogenAmerica's Morris facility experienced two unscheduled outages in January 1999, which resulted in service and business interruptions to Equistar. NRG, as a provider of construction management services and operation and maintenance services to the Morris facility has participated with CogenAmerica and Equistar in an investigation into this matter. This investigation, which includes an examination of the respective rights and obligations of the parties with respect to one another and with respect to potentially responsible third parties, including insurers, is continuing. Although it is not possible at the present time to assess NRG's potential exposure related to the two outages, NRG does not believe that any claims which may be brought against it will have a material financial impact on NRG.

NRG employees serve as NRG's designees on the board of directors of CogenAmerica. NRG and CogenAmerica also entered into a "Co-Investment Agreement", pursuant to which NRG granted CogenAmerica a right of first offer until April 30, 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. NRG has fulfilled the minimum requirements of the Co-Investment Agreement. To facilitate CogenAmerica's ability to acquire projects under the Co-Investment Agreement, NRG is obligated to provide financing on Co-Investment projects to CogenAmerica to the extent that they are unable to obtain funds on comparable terms from other sources.

NRG has also agreed to certain provisions designed to protect the rights of the holders of the equity in CogenAmerica 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 CogenAmerica's assets and certain additional issuances of CogenAmerica stock, the creation of an independent committee of the board of directors of CogenAmerica with authority to, among other things, determine whether CogenAmerica 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 CogenAmerica, NRG will not remove or vote down the re-election to CogenAmerica's board of directors of any of the three directors who constitute the independent directors committee.

During the third quarter of 1998, NRG solicited proxies and written consents in favor of the removal of Mr. Robert Sherman as a member of the Board of Directors of CogenAmerica. On October 26, 1998, NRG delivered consents for the holders of more than 50% of CogenAmerica's shares in favor of removing Mr. Sherman from the CogenAmerica Board. At a CogenAmerica Board meeting held on October 27, 1998, Michael O'Sullivan, an employee of NRG, was appointed to fill the vacancy created by the removal of Mr. Sherman. At the same meeting, Julie A. Jorgensen, also an employee of NRG, was elected as Interim President and CEO of CogenAmerica, replacing Mr. Sherman. At a Special Meeting of the CogenAmerica stockholders held on November 12, 1998, the stockholders approved the removal of Mr. Sherman as a director of CogenAmerica, with 77.3% of the outstanding shares voting in favor of such removal. On the same day, the CogenAmerica Board confirmed the appointment of Mr. O'Sullivan to fill the vacancy created by the removal of Mr. Sherman. A search for a permanent President and CEO for CogenAmerica is ongoing.

CogenAmerica and NRG have entered into various loan agreements. At December 31, 1998, the loan balance due to NRG was $40.4 million with a maturity dates from 2001 to 2005.

CogenAmerica's shares are traded on The NASDAQ National Market under the symbol "CGCA". CogenAmerica's closing share price as of March 23, 1999 was $8.25.

SIGNIFICANT WHOLLY-OWNED OPERATIONS

MINNEAPOLIS ENERGY CENTER (MEC)

MEC provides steam and chilled water to customers in downtown Minneapolis, Minnesota. MEC currently provides 91 customers with 1.6 billion pounds of steam per year and 37 customers with 43.5 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

The 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 (RTC) (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 RTC and NORENCO Corporation (a predecessor of NRG), RTC prepaid revenues for future steam service. As of December 31, 1998, deferred revenues remaining were $3.4 million.

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

NEO CORPORATION (NEO)

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 small 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, 1998, NEO's total investment in these projects was $3.6 million.

NEO has a 50% interest in 21 operating landfill gas projects, as of December 31, 1998, ranging in size from 1 MW to 11 MW. As of December 31, 1998, NEO's equity investment in these projects totaled $7.7 million and loans to fund development, construction and start-up amounted to $23.7 million. In addition, NEO has 11 landfill gas projects under construction. NEO expects its total funding requirements to be approximately $136 million and total capacity of the portfolio is expected to reach 100 MW in 1999.

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 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 "qualified fuels". Landfill gas is a qualified fuel for purposes of the Section 29 credit. To qualify for the credit, the facility for producing gas must have been placed in service no later than June 30, 1998. Congress has not renewed the Section 29 credit for new landfill gas projects.

RESOURCE RECOVERY FACILITIES

NRG's Newport resource recovery facility, located in Newport, Minnesota, can process over 1,500 tons of Municipal Solid Water, (MSW) per day, 92% of which is recovered as refuse derived fuel (RDF) or other recyclables 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 1993. NRG owns 100% of and operates and maintains the Newport facility.

Pursuant to service agreements with Ramsey and Washington Counties, (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%.

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, NSP receives 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 that prohibited shipment of waste out of state was unconstitutional. Since this ruling, the RDF facilities have faced increased competition from landfills in surrounding states in obtaining MSW; however, this has not impacted NRG's MSW volumes to date.

SIGNIFICANT PENDING ACQUISITIONS, DISPOSITIONS AND PROJECTS UNDER DEVELOPMENT

In October 1998, the Company executed a binding agreement to purchase the Somerset power station for approximately $55 million from Eastern Utilities Association (EUA). The Somerset station located in Somerset, Massachusetts, includes two coal-fired generating facilities supplying a total of 181 megawatts and two aeroderivative combustion turbine peaking units supplying a total of 48 megawatts. In addition, a total of 69 megawatts is on deactivated reserve. The Company will hold a 100% interest in the project and will own, operate and maintain the units. Consummation of the transaction is expected to occur on or before March 31, 1999, but is contingent on receipt of regulatory approvals and consents from a number of governmental and private parties. There can be no assurances that these approvals and consents will be received.

In December 1998, NRG and Dynegy signed agreements with San Diego Gas & Electric Company to jointly acquire 1,218 megawatts of power generation facilities located near Carlsbad and San Diego California for $356 million. NRG and Dynegy will each own 50% interest in these facilities. This transaction is expected to close in second quarter of 1999 pending regulatory approval.

In December 1998, NRG signed agreements with Niagara Mohawk Power to purchase two coal fired power generation facilities located near Buffalo with a combined summer capacity rating of 1,360 MW for $355 million. This transaction is expected to close in the second quarter of 1999 pending regulatory approval.

In January 1999, NRG executed a binding agreement with Consolidated Edison Company of New York (ConEdison) to acquire the Astoria gas turbines facility and the Arthur Kill Generating Station for $505 million. These facilities, which are located in New York, have a combined summer capacity rating of 1,456 MW. This transaction is expected to close in the second quarter of 1999 pending regulatory approval.

In February 1999, NRG purchased from Thermal Ventures, Inc. (TVI) the remaining 50.1% limited partnership interests held by TVI in San Francisco Thermal Limited Partnership and Pittsburgh Thermal Limited Partnership for $12.3 million. In addition, upon receipt of California and Pennsylvania regulatory approval, NRG will acquire TVI's 50% member interest in North America Thermal Systems, LLC (the entity holding the general partnership interest in the San Francisco and Pittsburgh partnerships) for $500,000.

ENFIELD

In December 1996, NRG reached an agreement with Indeck Energy Services (Europe) (Indeck) to sell a 50% interest in the Enfield Energy Center, a 350 MW gas-fired project in the North London borough of Enfield. The power station is scheduled to begin commercial operations in late 1999. In December 1998, NRG sold one-half of its 50% interest in the Enfield project to an affiliate of El Paso International.

ESTONIA

In December 1996, representatives of the Estonian Government, the state-owned 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. In September 1997, the Estonian Government rejected NRG's business plan. However, early in 1998 the Estonian Government and EE agreed to work on a new business plan with NRG, which was submitted in May 1998. 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 to fund the required capital improvements to the Balti and Eesti Power Plants. A commission has been established to negotiate all terms and agreements between NRG, EE and the Estonian Government relating to the purchase of the Balti and Eesti Power Plants. The negotiation process is expected to be complete by late 1999.

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.

CAJUN

NRG, together with two other parties and the Chapter 11 Trustee, have filed a reorganization 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 $1.2 billion. The NRG consortium has the support of the Chapter 11 trustee and Cajun's secured creditors. On February 11, 1999, the Court issued an order denying confirmation of NRG's plan and the reorganization plan proposed by a competing bidder. NRG along with its partners and the Trustee are contemplating submitting a revised plan on April 16, 1999 to accommodate the issues raised in the Court's February 11, 1999 decision. The court has scheduled hearings and activities to review the new plans in May and June of 1999.

SUNNYSIDE

In 1994, NRG, through a wholly-owned subsidiary, purchased a 50% 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% owned by an NRG affiliate. NRG and its partner's effort to restructure the debt of the Sunnyside project have not been successful. Due to the lack of progress in restructuring the debt, NRG wrote down its investment in the Sunnyside project by $8.9 million in 1997 and wrote off the $1.9 million balance of its investment in 1998. In March 1999, NRG and its partner executed an agreement to sell the Sunnyside project to an affiliate of Baltimore Gas & Electric for a purchase price of $2.0 million. The sale is expected to close during the second quarter of 1999.

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 process, 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 process. Similarly, the El Segundo and Long Beach projects are 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 merchant projects are becoming increasingly accepted 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, 1998, NRG had 439 employees, approximately 341 of whom are employed directly by NRG and approximately 98 of whom are employed by its wholly-owned subsidiaries.

ITEM 2 -- PROPERTIES

Listed below are descriptions of NRG's interests in facilities, operations or projects under construction as of December 31, 1998.

INDEPENDENT POWER PRODUCTION AND COGENERATION FACILITIES (1)

NAME AND LOCATION OF FACILITY	LATER OF DATE OF ACQUISITION OR DATE OF COMMERCIAL OPERATION	CAPACITY (MW)(2)	NRG'S PERCENTAGE OWNERSHIP INTEREST	POWER PURCHASER
INTERNATIONAL PROJECTS:				
Loy Yang Power (3), Australia.................	1997	2,000	25.37	Victorian Pool
Gladstone Power Station, Australia.................	1994	1,680	37.50	QTSC; BSL
Collinsville, Australia.....	1998	189	50.00	QTSC
Energy Developments Limited, Australia.................	1997	262	33.97	Various
Kladno Czech Republic, existing project..........	1994	28	36.32	STE/Industrials
Kladno Czech Republic, expansion project.........	1999	345	44.5	STE
Schkopau Power Station, Germany...................	1996	960	20.95	VEAG
MIBRAG mbH(3), (Mumsdorf) Germany...................	1994	110	33.33	WESAG
MIBRAG mbH(3), (Deuben) Germany...................	1994	86	33.33	WESAG
MIBRAG mbH(3), (Wahlitz) Germany...................	1994	37	33.33	WESAG
COBEE, Bolivia..............	1996	217(4)	48.30	Electropaz/ELF
Latin Power (Mamonal), Colombia..................	1994	90	6.45	Proelectrica
Latin Power (Termovalle), Colombia..................	1998	199	4.88	EPSA
Latin Power (Termotasajero), Columbia..................	1998	150	7.93	Columbia Grid
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 (Orzumil), Guatemala.................	1999	24	12.25	INDE
Latin Power (Aguaytia), Peru......................	1998	155	3.28	Central Peruvian Electricity Grid
Enfield (London) UK.........	1999	396	25.00	U.K. Electricity Grid
DOMESTIC PROJECTS:				

Energy Investors Fund, 1 and 3	1997	436	3.69	Various
El Segundo Power	1998	1,020	50.00	California ISO
Long Beach Generating	1998	530	50.00	California ISO
Camas Power	1997	25(5)	100.00	Ref 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
Mt. Poso Cogeneration	1997/1998	50	39.10	PG&E(6)

NAME AND LOCATION OF FACILITY	LATER OF DATE OF ACQUISITION OR DATE OF COMMERCIAL OPERATION	CAPACITY (MW)(2)	NRG'S PERCENTAGE OWNERSHIP INTEREST	POWER PURCHASER
PowerSmith Cogeneration	1997	110	8.75	Oklahoma Gas & Electric
Turners Falls	1997	20	8.9	Unitil Power Company
COGENERATION CORPORATION OF AMERICA:				
CogenAmerica (Parlin), New Jersey	1996	122	45.21	Jersey Central Power & Light Company
CogenAmerica (Newark), New Jersey	1996	54	45.21	Jersey Central Power & Light Company
CogenAmerica (Grays Ferry), Pennsylvania	1996	150	15.07	PECO Energy Company
CogenAmerica (Philadelphia Cogen), Pennsylvania	1996	22	37.52	Philadelphia Municipal Authority
CogenAmerica (Morris), Illinois	1998	117	45.21	Equistar Petro Chemicals, Inc.
CogenAmerica (Pryor), Oklahoma	1997	110	45.21	Oklahoma Gas & Electric
San Joaquin Valley (Madera), California	1992	23	45.00	NA(7)
San Joaquin Valley (Chowchilla II), California	1992	10	45.00	NA(7)
San Joaquin Valley (El Nido), California	1992	10	45.00	NA(7)
Jackson Valley Energy Partners, California	1991	16	50.00	PG&E
Sunnyside Cogeneration Associates, Utah	1994	58	50.00	PacifiCorp
Artesia, California	1996	34	2.96	Southern California Edison
Cadillac Renewable Energy, Michigan	1997	38	50.00	Consumers Power Co.

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(1) Does not include the small hydroelectric and landfill gas-fired power generation facilities owned by NEO with an aggregate capacity of 110 MW, of which NEO has net ownership of 58 MW. In addition, NEO has landfill gas projects under construction with an aggregate capacity of 28 MW, of which NEO has net ownership of 14 MW.

(2) Capacity shown 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) Includes the Huaji (29 MW) expansion project which is expected to be fully operational in 1999.

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

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

(7) Operations suspended following buy-out of power purchase contracts and pending negotiation of new power purchase agreements or sale of such

facilities. 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.

THERMAL ENERGY PRODUCTION AND TRANSMISSION FACILITIES
AND RESOURCE RECOVERY FACILITIES

NAME AND LOCATION OF FACILITY	DATE OF ACQUISITION	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 91 steam customers and 37 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 23 customers in Pittsburgh and 158 customers in San Francisco
San Diego Power & Cooling, California	1997	Chilled Water: 5,250 tons/hr.	100.00	Approximately 13 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)	36.32	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
Penobscot Energy Recovery, Maine	1997	MSW: 800 tons/day	28.71	Bangor Hydroelectric Company
Maine Energy Recovery, Maine	1997	MSW: 680 tons/day	16.25	CMP

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(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. In January 1999, the Company signed a purchase agreement to acquire the remaining interest in the projects.

(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.

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. 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.

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 of Northern States Power Company.

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, 1998 with the year ended December 31, 1997.

RESULTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1998 COMPARED TO THE YEAR ENDED DECEMBER 31, 1997

Net income for the year ended December 31, 1998, was $41.7 million, an increase of $19.7 million or 90%, compared to net income of $22.0 million in the same period in 1997. This increase was due to the factors described below.

REVENUES

For the year ended December 31, 1998, NRG had total revenues of $182.1 million, compared to $118.3 million for the year ended December 31, 1997, an increase of $63.8 million or 54%. NRG's operating revenues from wholly owned operations for the twelve months ended December 31, 1998 were $100.4 million, an increase of $8.4 million, or 9.1%, over the same period in 1997. The increase in revenues was due primarily to new projects, including certain Pacific Generation operations. This increase was partially offset by lower revenues from certain heating and cooling subsidiaries due to the unusually mild weather. For the twelve months ended December 31, 1998, revenues from wholly owned operations consisted primarily of revenue from heating, cooling and thermal activities (46.0%), electrical generation (46.2%) and technical services (7.8%).

Equity in earnings of unconsolidated affiliates was $81.7 million for the year ended December 31, 1998, compared to $26.2 million for the year ended December 31, 1997, an increase of $55.5 million or 212%. The increase was due to new projects including El Segundo, Long Beach and certain Pacific Generation operations, an increase in the Company's holdings in EDL as well as improved performance from Loy Yang. Since the increase in revenues is primarily the result of new projects, the rate of revenue increase may not be sustained unless new projects are acquired at the same rate.

OPERATING COSTS AND EXPENSES

Cost of wholly owned operations was $52.4 million for the year ended December 31, 1998. This is an increase of $5.7 million or 12% over the same period in 1997. The increase was due primarily to new projects. Cost of operations, as a percentage of revenues from wholly owned operations for the year, was 52% which is 1% higher than the same period in 1997. The increase in cost of operations was due to new NEO projects and Thermal fixed expenses that could not be recovered due to the mild weather conditions.

Depreciation and amortization costs were $16.3 million for the year ended December 31, 1998, compared to $10.3 million for the year ended December 31, 1997. The depreciation and amortization increase was due primarily to increased amortization of intangible assets related to the Pacific Generation acquisition and additional NEO project depreciation.

General, administrative and development costs were $56.4 million for the year ended December 31, 1998, compared to $43.1 million for the year ended December 31, 1997. The increase was due primarily to increased business development activities and increased legal, technical, and accounting expenses resulting from expanded operations. As a percent of total revenues, administrative and general expenses declined to 31% from 36% during the same period one-year earlier.

OTHER INCOME (EXPENSE)

Minority interest in projects was $2.3 million for the twelve month period compared to $.1 million for the same period in 1997. Minority interest relates to certain Pacific Generation projects that were acquired in November 1997.

NRG recorded a total gain of $29.9 million in 1998 related to project sales. In October, NRG sold its 50% owned 110 MW Mid-Continent Power Company facility in Oklahoma to Cogeneration Corporation of America (CogenAmerica), an affiliate of NRG for a $2.1 million gain. Also in October, NRG sold 13.35% of its interest in ECK Generating for a gain of $1.6 million. NRG continues to own 44.5% of the ECK Generating project. In December, NRG sold one-half of its 50% interest in its Enfield project to an affiliate of El Paso International for a $26.2 million gain. Additionally, NRG sold Wind Power Partners 1987 LP and Wind Power Partners 1988 LP for $9.2 million. There was no gain or loss recorded from the sale of the Wind Power projects which were acquired as part of the Pacific Generation acquisition.

NRG recorded $26.7 million in total project write-downs during the year. In September, NRG recorded a $20.1 million charge to write-down its West Java, Indonesia project due to uncertainties surrounding all infrastructure projects in Indonesia. NRG recorded an additional $1.9 million charge in December to bring its remaining investment in the project to zero. In addition, NRG wrote off its $1.9 million investment in the Sunnyside project (U.S.) and $2.8 million of accumulated project development expenditures related to the Alto Cachopoal project (Chile).

Other income was $8.4 million for the twelve months ended December 31, 1998 compared with $11.8 million for the twelve months ended December 31, 1997. The $3.4 million decline was due primarily to a reduction in interest income from loans to affiliates.

Interest expense was $50.3 million for the twelve months ended December 31, 1998 compared with $31.0 million for the twelve months ended December 31, 1997. The increase in interest expense was due primarily to the issuance of the $250 million Senior Notes at the end of June 1997, interest on NRG's revolving line of credit, new debt obtained for certain NEO projects and the purchase of Pacific Generation.

INCOME TAX

NRG has recognized an income tax benefit due to the recognition of certain tax credits. The net income tax benefit for the year ended December 31, 1998, increased by $2.2 million to $25.7 million as compared to $23.5 million in the same period one year earlier. The increase in tax benefits for the twelve months period was due to increased interest expense on corporate debt and an $8.3 million increase in Section 29 credits, which was partially offset by higher earnings.

YEAR 2000

To the extent allowed, the information in the following section is designated as a "Year 2000 Readiness Disclosure." NRG is incurring costs to modify or replace existing technology, including computer software, for uninterrupted operation in the year 2000 and beyond. A committee made up of senior management is leading NRG's initiatives to identify Y2K related issues and remediate business processes as necessary. NRG is also partnering with its parent, NSP, to ensure a consistent overall company process in addressing the Y2K issue.

NRG Y2K programs cover not only NRG's internal computer applications, but also the thousands of hardware and embedded system components in use at NRG's projects throughout the world. Embedded systems perform mission-critical functions in all parts of operations, including power generation, transmission, distribution, communications and business operations. NRG has implemented a methodology consistent with NSP that includes state-of-the-art best practices and standards within the energy industry. This seven-step process includes:

- Discovery of possible date-related logic in components, systems and processes

- Assessment of potential problems

- Development of a plan to address the problem

- Attempt to resolve the problem

- Testing to verify that the solutions are workable

- Implementation of the solution to production

- Closure through re-testing and documentation and review by the Y2K senior committee.

NRG's timetable for Y2K completion is:

- Assessment/discovery -- November 1, 1998

- Analysis/testing -- May 1, 1999

- Y2K Ready -- July 1, 1999

NRG is communicating with its key suppliers and business partners regarding their Y2K progress, particularly in software and embedded components areas, to determine the areas in which NRG's operations may be vulnerable to those parties' failure to complete their redemption efforts. NRG is currently evaluating and initiating follow-up actions regarding the responses from these parties as appropriate.

NRG has made significant progress implementing its Y2K plan. Based upon the information currently known regarding its internal operations and assuming successful and timely completion of its redemption plan, NRG does not anticipate significant business disruptions from its internal systems due to the Y2K issue.

However, NRG may possibly experience limited interruptions to some aspects of its activities, relating to information technology, operations and administrative functions. NRG is considering such potential occurrences in planning for its most reasonably likely worst case scenarios.

In addition, risk exists regarding the noncompliance of third parties with key business or operational importance to NRG. Y2K problems affecting key customers, interconnected utilities, fuel suppliers and transporters, telecommunication providers or financial institutions could result in lost power or gas sales, reduction in power production or transmission, or internal functional and administrative difficulties on the part of NRG. NRG is not presently aware of any such situations; however occurrences of this type, if severe, could have a material adverse impact upon the business, operating results or financial condition of NRG. Consequently, there can be no assurance that NRG will be able to identify and correct all aspects of the Y2K problem that affect it in sufficient time, or that the costs of achieving Y2K readiness will not be material.

NRG is currently updating contingency plans for all material Y2K risk and is on track to meet the contingency planning schedule set forth by NSP. Among the areas contingency planning will address are delays in completion of NRG's remediation plans, failure or incomplete remediation results and failure of key third party contracts to be Y2K compliant.

Through 1998, NRG had spent approximately $5.8 million for Y2K efforts, including NRG's share of costs incurred by unconsolidated affiliates. These costs were primarily expensed as incurred. The additional development and remediation costs necessary for NRG and its affiliates to prepare for Y2K is estimated to be approximately $3.2 million.

FORWARD-LOOKING STATEMENTS

In addition to any assumptions and other factors referred to specifically in connection with the forward-looking statements contained in this Form 10-K, 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 or publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors pursuant to the Act should not be construed as exhaustive.

ITEM 8 -- FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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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, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, 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/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
Minneapolis, Minnesota
March 19, 1999

NRG ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	YEAR ENDED DECEMBER 31		
	1998	1997	1996
	(THOUSANDS OF DOLLARS)		
OPERATING REVENUES			
Revenues from wholly-owned operations	$100,424	$ 92,052	$ 71,649
Equity in earnings of unconsolidated affiliates	81,706	26,200	32,815
Total operating revenues	182,130	118,252	104,464
OPERATING COSTS AND EXPENSES			
Cost of wholly-owned operations	52,413	46,717	36,562
Depreciation and amortization	16,320	10,310	8,378
General, administrative and development	56,385	43,116	39,248
Total operating costs and expenses	125,118	100,143	84,188
OPERATING INCOME	57,012	18,109	20,276
OTHER INCOME (EXPENSE)			
Minority interest in earnings of consolidated subsidiary	(2,251)	(131)	--
Gain on sale of interest in projects	29,950	8,702	--
Write-off of project investments	(26,740)	(8,964)	--
Other income, net	8,420	11,764	9,477
Interest expense	(50,313)	(30,989)	(15,430)
Total other income (expense)	(40,934)	(19,618)	(5,953)
INCOME (LOSS) BEFORE INCOME TAXES	16,078	(1,509)	14,323
INCOME TAX (BENEFIT)	(25,654)	(23,491)	(5,655)
NET INCOME	$ 41,732	$ 21,982	$ 19,978

See notes to consolidated financial statements.

NRG ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(THOUSANDS OF DOLLARS)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 41,732	$ 21,982	$ 19,978
Adjustments to reconcile net income to net cash provided by operating activities			
Undistributed equity in earnings of unconsolidated affiliates	(23,391)	6,481	(17,827)
Depreciation and amortization	16,320	10,310	8,378
Deferred income taxes and investment tax credits	7,618	3,107	(776)
Minority interest	(5,019)	--	--
Investment write-downs	26,740	8,964	1,500
Gain on sale of investments	(29,950)	(8,702)	--
Cash provided (used) by changes in certain working capital Items, net of effects from acquisitions and dispositions			
Accounts receivable	297	(2,859)	(2,728)
Accounts receivable-affiliates	21,657	(19,963)	(2,068)
Accrued income taxes	(24,861)	1,762	(5,436)
Other current assets	441	(2)	(3,401)
Accounts payable	(8,082)	7,791	917
Accrued salaries, benefits, and related costs	4,735	3,826	1,381
Accrued interest	1,050	1,215	3,902
Other current liabilities	(2,219)	7,729	3,110
Cash used by changes in other assets and liabilities	(5,070)	(7,155)	(1,284)
NET CASH PROVIDED BY OPERATING ACTIVITIES	21,998	34,486	5,646
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in projects	(132,379)	(318,149)	(142,090)
Acquisition, net of liabilities assumed	--	(148,830)	--
Cash from sale of project investment	18,053	19,158	--
Decrease (increase) in notes receivable	16,858	(37,431)	(36,617)
Capital expenditures	(31,719)	(26,936)	(24,588)
Cash distribution from project termination settlement	--	--	15,671
(Increase) decrease in restricted cash	(2,433)	16,100	(7,915)
Other, net	--	10,114	(4,486)
NET CASH USED BY INVESTING ACTIVITIES	(131,620)	(485,974)	(200,025)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net borrowings under line of credit agreement	2,000	122,000	--
Capital contributions from parent	100,000	80,900	80,000
Proceeds from issuance of long-term debt	23,169	254,061	122,671
Principal payments on long-term debt	(21,152)	(5,925)	(2,893)
NET CASH PROVIDED BY FINANCING ACTIVITIES	104,017	451,036	199,778
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,605)	(452)	5,399
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,986	12,438	7,039
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 6,381	$ 11,986	$ 12,438
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest paid (net of amount capitalized)	$ 49,089	$ 30,890	$ 11,527
Income taxes paid (benefits received), net	(6,797)	(24,577)	1,164

See notes to consolidated financial statements.

NRG ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	DECEMBER 31,	
	1998	1997
	(THOUSANDS OF DOLLARS)	

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 6,381	$ 11,986
Restricted cash	4,021	1,588
Accounts receivable-trade, less allowance For doubtful accounts of $100	15,223	15,520
Accounts receivable-affiliates	7,324	29,162
Taxes Receivable	21,169	--
Current portion of notes receivable -- affiliates	4,460	48,816
Current portion of notes receivable	26,200	3,729
Inventory	2,647	2,619
Prepayments and other current assets	4,533	5,002
Total current assets	91,958	118,422
PROPERTY, PLANT AND EQUIPMENT, AT ORIGINAL COST		
In service	291,558	255,433
Under construction	5,352	9,758
Total property, plant and equipment	296,910	265,191
Less accumulated depreciation	(92,181)	(79,300)
Net property, plant and equipment	204,729	185,891
OTHER ASSETS		
Investments in projects	800,924	694,655
Capitalized project costs	13,685	17,791
Notes receivable, less current portion -- affiliates	101,887	71,759
Notes receivable, less current portion	3,744	4,624
Intangible assets, net of accumulated amortization of $2,984 and $2,012	22,507	21,414
Debt issuance costs, net of accumulated amortization of $1,675 and $779	7,276	6,569
Other assets, net of accumulated amortization of $7,350 and $4,782	46,716	46,977
Total other assets	996,739	863,789
TOTAL ASSETS	$1,293,426	$1,168,102
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 8,258	$ 7,676
Accounts payable-trade	7,371	16,101
Accrued income taxes	--	3,692
Accrued property and sales taxes	3,251	3,804
Accrued salaries, benefits and related costs	15,733	10,998
Accrued interest	7,648	6,310
Other current liabilities	8,289	10,508
Total current liabilities	50,550	59,089
OTHER LIABILITIES:		
Minority interest	13,516	19,818
Revolving line of credit	124,000	122,000
Consolidated project-level, long-term, non-recourse debt	113,437	113,473
Corporate level long-term debt, less current portion	380,781	377,706
Deferred Revenues	7,748	9,577
Deferred Income Taxes	19,841	11,968
Deferred Investment Tax Credits	1,343	1,598
Deferred Compensation	2,878	2,175
Total liabilities	714,094	717,404
STOCKHOLDER'S EQUITY		
Common stock; $1 par value; 1,000 shares authorized; 1,000 shares issued and outstanding	1	1
Additional paid-in capital	531,913	431,913
Retained earnings	130,015	88,283
Accumulated other comprehensive income	(82,597)	(69,499)
Total Stockholder's Equity	579,332	450,698
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$1,293,426	$1,168,102

See notes to consolidated financial statements.

NRG ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL STOCKHOLDER'S EQUITY
			(THOUSANDS OF DOLLARS)		
BALANCES AT DECEMBER 31, 1995	$1	$271,013	$ 46,323	$ 2,427	$319,764
Net Income			19,978		19,978
Currency translation adjustments				2,172	2,172
Comprehensive income for 1996					22,150
Capital contributions from parent		80,000			80,000
BALANCES AT DECEMBER 31, 1996	$1	$351,013	$ 66,301	$ 4,599	$421,914
Net Income			21,982		21,982
Currency translation adjustments				(74,098)	(74,098)
Comprehensive income for 1997					(52,116)
Capital contributions from parent		80,900			80,900
BALANCES AT DECEMBER 31, 1997	$1	$431,913	$ 88,283	$(69,499)	$450,698
Net Income			41,732		41,732
Currency translation adjustments				(13,098)	(13,098)
Comprehensive income for 1998					28,634
Capital contributions from parent		100,000			100,000
BALANCES AT DECEMBER 31, 1998	$1	$531,913	$130,015	$(82,597)	$579,332

Other comprehensive income is shown net of tax expenses (benefits) which were $0 in 1998, $5.9 million in 1997 and ($1.0) million in 1996.

See notes to consolidated financial statements.

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 and funds held in trust accounts to satisfy the requirements of certain debt agreements.

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................................	10-45 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 $172,000 and $98,000 in 1998 and 1997, 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 20 to 30 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 1997 financial statements to conform to the 1998 presentation. These reclassifications had no effect on net income or stockholder's equity as previously reported.

NOTE 3 -- BUSINESS ACQUISITIONS AND DIVESTITURES

In March 1998, the Company along with its 50% partner, Dynegy, Inc. (Dynegy) acquired the Long Beach Generating Station from Southern California Edison for $29.8 million. The Long Beach Station is a gas-fired plant comprised of seven gas turbine generators and two steam turbines totaling 530 megawatts (MW) in the aggregate.

In April 1998, the Company along with its 50% partner, Dynegy, acquired the

El Segundo Generating Station from Southern California Edison Company for $87.8 million. The El Segundo Generating Station is a gas-fired plant with a capacity rating of 1,020 MW.

In April 1998, the Company exercised its option to acquire 16.8 million convertible, non-voting preference shares of Energy Development Limited (EDL) for $24.8 million, bringing the Company's total investment in EDL to $44.5 million or approximately a 34 percent ownership interest. EDL is a listed Australian company that owns and operates 262 MW of generation throughout Australia and the United Kingdom.

In June 1998, the Company sold its interest in Wind Power Partners 1987 LP and Wind Power Partners 1988 LP for $9.2 million. These companies were acquired as part of the Pacific Generation acquisition. There was no gain or loss recorded from the sale.

In 1996, the Company formed a joint venture with Ansaldo Energia SpA, a major Italian industrial company ("Ansaldo"), and P.T. Kiani Metra, an Indonesian industrial company ("PTKM") to develop a 400-megawatt coal-fired power generation facility in West Java, Indonesia, through P.T. Dayslistrik Pratama ("PTDP"), a limited liability company created by the joint venturers. The Company and Ansaldo each have an ownership interest of 45 percent in PTDP, with the remaining 10% held in PTKM. During 1998, the Company recorded a $22.0 million write-down of its investment in the West Java project due to the continuing political and economic instability in Indonesia.

In September 1998, the Company announced plans to start direct negotiations with the government of Estonia to form a joint venture with Eesti Energia for ownership of two of Estonia's largest power plants (Narva Power). Eesti Energia is Estonia's national electricity generator and distributor.

In October 1998, the Company executed a binding agreement to purchase the Somerset power station for approximately $55 million from Eastern Utilities Association (EUA). The Somerset station, located in Somerset, Massachusetts, includes two coal-fired generating facilities and two aeroderivative combustion turbine peaking units supplying 229 MW in aggregate, of which 69 MW is on deactivated reserve. The project's financial close is expected to occur in the first quarter of 1999, pending regulatory approval.

In October 1998, the Company sold its interest in the Mid-Continent Power Company (MCPC) to Cogeneration Corporation of America (CogenAmerica) for a $2.1 million gain after elimination of affiliate interest. The MCPC facility is a 110-MW, gas-fired power generation station located near Pryor, Oklahoma. NRG owns 45.21 percent of the outstanding stock of CogenAmerica.

In December 1998, NRG and Dynegy signed agreements with San Diego Gas & Electric Company to jointly acquire 1,218 MW of power generation facilities located near Carlsbad and San Diego California for $356 million. NRG and Dynegy will each own a 50% interest in these facilities. These transactions are expected to close in the second quarter of 1999, pending regulatory approval.

In December 1998, NRG signed agreements with Niagara Mohawk Power to purchase two coal fired power generation facilities located near Buffalo with a combined summer capacity rating of 1,360 MW for $355 million. This transaction is expected to close in the second quarter of 1999 pending regulatory approval.

In December 1998, the Company sold one half of its 50% interest in Enfield Energy Center Limited (EECL) to El Paso International for $26.2 million resulting in an after tax gain of $16.6 million. The Company continues to hold a 25% interest in EECL.

NOTE 4 -- PROPERTY, PLANT AND EQUIPMENT

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

	1998	1997
Facilities and equipment, including construction work in progress of $5,352 and $9,758	$280,876	$250,358
Land and improvements	10,397	10,397
Office furnishings and equipment	5,637	4,436
Total property, plant and equipment	296,910	265,191
Accumulated depreciation	(92,181)	(79,300)
Net property, plant and equipment	$204,729	$185,891

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, generally, 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, 1998 is as follows:

NAME	GEOGRAPHIC AREA	ECONOMIC INTEREST	PURCHASED OR PLACED IN SERVICE
Loy Yang A	Australia	25.37%	May 1997
Energy Developments Limited	Australia	33.97%	February 1997
ECK Generating	CzechRepublic	44.5%	December 1994
Pacific Generation Company Projects	USA/Canada	3.7% - 39.1%	November 1997
MIBRAG mbH	Germany	33.3%	January 1994
Gladstone Power Station	Australia	37.5%	March 1994
Schkopau Power Station	Germany	20.55%	January and July 1996
Scudder Latin American Projects	Latin America	25.0%	June 1993
Long Beach Generating	USA	50.00%	April 1998
El Segundo Power	USA	50.00%	April 1998
Bolivian Power Company (Cobee)	Bolivia	48.3%	December 1996
Cogeneration Corp. of America	USA	45.21%	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:

	1998	1997	1996
	(THOUSANDS OF DOLLARS)		
Operating revenues	$1,491,197	$1,612,897	$ 886,947
Costs and expenses	1,346,569	1,522,727	794,255
Net income	$ 144,628	$ 90,170	$ 92,692

Current assets	$ 710,159	$ 713,390	$ 647,213
Noncurrent assets	7,938,841	7,733,886	3,420,950
Total assets	$8,649,000	$8,447,276	$4,068,163
Current liabilities	$ 527,196	$ 472,980	$ 365,905
Noncurrent liabilities	5,854,284	6,042,102	2,732,922
Equity	2,267,520	1,932,194	969,336
Total liabilities and equity	$8,649,000	$8,447,276	$4,068,163
NRG's share of equity	$ 800,924	$ 694,655	$ 365,749
NRG's share of income	81,706	26,200	32,815

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. During 1998, the Company wrote down accumulated project development expenditures of $26.7 million. The Company's West Java, Indonesia, project totaling $22.0 million was written off due to the uncertainties surrounding all infrastructure projects in Indonesia. Also during 1998, the Company wrote off its $1.9 million investment in the Sunnyside project and its $2.8 million investment in Alto Cachopoal. The charge represents the difference between the carrying amount of the investment and the fair value of the asset, determined using discounted cash flow model. In December 1997, the Company reviewed the carrying amount of the Sunnyside 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, determined using a discounted cash flow model.

NOTE 6 -- RELATED PARTY TRANSACTIONS

SALE TO AFFILIATE

During October 1998, the Company sold its interest in the MCPC facility to CogenAmerica for a $2.1 million gain after elimination of affiliate interest. The MCPC facility is a 110 MW, gas-fired generation station located near Pryor, Oklahoma. NRG owns 45.21 percent of the outstanding stock of CogenAmerica.

During December 1997, the Company sold its interest in the Millenium facility, a 117 MW cogeneration plant under construction near Morris, Illinois to CogenAmerica for $4.0 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 $5.1 million in 1998 and $4.6 million in 1997 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. Under this agreement, NRG received $1.4 million and $1.3 million from NSP, and paid $3.1 million and $2.8 million to NSP in 1998 and 1997, 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 1998 and 1997, NRG paid NSP $5.2 million and $.7 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 1998 and 1997, NSP paid NRG $1.7 million and $1.1 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:

	1998	1997
	(THOUSANDS OF DOLLARS)	
NEO notes to various affiliates due primarily 1999, prime +2% to 12.5%	$ 27,445	$ 49,921
Southern MN Municipal Power Association note receivable due 2003, 7%	1,441	1,709
Various secured notes due 1999 and later, non-interest bearing	723	724
Thermal Ventures, Inc. note due 1999, 11%	1,500	1,500
Mid-Continent Power Notes., various notes due 1998, 12%	--	18,820
COGENERATION CORPORATION OF AMERICA:		
Note due 2001, 9.5%	2,539	2,624
Grays Ferry note due 2005, LIBOR plus 4.0% (9.31%@12/98)	1,900	1,900
Morris note due 2004, prime + 3.5% (11.25%@12/98)	12,027	--
MCPC note due 2004, prime +3.5% (11.25%@12/98)	23,947	--
TOSLI, various notes due 1998, LIBOR plus 4.0% (9.31%@12/98)	132	31,088
NRGenerating International BV notes to various affiliates, non-interest bearing	34,234	6,713
El Paso note, due January 1999, non interest bearing	26,200	--
Pacific Generation, various notes, prime +2% to 14%	--	4,434
Maine Energy Recovery note due 2008, 12%	4,203	9,495
Total	$136,291	$128,928

NOTE 8 -- LONG-TERM DEBT

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

	1998	1997
	(THOUSANDS OF DOLLARS)	
NRG Energy Center, Inc. senior secured notes due June 15, 2013, 7.31%	$ 71,783	$ 74,481
Note payable to NSP, due December 1, 1995-2006 5.40%-6.75%	7,174	7,811
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	250,000
NRG San Diego, Inc. promissory note, due June 25, 2003 8.0%	2,141	2,521
NEO Landfill Gas, Inc. term loan, due October 30, 2007 9.35%	9,847	2,636
NEO Landfill Gas Inc. construction loan due October 30, 2007 LIBOR + 1% (6.31 @ 12/98)	6,550	2,982
NEO Landfill Gas, Inc. City of L.A. term loan, due December 2019 non-interest bearing	1,395	--
Pacific Generation Co. senior secured notes, due December		

31, 2000 9.93%	--	2,636
Camas Power Boiler LP, revenue bonds, due August 1, 2007 4.65%	11,010	11,855
Camas Power Boiler LP, unsecured term loan, due June 30, 2007 7.65%	17,576	18,933
	502,476	498,855
Less current maturities	(8,258)	(7,676)
Total	$494,218	$491,179

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, 1998.

The note payable to NSP relates to long-term debt assumed by the Company in connection with the transfer of ownership of a 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, 1998.

The Camas Power Boiler LP notes are secured principally by long-term assets. In accordance with the terms of the note agreements, Camas Power Boiler LP is required to maintain compliance with certain

financial covenants primarily related to incurring debt, disposing of assets, and affiliate transactions. Camas Power Boiler was in compliance with these covenants at December 31, 1998.

Annual maturities of long-term debt for the years ending after December 31, 1998 are as follows:

	(THOUSANDS OF DOLLARS)
1998	$ 8,258
1999	9,063
2000	9,699
2001	10,390
2002	9,980
Thereafter	455,086
Total	$502,476

The Company has a credit agreement for $250 million of which $124 million was outstanding at December 31, 1998. 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 as agent. The new facility is being used for general corporate purposes and for funding future growth opportunities.

The Company had $33.6 million and $48.4 million in outstanding letters of credit as of December 31, 1998 and 1997, respectively.

In March 1999, NRG filed a shelf registration with the SEC for up to $500 million in debt securities. The net proceeds will be used for general corporate purposes, which may include financing the development and construction of new facilities, working capital, debt reduction and pending or potential acquisitions.

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:

	1998	1997	1996
	(THOUSANDS OF DOLLARS)		
Current			
Federal	$(10,773)	$ (8,516)	$ 633
State	(3,940)	(1,274)	253
Foreign	2,358	236	616
	(12,355)	(9,554)	1,502
Deferred			
Foreign	(7,736)	(2,703)	--
Federal	8,828	(958)	(3,655)
State	1,541	(439)	(1,498)
	2,633	(4,100)	(5,153)
Tax credits recognized	(15,932)	(9,837)	(2,004)
Total income tax (benefit)	$(25,654)	$(23,491)	$(5,655)
Effective tax rate	(160)%	(1,557)%	(39.5)%

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

	1998	1997
	(THOUSANDS OF	

DOLLARS)

Deferred tax liabilities		
Differences between book and tax basis of property........	$29,712	$24,623
Investments in projects..................................	14,911	11,574
Goodwill...	978	915
Other..	6,212	5,396
Total deferred tax liabilities.......................	51,813	42,508
Deferred tax assets		
Deferred revenue...	1,402	1,963
Deferred compensation, accrued vacation and other reserves...	6,514	4,638
Development costs..	9,241	17,213
Deferred investment tax credits..........................	661	661
Steam capacity rights....................................	910	976
Foreign tax benefit......................................	12,425	4,233
Other..	819	856
Total deferred tax assets............................	31,972	30,540
Net deferred tax liability...........................	$19,841	$11,968

The effective income tax rate for the years 1998, 1997 and 1996 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 $29 million, $27 million and $28.0 million in 1998, 1997, and 1996 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 $158 million at December 31, 1998. 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 estimate 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. Plan assets principally consist of the common stock of public companies, corporate bonds and U.S. government securities. NRG's net annual periodic pension cost includes the following components:

COMPONENTS OF NET PERIODIC BENEFIT COST

	1998	1997	1996
	(THOUSANDS OF DOLLARS)		
Service cost benefits earned...............................	$ 1,303	$ 1,127	$1,115
Interest cost on benefit obligation........................	1,417	1,187	1,013
Expected return on plan assets.............................	(2,226)	(1,029)	(764)
Amortization of prior service cost.........................	172	5	5

Recognized actuarial (gain) loss	(1,878)	(3)	34
Net periodic benefit cost	$(1,212)	$ 1,287	$1,403

NRG discontinued funding its pension costs in 1998 due to the effects of funding limitations from employee benefit and tax laws on NSP's plan. 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:

RECONCILIATION OF FUNDED STATUS

	1998		1997	
	NSP PLAN	NRG PORTION	NSP PLAN	NRG PORTION
	(THOUSANDS OF DOLLARS)			
Benefit obligation at Jan. 1	$ 1,048,251	$ 17,410	$ 993,821	$14,253
Service cost	31,643	1,303	27,680	1,127
Interest cost	78,839	1,417	72,651	1,187
Plan amendments	102,315	3,045	--	--
Actuarial (gain) loss	(41,635)	(2,278)	30,431	1,204
Benefit payments	(75,949)	(785)	(76,332)	(361)
Benefit obligation at Dec. 31	$ 1,143,464	$ 20,112	$1,048,251	$17,410
Fair value of plan assets at Jan. 1	$ 1,978,538	$ 18,795	$1,634,696	$12,986
Actual return on plan assets	319,230	21,069	420,174	6,170
Benefit payments	(75,949)	(785)	(76,332)	(361)
Fair value of plan assets at Dec. 31	$ 2,221,819	$ 39,079	$1,978,538	$18,795
Funded status at Dec. 31 -- excess of assets over obligation	$ 1,078,355	$ 18,967	$ 930,287	$ 1,385
Unrecognized transition (asset) obligation	(387)	--	(463)	--
Unrecognized prior service cost	114,305	2,954	18,663	81
Unrecognized net (gain) loss	(1,167,340)	(22,486)	(953,825)	(3,243)
Accrued (prepaid) benefit obligation at Dec. 31	$ 24,933	$ (565)	$ (5,338)	$(1,777)

AMOUNT RECOGNIZED IN THE BALANCE SHEET

	1998		1997	
	NSP PLAN	NRG PORTION	NSP PLAN	NRG PORTION
	(THOUSANDS OF DOLLARS)			
Prepaid benefit cost	$24,933	$ --	$ --	$ --
Accrued benefit liability	--	(565)	(5,338)	(1,777)
Net amount recognized -- asset (liability)	$24,933	$(565)	$(5,338)	$(1,777)

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 6.5% for December 31, 1998 and 7.0% for December 31, 1997. The rate of increase in future compensation levels used in determining the actuarial present value of the projected obligation was 4.5% in 1998 and 5.0% in 1997. The assumed long-term rate of return on assets used for cost determinations was 8.5% for 1998 and 9.0% for 1997 and 1996.

Effective Jan. 1, 1998, NSP changed its method of accounting for subsidiary pension costs under SFAS No. 87. The new method, which now allocates plan assets based on subsidiary benefit obligations, was adopted to better match earnings on total plan assets with the corresponding subsidiary benefit obligations. The effect of this change decreased periodic pension costs by $2.9 million in 1998 from 1997 levels, including $1.3 million related to periods prior to the change. The effects of this change have not been reported separately on the income statement and prior periods have not been restated due to immateriality.

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, which will terminate for nonbargaining employees after 1998, is intended to provide for sharing of costs of retiree health care between NRG and retirees. In 1994, NSP implemented a cost-sharing strategy, with 1997 and 1998 nonbargaining retirees paying 40 percent of total health care costs. Cost-sharing for bargaining employees is governed by the terms of the collective bargaining agreement.

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.

NRG's net annual periodic benefit cost under SFAS No. 106 includes the following components:

COMPONENTS OF NET PERIODIC BENEFIT COST

	1998	1997	1996
	(THOUSANDS OF DOLLARS)		
Service cost benefits earned	$165	$223	$257
Interest cost on benefit obligation	145	246	233
Amortization of transition (asset) obligation	17	70	--
Amortization of prior service cost	(40)	--	70
Recognized actuarial (gain) loss	2	--	26
Net periodic benefit cost	$289	$539	$586

Plan assets as of December 31, 1998 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:

RECONCILIATION OF FUNDED STATUS

	1998		1997	
	NSP PLAN	NRG PORTION	NSP PLAN	NRG PORTION
	(THOUSANDS OF DOLLARS)			

Benefit obligation at Jan. 1	$ 279,230	$ 3,893	$ 268,683	$ 3,211
Service cost	3,247	165	5,095	223
Interest cost	15,896	145	18,872	246
Plan amendments	(51,456)	(1,872)	--	--
Actuarial (gain) loss	(9,732)	(814)	2,164	213
Benefit payments	(17,423)	--	(15,584)	--
Benefit obligation at Dec. 31	$ 219,762	$ 1,517	$ 279,230	$ 3,893
Fair Value of plan assets at Jan. 1	$ 19,783	$ --	$ 15,514	$ --
Actual return on plan assets	2,471	--	1,461	--
Employer contributions	29,683	--	18,392	--
Benefit payments	(17,423)	--	(15,584)	--
Fair value of plan assets at Dec. 31	$ 34,514	$ --	$ 19,783	$ --
Funded status at Dec. 31 -- unfunded obligation	$ 185,248	$ 1,517	$ 259,447	$ 3,893
Unrecognized transition obligation	(104,482)	--	(161,700)	(1,063)
Unrecognized prior service cost	2,399	786	--	--
Unrecognized net gain (loss)	(3,790)	237	(14,406)	(579)
Accrued benefit liability recorded at Dec. 31	$ 79,375	$ 2,540	$ 83,341	$ 2,251

The assumed health care cost trend rates used in measuring the accumulated projected benefit obligation (APBO) at December 31, 1998 and 1997, were 8.1% and 9.2% for those under age 65, and 6.1 % and 6.8% for those over age 65, respectively. The assumed cost trends are expected to decrease each year until they reach 5.0% 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 would increase the APBO by approximately $357 thousand as of December 31, 1998. Service and interest cost components of the net periodic postretirement cost would increase by approximately $78 thousand with a similar one percent increase in the assumed health care cost trend rate. The assumed discount rate used in determining the APBO was 6.5% for December 31, 1998 and 7.0% for December 31, 1997, compounded annually. The assumed long-term rate of return on assets used for cost determinations under SFAS No. 106 was 8% for 1998, 1997 and 1996.

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 pay out 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.

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 26.5% in 1998 and 23.9% in 1997 of NRG's operating revenues

were recognized under this contract. In addition, sales to one thermal customer amounted to 10.3% of operating revenues in 1998 and 9.9% of operating revenues in 1997.

NOTE 12 -- FINANCIAL INSTRUMENTS

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

	1998		1997	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(THOUSANDS OF DOLLARS)			
Cash and cash equivalents	$ 6,381	$ 6,381	$ 11,986	$ 11,986
Restricted cash	4,021	4,021	1,588	1,588
Notes receivable, including current portion	136,291	136,291	129,687	129,687
Long-term debt, including current portion	502,476	519,418	498,855	489,332

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

To preserve the U.S. dollar value of projected foreign currency cash flows, NRG hedges, or protects, those cash flows if appropriate foreign hedging instruments are available. NRG hedges foreign currency transactions by using forward foreign currency exchange agreements with terms of less than one to three years. The gains and losses on those agreements offset the effect of exchange rate fluctuations on NRG's known cash flows and anticipated cash flows. NRG defers gains on agreement that hedge firm commitments of cash flows, and accounts for them as part of the relevant foreign currency transaction when the transaction occurs. NRG defers losses on these agreements the same way, unless it appears that the deferral would result in recognizing a loss later.

While NRG is not currently hedging investments involving foreign currency, NRG will hedge such investments when it believes that preserving the U.S. dollar value of the investment is appropriate. NRG is not hedging currency translation adjustments related to future operating results. NRG does not speculate in foreign currencies. Before July 1997, NRG hedged investments involving foreign currency as they were made to preserve their U.S. dollar value. Gains and losses on those agreements offset the effects of exchange rate fluctuations on the value of the investments underlying the hedges. Hedging gains and losses on those agreements were reported, net of income tax effects, with other currency translation adjustments as a separate component of stockholders' equity.

From time to time NRG also uses interest rate hedging instruments to protect against increases in the cost of borrowing at both the corporate and project level. NRG defers gains and losses on interest rate hedging instruments, which are included and reported as part of the underlying equity investments.

As of December 31, 1998, NRG had one contract with a notional value of $2.8 million to hedge, or protect, foreign currency denominated future cash flows. The effect of this contract on 1998 earnings was immaterial. This foreign currency exchange contract expires in 1999. Management believes that NRG's exposure to credit risk due to nonperformance by the counterparties to its forward exchange contracts is insignificant, based on the investment grade rating of the counterparties.

NRG has one interest rate swap agreement with a notional amount of $17.5 million. This swap was entered into with an existing variable rate debt issue. The swap effectively converts the variable rate debt into fixed rate debt at 7.65 percent. If the swap had been discontinued on December 31, 1998, NRG would have had to pay the counterparty approximately $0.9 million. The swap expires on September 30, 2002.

NOTE 13 -- COMMITMENTS AND CONTINGENCIES

CONTINGENT REVENUES

NRG and its partner Dynegy each own a 50% interest in the Long Beach and El Segundo generating stations ("California Projects"). During 1998, the first year of deregulation of the state of California power industry, the California Projects accrued certain receivables related to contingent revenues. These revenues have been deferred pending resolution of the contingency. Such amounts relate to items that are subject to contract interpretations, compliance with processes and filed market disputes. The California Projects are actively pursuing resolution and/or collection of these amounts, which totaled approximately $60 million (NRG's share approximates $30 million) as of December 31, 1998. Upon any final resolution and/or collection of these amounts, such deferred revenues will be recognized in NRG's equity income.

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 $1.7 million in 1998 and $1.2 million in 1997. Future minimum lease commitments under these leases for the years ending after December 31, 1998 are as follows:

	(THOUSANDS OF DOLLARS)
1999	$ 1,807
2000	1,693
2001	1,631
2002	1,097
2003	652
Thereafter	6,791
Total	$13,671

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 $7.4 million commitment for the additional facilities.

NRG is contractually committed to an additional equity investment of $7 million to Scudder Latin American Power II as of December 31, 1998.

NRG has a $10.6 million outstanding equity commitment for the Enfield Energy Centre, a 396 MW power project under development in the North London Borough of Enfield, England.

CAPITAL COMMITMENTS -- DOMESTIC

In 1998, NEO entered into Site Development and Coordination (SOC) Agreements with a 50% owned affiliate. The SOC agreements provide for NEO to pay the affiliate a flat, quarterly fee for operation, maintenance and development support. Variable incentive payments based upon project performance are also provided. The agreements are typically twenty years in duration with the bulk of the payments for services being made prior to 2008. Total commitments under SOC agreements amount to $36.5 million as of December 31, 1998.

In 1998, NEO entered into a Construction Management Services Agreement with an affiliate. The agreement provides for NEO to manage the construction and/or acquisition of nineteen electric generation facilities in the U.S. The agreement provides for the payment of a management fee to NEO based upon the anticipated future cash flows from the completed projects. If a project does not meet certain performance

criteria, NEO will be required to purchase the project from the affiliate at an agreed upon price. The total capital cost of the nineteen projects is expected to be $127 million. As of December 31, 1998, ten of the projects with a capital cost of $74 million had been completed and accepted by the affiliate. The remaining projects are scheduled for completion in 1999.

In October 1998, NRG executed a binding purchase and sale agreement for $55 million with Eastern Utilities Associates to purchase the 229 MW Somerset Station, of which 69 MW is on deactivated reserve. The project is expected to financially close in the first quarter of 1999.

In February 1999, NRG purchased from Thermal Ventures, Inc. (TVI) the remaining 50.1% limited partnership interests held by TVI in San Francisco Thermal Limited Partnership and Pittsburgh Thermal Limited Partnership for $12.3 million. In addition, upon receipt of California and Pennsylvania regulatory approval, NRG will acquire TVI's 50% member interest in North American Thermal Systems LLC (the entity holding the general partnership interest in the San Francisco and Pittsburgh partnerships) for $500,000.

NRG, together with two other parties and the Chapter 11 Trustee, have filed a reorganization plan with the United States Bankruptcy Court to acquire the fossil generating assets of Cajun Electric Power Cooperative of Baton Rouge, Louisiana (Cajun) for approximately $1.2 billion. On February 11, 1999, the Court issued an order denying confirmation of NRG's plan and the reorganization plan proposed by a competing bidder. NRG along with its partners and the Trustee are contemplating submitting a revised plan on April 16, 1999 to accommodate the issues raised in the Court's February 11, 1999 decision. The Court has scheduled hearings and activities to review the new plans in May and June 1999.

In December 1998, NRG and Dynegy signed agreements with San Diego Gas & Electric Company to jointly acquire 1,218 megawatts of power generation facilities located near Carlsbad and San Diego California for $356 million. NRG and Dynegy will each own 50% interest in these facilities. This transaction is expected to close in the first quarter of 1999.

In December 1998, NRG signed agreements with Niagara Mohawk Power to purchase two coal fired power generation facilities located near Buffalo with a combined summer capacity rating of 1,360 MW for $355 million. This transaction is expected to close in the second quarter of 1999.

In January 1999, NRG executed a binding agreement with Consolidated Edison Company of New York (ConEdison) to acquire the Astoria gas turbines facility and the Arthur Kill Generating Station for $505 million. These facilities, which are located in New York, have a combined summer capacity rating of 1,456 MW. This transaction is expected to close in the second quarter of 1999.

In December 1997, NRG entered into a supplemental loan agreement to provide up to $22.0 million to CogenAmerica to fund its capital contribution to a project that was under construction. During 1998, NRG provided $12.0 million under this agreement and expects to fund the remaining $10.0 million in 1999.

Also in 1996, NRG entered into an agreement requiring that it provide CogenAmerica 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 CogenAmerica 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 "Co-Investment Agreement" projects to the extent funds are not available to CogenAmerica on comparable terms from other sources. During 1997, NRG provided CogenAmerica with a 117 MW project and offered a 17 net MW project that CogenAmerica did not purchase. During 1998 NRG provided CogenAmerica with a 110 MW project; thus fulfilling the minimum requirements of the agreement.

NRG has guaranteed the repayment of certain affiliate borrowings under a construction loan facility. The facility, which terminates in February 1999, 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, 1998, which could be subject to the NRG guarantee if unpaid by affiliate, were $17.8 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)
1999	$1,264
2000	2
2001	2
2002	2
2003	--
Total	$1,270

SOURCE OF CAPITAL

NRG anticipates funding its ongoing capital commitments through the issuance of debt, additional equity from NSP, and operating cash flows.

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

Effective December 31, 1998, NRG adopted SFAS No. 131 -- Disclosures about Segments of an Enterprise and Related Information. NRG conducts its business within three segments: Independent Power Generation, Alternative Energy (Resource Recovery and Landfill Gas) and Thermal projects. These segments are distinct components of NRG with separate operating results and management structures in place. The "Other" category includes operations that do not meet the threshold for separate disclosure and corporate charges that have not been allocated to the operating segments.

	INDEPENDENT POWER GENERATION	ALTERNATIVE ENERGY	THERMAL	OTHER	TOTAL
	(THOUSANDS OF DOLLARS)				
1998					

OPERATING REVENUES					
Revenues from wholly-owned operations(a).....	$ 8,185	$30,143	$52,699	$ 7,660	$98,687
Intersegment revenues........................	--	1,737	--	--	1,737
Equity in earnings of unconsolidated affiliates(b)............................	81,948	(1,314)	1,215	(143)	81,706
Total operating revenues.............	90,133	30,566	53,914	7,517	182,130
OPERATING COSTS AND EXPENSES					
Cost of wholly-owned operations.............	7,097	20,980	24,665	(329)	52,413
Depreciation and amortization................	980	5,590	9,258	492	16,320
General, administrative, and development.....	(7,099)	7,776	3,298	52,410	56,385
Total operating costs and expenses....	978	34,346	37,221	52,573	125,118
OPERATING INCOME..............................	89,155	(3,780)	16,693	(45,056)	57,012
OTHER INCOME (EXPENSE)					
Minority interest in earnings of consolidated Subsidiary................................	(2,251)	--	--	--	(2,251)
Write-off of investment......................	(26,740)	--	--	--	(26,740)
Gain on sale of interest in projects.........	29,950	--	--	--	29,950
Other income, net............................	2,482	2,683	118	3,137	8,420
Interest expense.............................	(586)	(1,921)	(7,359)	(40,447)	(50,313)
Total other income (expense)..........	2,855	762	(7,241)	(37,310)	(40,934)
INCOME (LOSS) BEFORE INCOME TAXES.............	92,010	(3,018)	9,452	(82,366)	16,078
INCOME TAX (BENEFIT)..........................	18,605	(16,445)	2,852	(30,666)	(25,654)
NET INCOME....................................	$ 73,405	$13,427	$ 6,600	$(51,700)	$41,732

	INDEPENDENT POWER GENERATION	ALTERNATIVE ENERGY	THERMAL	OTHER	TOTAL
			(THOUSANDS OF DOLLARS)		
1997					
OPERATING REVENUES					
Revenues from wholly-owned operations(a).....	$ 5,339	$27,257	$48,604	$ 9,926	$91,126
Intersegment revenues........................	--	926	--	--	926
Equity in earnings of unconsolidated affiliates(b)............................	26,206	(192)	186	--	26,200
Total operating revenues.............	31,545	27,991	48,790	9,926	118,252
OPERATING COSTS AND EXPENSES					
Cost of wholly-owned operations.............	1,693	17,730	24,902	2,392	46,717
Depreciation and amortization................	483	2,842	6,623	362	10,310
General, administrative, and development.....	8,186	6,111	2,403	26,416	43,116
Total operating costs and expenses....	10,362	26,683	33,928	29,170	100,143
OPERATING INCOME..............................	21,183	1,308	14,862	(19,244)	18,109
OTHER INCOME (EXPENSE)					
Minority interest in earnings of consolidated Subsidiary................................	(131)	--	--	--	(131)
Write-off of investment......................	(8,964)	--	--	--	(8,964)
Gain on sale of interest in projects.........	1,559	--	--	7,143	8,702
Other income, net............................	5,888	2,618	(14)	3,272	11,764
Interest expense.............................	(653)	(529)	(5,958)	(23,849)	(30,989)
Total other income (expense)..........	(2,301)	2,089	(5,972)	(13,434)	(19,618)
INCOME (LOSS) BEFORE INCOME TAXES.............	18,882	3,397	8,890	(32,678)	(1,509)
INCOME TAX (BENEFIT)..........................	(6,502)	(4,888)	3,165	(15,266)	(23,491)
NET INCOME....................................	$ 25,384	$ 8,285	$ 5,725	$(17,412)	$21,982
1996					
OPERATING REVENUES					
Revenues from wholly-owned operations(a).....	$ 111	$26,195	$42,721	$ 1,077	$70,104
Intersegment revenues........................	--	1,545	--	--	1,545
Equity in earnings of unconsolidated affiliates(b)............................	32,657	207	(41)	(8)	32,815

Total operating revenues	32,768	27,947	42,680	1,069	104,464
OPERATING COSTS AND EXPENSES					
Cost of wholly-owned operations	396	12,893	23,251	22	36,562
Depreciation and amortization	22	1,983	5,848	525	8,378
General, administrative, and development	6,093	8,158	2,083	22,614	39,248
Total operating costs and expenses	6,511	23,334	31,182	23,161	84,188
OPERATING INCOME	26,257	4,613	11,498	(22,092)	20,276
OTHER INCOME (EXPENSE)					
Other income, net	3,474	644	--	5,359	9,477
Interest expense	951	(336)	(5,792)	(10,253)	(15,430)
Total other income (expense)	4,425	308	(5,792)	(4,894)	(5,953)
INCOME (LOSS) BEFORE INCOME TAXES	30,682	4,921	5,706	(26,986)	14,323
INCOME TAX (BENEFIT)	91	2,106	2,360	(10,212)	(5,655)
NET INCOME	$ 30,591	$ 2,815	$ 3,346	$(16,774)	$19,978

- ---------------

(a) Revenues from wholly-owned operations are from external customers located in the United States.

(b) NRG has significant equity investments for non-regulated projects outside of the United States. Equity earnings of consolidated affiliates, primarily independent power projects, includes $29.3 million in 1998, $27.1 million in 1997 and $29.5 million in 1996 from non-regulated projects located outside of United States. NRG's equity investments in projects outside of the United States were $591 million in 1998, $517 million in 1997 and $295 million in 1996.

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

None.

PART IV

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 Braunkohlengesell Schaft 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").

Exhibit 99.4 contains the financial statements of El Segundo Power LLC.

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 on Form S-1, as amended, File No. 333-33397.) ("Form S-1")

3.2 By-Laws. (Incorporated herein by reference to Exhibits 3.2 to the Form S-1.)

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 Form S-1).

4.2 Form of Exchange Notes. (Incorporated herein by reference to Exhibit 4.2 to the Form S-1).

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 Form S-1.)

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 Form S-1).

10.3 Revolving Credit Agreement, dated as of March 17, 1997, ("ABN Credit Agreement") among NRG, the banks party thereto and ABN AMRO Bank, N.V. as Agent. (Incorporated herein by reference to Exhibit 10.3 to the Form S-1).

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 Form S-1).

10.5 Master Shelf and Revolving Credit Agreement, dated August 20, 1993 among NRG Energy Center, Inc., The Prudential insurance Registrants of America and each Prudential Affiliate which becomes party thereto. (Incorporated herein by reference to Exhibit 10.5 to the Form S-1).

10.6 Energy Agreement, dated February 12, 1988 between NRG (formerly known as Norenco Corporation) and Waldorf Corporation (the "Energy Agreement"). (Incorporated herein by reference to Exhibit 10.6 to the Form S-1).

10.7 First Amendment to the Energy Agreement, dated August 27, 1993. (Incorporated herein by reference to Exhibit 10.7 to the Form S-1)

10.8 Second Amendment to the Energy Agreement, dated August 27, 1993. (Incorporated herein by reference to Exhibit 10.8 to the Form S-1).

10.9 Third Amendment to the Energy Agreement, dated August 27, 1993. (Incorporated herein by reference to Exhibit 10.9 to the Form S-1).

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 Form S-1).

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 Form S-1).

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 Form S-1).

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 Form S-1).

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 Form S-1).

10.15 First Amendment to ABN Credit Agreement, dated as of March 17, 1998. (Incorporated by reference to

Exhibit 10.15 of Form 10-K for the year ended December 31, 1997).

10.16 364-Day Revolving Credit Agreement dated as of March 17, 1998, among NRG Energy, Inc., the Banks party thereto and ABN AMRO Bank N.V. as Agent. (Incorporated by reference to Exhibit 10.16 of Form-10K for the year ended December 31, 1997).

10.17 Employment Agreements between the Company and certain officers dated as of April 15, 1998. (Incorporated herein by reference to Exhibit 10.17 on Form 10-Q for the quarter ended March 31, 1998).

23.1 Consent of PricewaterhouseCoopers LLP.

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).

99.4 Financial Statements of "El Segundo".

(b) Reports on Form 8-K

On October 6, 1998, NRG filed a Form-8K reporting under Item 5 -- Other Events. NRG announced that it will write down its $20.0 million pre-tax accumulated project development expenditures for its West Java, Indonesia project due to the uncertainties surrounding all infrastructure projects in Indonesia.

On December 22, 1999, NRG filed a Form 8-K reporting under Item 5 -- Other Events. NRG announced that it sold one-half of its interest in Enfield Energy Centre Ltd. project resulting in a pre-tax gain of approximately $26.2 million.

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 25, 1999.

NRG ENERGY, INC.

By: /s/

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 25, 1999:

SIGNATURE	TITLE
/s/ - --	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)

David H. Peterson

/s/ --- Leonard A. Bluhm	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ --- David E. Ripka	Controller (Principal Accounting Officer)
/s/ --- Gary R. Johnson	Director
/s/ --- Cynthia L. Lesher	Director
/s/ --- Edward J. McIntyre	Director
/s/ --- John A. Noer	Director

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 23.1

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Prospectus constituting part of the Registration Statement on Form S-3 (No. 333-33397) of NRG Energy, Inc. of our report dated March 19, 1999 appearing on page 23 of this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Minneapolis, Minnesota
March 25, 1999

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This schedule contains summary financial information extracted from the
December 31, 1998 Financial Statements included in the Company's Form 10-K
and is qualified in its entirety by reference to such Form 10-K.
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[DELOITTE & TOUCHE LETTERHEAD]

Halle, March 12, 1999

MITTELDEUTSCHE BRAUN-
KOHLENGESELLSCHAFT MBH,
THEISSEN

Report on the audit of the financial
statement for the years ended
December 31, 1998, 1997 and 1996
in accordance with German GAAP and
on the audit of the respective U.S. GAAP
reconciliations

[DELOITTE & TOUCHE LETTERHEAD]

MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT MBH

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[DELOITTE & TOUCHE LETTERHEAD]

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, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998. 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, 1998 and 1997, and the consolidated results of its operations and cash flows for each of the years in the three-year period ended December 31, 1998, 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, 1998 and shareholders' equity as of December 31, 1998 and 1997 to the extent summarized in Note C to the consolidated financial statements.

[SIG]
Deloitte & Touche GmbH

Wirtschaftsprufungsgesellschaft

Halle, Germany
March 15, 1999

MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT MBH

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS DM)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Sales revenue	470,411	533,025	621,439
Changes in inventories	5,073	23,826	-3,719
Capitalized own services	16,002	11,046	4,249
Other operating income	66,785	49,520	84,904
TOTAL PERFORMANCE	558,271	617,417	706,873
Cost of materials	108,866	125,266	138,468
Personnel expenses	209,997	227,632	249,437
Depreciation on intangible and tangible fixed assets	148,413	166,949	201,362
Other operating expenses	147,131	169,557	264,998
TOTAL OPERATING EXPENSES	614,407	689,404	854,265
OPERATING RESULT	-56,136	-71,987	-147,392
Income from associated company and from companies in which participations are held	3,384	10,046	5,224
Income from financial assets	6,339	8,392	7,035
Depreciation on financial assets and short term investments	-195	-	-
Interest expense (income) net	-10,771	-1,405	3,906
NET LOSS FROM ORDINARY ACTIVITIES	-57,379	-54,954	-131,227
Property and other taxes	2,086	1,086	825
NET LOSS	-59,465	-56,040	-132,052

See accompanying Notes to Consolidated Financial Statements

MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT MBH
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS DM)

	AT DECEMBER 31,		
	Note	1998	1997
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Concessions, trade marks, patents and licenses	B, E	19,896	20,722
Property, plant and equipment			
1. Land	B, E	73,886	67,837
2. Buildings	B, E	113,971	104,676
3. Strip mines	B, E	81,549	47,154
4. Technical equipment and machinery	B, E	327,124	289,378
5. Factory and office equipment	B, E	37,324	38,974
6. Payments on account and assets under construction		102,378	96,734
		736,232	644,753
Financial assets			
1. Participations (including associated company)	B, F	26,201	26,276
2. Loans granted to participation	B, G	15,400	16,133
3. Long-term investments	B, H	-	20,010
4. Other loans	B, I	75,700	80,400
		117,301	142,819
TOTAL NON-CURRENT ASSETS		873,429	808,294
Overburden	B, J	298,938	327,001
CURRENT ASSETS			
Inventories			
1. Raw materials and supplies	B	8,041	10,105
2. Finished and trade goods	B	1,816	3,743
		9,857	13,848
Receivables and other assets			
1. Trade receivables	B, K	67,490	72,994
2. Receivables from enterprises in which participations are held	B	2,997	4,669
3. Other assets	B	39,331	38,589
		109,818	116,252
Investments			
Other investments	B, L	245,813	218,550
Cash	B	40,023	103,579
TOTAL CURRENT ASSETS		405,511	452,229
Prepaid expenses	B	6,642	6,781
TOTAL ASSETS		1,584,520	1,594,305

	AT DECEMBER 31,		
	Note	1998	1997
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Subscribed capital		60,000	60,000
Capital reserve		631,346	689,649
Balance sheet profit DM 5,000,000 each year		50	50
thereof distributed: DM 4,950,000 in 1998 and 1997;			
Minority interest		-83,516	-63,213
TOTAL SHAREHOLDERS' EQUITY		607,880	686,486
Special item for investment subsidies and incentives	B	40,691	45,115
Provisions			
1. Accruals for pensions and similar obligations	M	9,714	5,277
2. Taxation accruals	N	3,936	2,761

3. Environmental ("Altlasten") and mining provisions	B, O	334,872	378,836
4. Other accruals	P	46,973	38,912
		395,495	425,786
Liabilities			
1. Liabilities to banks	B, Q, R	445,958	345,277
2. Trade payables	B, Q, R	51,501	42,499
3. Payables to companies in which participations are held	B, R	2,843	1,984
4. Other payables	B, Q, R	40,144	47,142
		540,446	436,902
Deferred income		8	16
		1,584,520	1,594,305

TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES

See accompanying Notes to Consolidated Financial Statements

MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT MBH
CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS DM)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss for the year	-59,464	-56,040	-132,052
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization intangible and tangible assets	148,413	166,949	201,362
Planned release of the special item for investment subsidies and incentives	-4,423	-10,439	-8,979
Loss on disposal of non-current assets	1,075	770	1,997
Change in assets and liabilities:			
Overburden	-7,000	-22,090	3,488
Inventories	3,991	-3,483	-1,186
Receivables and other assets	6,434	26,389	8,209
Accruals	-30,291	-11,640	-612
Liabilities	-7,608	-37,009	-28,563
Other prepaid and deferred items	133	-239	-78
CASH PROVIDED BY OPERATING ACTIVITIES	51,260	53,168	43,586
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	-198,566	-148,512	-192,313
Additions to the special item for investment subsidies and incentives	-	10,540	13,499
Proceeds from disposal of long-term investments and other non-current assets	30,254	41,668	12,451
Increase in long-term and other investments	-27,263	-28,272	-230,549
CASH USED FOR INVESTING ACTIVITIES	-195,575	-124,576	-396,912
CASH FLOWS FROM FINANCING ACTIVITIES:			
Change in equity:			
Distributions	-4,950	-4,950	-5,000
Withdrawal by MI KG investors	-14,191	-23,775	-18,259
MI KG Investors capital contribution	-	-	43,674
Capital contribution	-	50	15,942

Increase in loans	121,249	34,523	110,792
Redemption of loans	-21,348	-14,552	-16,018
CASH USED FOR/PROVIDED BY FINANCING ACTIVITIES	80,760	-8,704	131,131
NET DECREASE IN CASH	-63,555	-80,112	-222,195
CASH AT BEGINNING OF YEAR	103,578	183,690	405,885
CASH AT YEAR-END	40,023	103,578	183,690

See accompanying Notes to Consolidated Financial Statements

MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT MBH

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS DM)

	Subscribed Capital	Capital reserve	Balance sheetprofit	Minority interest	Total
BALANCE AS OF JANUARY 1, 1996	60,000	778,170	-	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	-	-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
Net loss 1998			-53,353	-6,112	-59,465
Transfer from capital reserve		-58,303	58,303		0
Distributions			-4,950		-4,950
Withdrawals by minority shareholders				-14,191	-14,191
BALANCE AS OF DECEMBER 31, 1998	60,000	631,346	50	-83,516	607,880

See accompanying Notes to Consolidated Financial Statements

[DELOITTE & TOUCHE LETTERHEAD]

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, 1998 and stockholders' equity as of December 31, 1998 and 1997 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 1998, MIBRAG consolidated 5 (1997: 5, 1996: 5) 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.

[DELOITTE & TOUCHE LETTERHEAD]

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

All other investments 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.

[DELOITTE & TOUCHE LETTERHEAD]

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

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 year's coal extraction. These are costs incurred in advance in respect of future coal production. The overburden is valued on an average cost basis.

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, reduced for appropriate valuation allowances.

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 German federal government and the 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.

FAIR VALUE OF FINANCIAL INSTRUMENTS: The fair value of cash, accounts payable and receivable, short term borrowings approximates book value because of the short maturity period and interest rates approximating market rates.

SUPPLEMENTARY CASH FLOW INFORMATION: The company paid DM 0 income taxes in 1998, 1997 and 1996. Interest paid amounted to DM 26,523, DM 17,657 and DM 14,178 in 1998, 1997 and 1996, respectively.

[DELOITTE & TOUCHE LETTERHEAD]

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

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

RECLASSIFICATIONS: Certain reclassifications have been made for consistent presentation.

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

The German GAAP financial statements include the historical cost book values of assets transferred from a predecessor company.

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 MIBRAG mbH for purposes of the reconciliation to U.S. GAAP. 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 non-current assets, excluding long-term investments.

The US GAAP financial statements also recognize purchase price adjustments for certain incremental transportation costs incurred by MIBRAG for lignite transportation to one of its major customers.

[DELOITTE & TOUCHE LETTERHEAD]

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

II. NOTES TO SIGNIFICANT U.S. GAAP ADJUSTMENTS

1. Fixed assets other than financial investments

The differences relate primarily to the following:

- 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

The US GAAP results recognized liabilities and deferred costs of DM 273 million at January 1, 1994 relocate four villages. The deferred costs are amortized in accordance with quantities of coal extracted. 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 such costs are not deferred.

[DELOITTE & TOUCHE LETTERHEAD]

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"), which operates three lignite-fired power plants. The investment is structured such that the third party investors obtain accelerated tax depreciation 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. Transportation credits

An acquisition related liability for US GAAP purposes is reduced by the amount of excess incremental transportation costs incurred by MIBRAG for certain lignite shipments. The acquisition related liability is not reflected in MIBRAG's German financial statements.

5. Interest capitalization

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

6. 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.

7. 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. Additionally, overburden as of January 1 ,1994 was written down to fair value.

[DELOITTE & TOUCHE LETTERHEAD]

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

8. Environmental and mining provisions

The ratable accrued end-lake provision was reduced in 1998 based upon a new estimate of total costs to be incurred. For US purposes, this adjustment is accounted for prospectively.

9. Accrued liabilities

Certain mining and other accruals, which were provided for at January 1, 1994 in accordance with US GAAP purchase accounting, were not recorded in the German financial statements.

10. Other

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

11. Unrealized security gains

Unrealized security gains on available-for-sale securities are not accounted for under German GAAP, but would be recorded as other comprehensive income for U.S. GAAP purposes.

12. Deferred taxes

The differences noted above result in temporary differences which, when combined with net operating loss carryforwards, would result in a net deferred tax asset of DM 310,582 and DM 309,600 at December 31, 1998 and 1997, 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.

[DELOITTE & TOUCHE LETTERHEAD]

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

RECONCILIATION TO U.S. GAAP

The following is a summary of the significant adjustments to net income for 1998, 1997 and 1996 and to shareholders' equity at December 31, 1998 and 1997 which would be required if U.S. GAAP had been applied instead of German GAAP.

		YEAR ENDED DECEMBER 31,		
	NOTE	1998	1997	1996
Net loss as reported in the consolidated statement of operations under German GAAP		-59,465	-56,040	-132,052
Adjustments required to conform with U.S. GAAP:				
Long-term asset valuation	(1)	86,971	111,854	143,280
Relocation of villages	(2)	7,659	12,044	46,803
Investment in power plants	(3)	-7,762	-8,330	7,208
Transportation credits	(4)	13,581	14,052	12,367

Interest capitalization	(5)	1,904	-359	4,549
Receivable / payables at non-market interest rate	(6)	-990	-7,497	-8,728
Overburden	(7)	9,672	-2,582	-15,201
Environmental and mining provisions	(8)	-35,507	-	-
Other	(10)	8,292	5,273	-2,012
NET INCOME IN ACCORDANCE WITH U.S. GAAP		24,355	68,415	56,214

[DELOITTE & TOUCHE LETTERHEAD]

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

	NOTE	AT DECEMBER 31, 1998	1997
Shareholders' equity as in the consolidated balance sheet under German GAAP		607,880	686,486
Adjustments required to conform with U.S. GAAP:			
Long-term asset valuation	(1)	184,244	128,114
Relocation of villages	(2)	21,281	10,032
Investment in power plants	(3)	-169,022	-175,451
Transportation credits	(4)	-	-13,581
Interest capitalization	(5)	7,584	5,680
Loan at non-market interest rate	(6)	4,011	5,001
Overburden	(7)	-169,838	-214,573
Environmental and mining provisions	(8)	-35,507	-
Accrued liabilities	(9)	-30,153	-30,153
Other	(10)	-17,346	-17,826
Net unrealized security gains (net of income tax effects)	(11)	7,955	4,363
SHAREHOLDERS' EQUITY IN ACCORDANCE WITH U.S. GAAP		411,089	388,092

[DELOITTE & TOUCHE LETTERHEAD]

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

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, 1998 and 1997 accounts receivable from electric utilities totaled DM 67,490 and DM 72,994, 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, 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 the purchaser 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 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 coal reserves is dedicated to the production of coal for such agreements.

Sales to the three largest customers comprise, as a percentage of total sales, 64 %, 56 % and 57% in 1998, 1997 and 1996, respectively. Sales to the six largest customers comprise, as a percentage of total sales, 82 %, 81 % and 78 % in 1998, 1997 and 1996, respectively.

[DELOITTE & TOUCHE LETTERHEAD]

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

NOTE E   INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

The group depreciation charges are as follows: DM 148,413 (1998), DM 166,949 (1997), and DM 201,362 (1996) 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. Special tax depreciation was DM 45,116, DM 60,509 and DM 97,998 in 1998, 1997 and 1996, respectively.

The major categories of fixed assets follow:

	DEC. 31, 1998	DEC. 31, 1997
Concessions, trade marks, patents and licenses		
cost	27,398	26,257
less: accumulated amortization	(7,503)	(5,535)
net book value	19,895	20,722

Property, plant and equipment				
cost	-	land and land rights	73,886	67,837
	-	buildings	264,200	236,707
	-	strip mines	89,522	54,460
	-	technical equipment and machinery	1,243,901	1,159,241
	-	factory and office equipment	205,689	193,348
	-	payments on account and assets under construction	102,378	96,734
total cost			1,979,576	1,808,327
less: accumulated depreciation			(1,243,344)	(1,163,574)
net book value			736,232	644,753

[DELOITTE & TOUCHE LETTERHEAD]

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

NOTE F PARTICIPATIONS (INCLUDING ASSOCIATED COMPANY)

MIBRAG's investment in MUEG Mitteldeutsche Umwelt- und Entsorgungs GmbH, Braunsbedra, ("MUEG") is 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, 1998 is as follows:

		TDM
	Cost and contributions	12,387
+	Net profit share 1994-1998	11,779
./.	Distributed profits share 1994-1997	11,809
./.	Proportionate elimination of intercompany profit (1997)	1,089
=	Carrying amount "at equity" as of December 31, 1998	11,268

Investments in seven other companies are accounted for at cost.

NOTE G LOANS GRANTED TO PARTICIPATIONS

In 1995, MIBRAG sold its district heating network assets to a company in which it holds a participation. After deducting a down payment of DM 1.4 million, the balance is being repaid in equal installments of DM 733 over a period of 25 years. The interest rate is fixed at 5 per cent through 1999 and will be adjusted to the market rate at that time.

The fair market value of the loan was DM 15,400 and DM 16,133 at December 31, 1998 and 1997, respectively.

NOTE H LONG-TERM INVESTMENTS

At year-end of 1997, the company held marketable debt securities with a cost and approximate fair value based on quoted market prices of DM 20 million. These securities were sold in March 1998.

[DELOITTE & TOUCHE LETTERHEAD]

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

NOTE I OTHER LOANS

The other loans were granted to the third party investors in a subsidiary of MIBRAG mbH. These loans were financed by a borrowing from KfW (Kreditanstalt fuer Wiederaufbau). KfW granted MIBRAG mbH a loan of DM 103,000 due on December 30, 2005 at fixed interest rates between 6.26 % and 6.82 %. The balance of the loan as of December 31, 1998 amounted to DM 75,700. 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):

	Dec.31,1998		Dec.31, 1997	
	tonnage metric tons	value DM	tonnage metric tons	value DM
Profen	18.5	146.0	16.7	126.2
Schleenhain	12.8	115.7	15.2	140.7
Zwenkau	4.2	37.2	6.8	60.1
	35.5	298.9	38.7	327.0

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

[DELOITTE & TOUCHE LETTERHEAD]

MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT MBH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE K TRADE RECEIVABLES

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

	Dec. 31,1998	Dec. 31,1997

Trade receivables	68,348	74,017
Less allowances	(858)	(1,023)
	67,490	72,994

NOTE L OTHER INVESTMENTS

At December 31, 1998 other investments were disclosed at an amount of DM 245.8 million. The balance consists of investment funds of MI (DM 225.8 million), which were specially set up to reinvest the additional liquidity resulting from the entry of new investors into MI and of fixed-interest bonds (DM 20.0 million) purchased by MIBRAG mbH in March 1998.

Net dividends distributed by the investment funds were reinvested in 1997 and 1998. Realized gains of DM 10.1 million and DM 10.6 million were disclosed in interest income in 1997 and 1998, respectively. The fixed interest bonds were disposed of at book value in January 1999.

NOTE M ACCRUALS FOR PENSIONS AND SIMILAR OBLIGATIONS

The provision relates primarily to briquette benefit claims of active employees on the basis of the collective agreement of November 9, 1993 in respect to allowances in kind. The entitlement does not vest and elapses with early termination of the working relationship or upon receipt of social plan benefits.

The calculation is based on an actuarial valuation which took into account the entitlement to the redemption value of DM 185.00 per metric ton of briquettes as specified in the collective agreement, the employees entitled to benefits as of December 31, 1998, and official demographic tables published in October 1998.

[DELOITTE & TOUCHE LETTERHEAD]

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

In addition, pension obligations for early retirement benefits were accrued. These amounts have also been calculated on the basis of actuarial valuations.

NOTE N TAXATION ACCRUALS

MIBRAG did not provide for income taxes under German GAAP because of net operating losses in 1996 through 1998. Deferred tax assets and liabilities have not been recorded because there are no significant differences between the German GAAP financial statement and the 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.

At December 31, 1998 the Company had approximately DM 427 million net operating loss carry-forwards, which do not expire and may be applied against future taxable income.

(IN THOUSANDS OF DM)

NOTE O ENVIRONMENTAL AND MINING PROVISIONS

The following is a summary of environmental and mining provisions:

	Balance as of Dec. 31,1998	Balance as of Dec. 31,1997
1) End-lake provision	259,511	291,492
2) Provision for environmental pollution	9,975	9,975
3) Landscaping	15,375	14,040
4) Planting	10,247	11,656
5) Relocation of villages	39,764	51,673
	334,872	378,836

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. Based on 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. In each year of coal extraction the reclamation costs are accrued ratably using the relation of the coal mined to the total coal mine volume.

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 the current year a new expert opinion on to the reclamation costs of the end-lake Schleenhain was completed with cost lower than originally estimated. The overaccrued amount was released to income this year.

The end-lake 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 the Bundesanstalt fuer vereinigungsbedingte Sonderaufgaben (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, 1998 and 1997, 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 documentation 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.

4) PLANTING

Provision is made for costs in connection with temporary planting as of December 31, 1998 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 municipalities, 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.

NOTE P   OTHER ACCRUALS

Accrued liabilities are as follows:

	Balance as of Dec. 31, 1998	Balance as of Dec. 31, 1997

(IN THOUSANDS OF DM)

1) Severance payments	24,220	25,700
2) Personnel expenses		
- Employment anniversaries	2,566	2,188
- Vacation, contractually agreed free shifts and credits on annual work-time accounts outstanding at year-end	850	417
- Equalization amount in terms of the Act on Handicapped Persons	244	211
	3,660	2,816
3) Remaining accruals	19,092	10,395
	46,972	38,911

1) SEVERANCE PAYMENTS

Basis for the provisions are the social plan framework agreements in which the measures for the personnel adjustments are defined. The provisions relate primarily to payments to 414 employees, who have been terminated as of March 31, 1998.

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 entitled to additional compensation, mainly for the reduction in statutory pension payments 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.

(IN THOUSANDS OF DM)

3) REMAINING PROVISIONS

Composition:

	Balance as of Dec. 31, 1998	Balance as of Dec. 31, 1997
Outstanding invoices	5,498	2,459
Mine damages	3,500	3,500
Water usage fees	2,509	2,271
Compensation to municipalities	2,500	-
Professional service and litigation	1,803	704
Deferred maintenance	1,392	-
Others	1,890	1,461
	19,092	10,395

NOTE Q LONG-TERM DEBT

Long-term debt consists of the following:

	Dec. 31, 1998	Dec. 31, 1997
a) Loans to finance the power stations		
- construction of the power station of Waehlitz	132,269	139,230
- modernization of the power stations in Deuben and Mumsdorf		
- finance the additional paid-in capital by the investors of MI	110,768	120,000
b) Loans to finance the Schleenhain mine investments	75,700	80,400
c) Loans for home construction	120,000	-
d) Deferred interest	6,441	5,647
	779	-
	445,958	345,277

To a)

These liabilities refer on one hand 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 in Waehlitz 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 loan period is 25 years. The repayments in 40 equal amounts commence from June 30, 1998.

On April 3, 1995 two additional loan agreements were closed with Kreditanstalt fur Wiederaufbau (KfW).

One of these contracts was granted for partially financing the modernization and reshaping of both industrial power plants in Deuben and Mumsdorf. DM 120,000 of the total loan amount of DM 134,000 have been called up as of December 31, 1998. The loan period is 16 years, thereof the first three years without repayments. The redemption period is 13 years starting on December 31, 1998.

(IN THOUSANDS OF DM)

The interest rates are as follows:

Amount	Interest rate (%)	Fixed until
64,615	6.80	January 12, 2006
18,461	6.18	January 30, 2007
18,461	6.25	January 20, 2007
9,231	6.04	December 30, 2007
110,768		

The second loan contract was closed to partially finance the limited partner capital contribution of the new investors in MI. The redemption period is 13 years. In 1996, the loan was fully called up by MIBRAG. In 1998, DM 4,700 were redeemed, so that the balance as of December 31, 1998 amounts to DM 75,700.

[DELOITTE & TOUCHE LETTERHEAD]

The interest rates are as follows:

Amount	Interest rate (%)	Fixed until
60,419	6.67	2005
8,682	6.82	2005
3,928	6.26	2005
2,671	6.76	2005
75,700		

The interest rates after 2005 will be adjusted to the market rate at that time.

Interest expense for the three loans amounted to DM 23.8 million, DM 17.4 million and DM 14.1 million in 1998, 1997, and 1996, respectively.

To b)

In 1997 and 1998, loan contracts were closed with four credit institutions to finance the investments in the Schleenhain mine, especially the construction of the blending yard and environmental measures for the conveyor belts. In 1998 DM 120,000 were called up at the following conditions:

(IN THOUSANDS OF DM)

Credit institutions	Date of contract	Date of payment	Amount	interest rate	redemption period
- - Landeskreditbank Baden-Wuerttemberg, Karlsruhe	Dec.16,1997	Sep.30,1998	50,000	5.31 %	until Dec. 2009
- - Bayerische Landesbank Girozentrale, Munich	Nov.17,1997	June 10,1998	50,000	5.40 %	until Dec. 2009
- - Deutsche Bank AG, Zeitz	Sep.16,1998	Oct.15,1998	10,000	4.75 %	until Dec. 2009
- - Deutsche Ausgleichsbank, Bonn	Aug.17,1998	Sep.17,1998	10,000	4.25 %	until March 2008

To c)

The loans for home construction were granted by the Deutsche Bank AG and the Nord LB for relocation-related home construction purposes in Hohenmoelsen.

The increase in trade payables (TDM 9.001) mainly results from the invoices for investments in the Schleenhain mine.

The other liabilities refer to:

	Dec.31, 1998	Dec.31, 1997
Usage reimbursement for the mining rights	16,367	19,848
Wages and salaries	7,450	8,388
Tax lease	6,050	8,036
Social security contributions	5,321	5,783
Tax authorities	2,542	2,603
Others	2,766	2,486
	40,496	47,144

The payables due to the tax lease model relate to the equity commission and management fees.

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	Total
Balance as of Dec. 31, 1997	345,277	42,499	1,984	47,142	436,802
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	228,384
Balance as of Dec. 31, 1998	445,957	51,501	2,843	40,143	540,444
thereof: maturity period					
- up to 1 year	23,736	47,476	2,843	33,717	107,772
- 1-5 years	119,293	4,025	-	3,401	126,719
- more than 5 years	302,928	-	-	3,025	305,953

*) Liabilities to banks are fully secured by mortgages

NOTE S COMMITMENTS AND CONTINGENCIES

	At December 31, 1998	At December 31, 1997
Guarantees for indebtedness of others	38,668	61,946
Other contractualobligations	178,200	304,300

The other contractual obligations refer to long terminvestment projects in the mines Profen and Schleenhain.

[DELOITTE & TOUCHE LETTERHEAD]

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

MIBRAG leases office equipment and railway-carriages, expiring at various dates. Rental and lease expenses amounted to DM 1,666, DM 2,502 and DM 2,355 in the years ended December 31, 1998, 1997 and 1996, respectively. The future minimum lease payments under operating leases are as follows: 1999: DM 442; 2000: DM 252; 2001: DM 252, 2002: DM 252, 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 19,583, DM 20,225 and DM 26,290 for 1998, 1997 and 1996, 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.

EXHIBIT 99.4

EL SEGUNDO POWER, LLC

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 1998
TOGETHER WITH AUDITORS' REPORT

[ARTHUR ANDERSEN LLP LETTERHEAD]

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Members of El Segundo Power, LLC:

We have audited the accompanying balance sheet of El Segundo Power, LLC (a Delaware limited liability company) as of December 31, 1998, and the related statements of operations, members' equity and cash flows for the period from inception of operations (April 4, 1998) to December 31, 1998. 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of El Segundo Power, LLC as of December 31, 1998, and the results of its operations and its cash flows for the period from inception of operations (April 4, 1998) to December 31, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
March 5, 1999

EL SEGUNDO POWER, LLC

BALANCE SHEET--DECEMBER 31, 1998

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 20,462,176
Accounts receivable-	
Trade	63,628,915
Affiliates	290,691
Less- Contingent revenues receivable (Note 6)	(36,181,906)
Accounts receivable, net	27,737,700
Inventory	1,716,510
Prepaid expenses	285,771
Total current assets	50,202,157
PROPERTY, PLANT AND EQUIPMENT, at cost:	
Land	13,635,181
Plant and equipment	66,581,059
Accumulated depreciation	(5,688,434)
Property, plant and equipment, net	74,527,806
GOODWILL	25,297,846
Total assets	$ 150,027,809
LIABILITIES AND MEMBERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable-	
Trade	$ 3,584,097
Affiliates	1,253,102
Accrued liabilities	13,477,575
Contingent revenues collected (Note 6)	24,950,797
Overhaul and maintenance reserves	2,868,032
Total current liabilities	46,133,603
COMMITMENTS AND CONTINGENCIES (Note 7)	
MEMBERS' EQUITY	103,894,206
Total liabilities and members' equity	$ 150,027,809

The accompanying notes are an integral part of these financial statements.

EL SEGUNDO POWER, LLC

STATEMENT OF OPERATIONS

FOR THE PERIOD FROM INCEPTION OF OPERATIONS

(APRIL 4, 1998) TO DECEMBER 31, 1998

REVENUES:	
Nonaffiliate	$ 167,437,528
Affiliate	3,589,012
	171,026,540
Less- Contingent revenues (Note 6)	(61,132,703)

Net revenues	109,893,837
OPERATING COSTS	(49,383,188)
Operating margin	60,510,649
DEPRECIATION AND AMORTIZATION	(7,630,896)
GENERAL AND ADMINISTRATIVE EXPENSES	(615,592)
Income from operations	52,264,161
INTEREST EXPENSE	(68,476)
INTEREST INCOME	571,851
NET INCOME	$ 52,767,536

The accompanying notes are integral part of these financial statements.

EL SEGUNDO POWER, LLC

STATEMENT OF MEMBERS' EQUITY

FOR THE PERIOD FROM INCEPTION OF OPERATIONS

(APRIL 4, 1998) TO DECEMBER 31, 1998

	El Segundo, Inc.	NRG El Segundo, Inc.	Total Members' Equity
BALANCE, April 4, 1998	$ -	$ -	$ -
Contributions	44,163,335	44,163,335	88,326,670
Members' share of net income	26,383,768	26,383,768	52,767,536
Distributions	(18,600,000)	(18,600,000)	(37,200,000)
BALANCE, December 31, 1998	$ 51,947,103	$ 51,947,103	$ 103,894,206

The accompanying notes are an integral part of these financial statements.

EL SEGUNDO POWER, LLC

STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM INCEPTION OF OPERATIONS

(APRIL 4, 1998) TO DECEMBER 31, 1998

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 52,767,536

Adjustments to reconcile net income to net cash provided by operating activities-	
Depreciation and amortization	7,630,896
Changes in assets and liabilities that provided (used) cash-	
Receivables	(27,737,700)
Inventory	(2,050)
Prepaid expenses	(198,171)
Payables	3,227,686
Accrued liabilities	(5,870,750)
Contingent revenues collected	24,950,797
Overhaul and maintenance reserves	2,868,032
Net cash provided by operating activities	57,636,276
CASH FLOWS FROM INVESTING ACTIVITIES:	
Business acquisition	(88,300,770)
Net cash used in investing activities	(88,300,770)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from short-term borrowings	5,390,000
Repayments of short-term borrowings	(5,390,000)
Contributions by members	88,326,670
Distributions to members	(37,200,000)
Net cash provided by financing activities	51,126,670
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,462,176
CASH AND CASH EQUIVALENTS, beginning of period	-
CASH AND CASH EQUIVALENTS, end of period	$ 20,462,176
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	$ 68,476

The accompanying notes are an integral part of these financial statements.

EL SEGUNDO POWER, LLC

NOTES TO FINANCIAL STATEMENTS

1. DEVELOPMENT OF COMPANY:

El Segundo Power, LLC (El Segundo or the Company) (a Delaware limited liability company) was formed on November 25, 1997, for the purpose of acquiring, operating and owning a power generation facility in El Segundo, California (the Facility). In addition, in November 1997, the Company entered into an agreement with Southern California Edison Company (SCE) to acquire the Facility for $88,300,770, including transaction costs. The purchase was effective April 4, 1998, for accounting purposes. The Facility is a 1,020-megawatt rated facility consisting of four units: two units rated at 175 megawatts each and two units rated at 335 megawatts each. The Facility operates as a "merchant" facility, selling energy, capacity, ancillary services and replacement reserves to the newly deregulated California wholesale electric market. In addition, the Facility holds a must-run agreement (MRA) assumed from SCE. Certain generation owners were required to enter into a MRA as a part of the deregulation process in order to mitigate regional market power and ensure system reliability. MRAs require such owners to provide energy, capacity, ancillary services and replacement reserves when requested by the California Independent System Operator (ISO), within contractual limitations.

The acquisition was accounted for under the purchase method of accounting. Accordingly, the purchase cost of $88,300,770, net of working capital, was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of April 4, 1998. The purchase price allocation as presented herein is considered preliminary and is dependent upon subsequent asset sales, if any, and the ultimate resolution of certain pending legal and other contingencies existing at the time of the acquisition.

The Company allocated cash paid for the acquisition as follows:

Assets acquired-	
Current assets and other	$ 1,802,060
Noncurrent assets	107,456,548
Liabilities assumed	(20,957,838)
Cash paid	$ 88,300,770

The Company is owned equally by two members. The Company's profits and losses are allocated to the members using established ratios as defined in the Limited Liability Agreement.

The sharing ratios are summarized as follows:

Members-	
El Segundo, Inc.	50%
NRG El Segundo Inc.	50
Total	100%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Revenue Recognition

Revenues from the sale of energy, capacity, ancillary services and replacement reserves are recorded based upon output delivered and/or service provided multiplied by contract terms where applicable and/or market pricing. Revenues identified as contingent are fully reserved, as discussed in Note 6.

Federal Income Taxes

The Company is not a taxable entity for federal income tax purposes. Accordingly, there is no provision for income taxes in the accompanying financial statements.

Plant and Equipment

Plant and equipment costs are being depreciated on a straight-line basis over an estimated useful life of 15 years for the two units each rated at 335 megawatts and three years for the two units each rated at 175 megawatts.

Goodwill

Goodwill represents the excess purchase cost over the estimated fair value of the assets acquired and liabilities assumed and is being amortized on a straight-line basis over pro rated three-year and 15-year estimated useful lives based on the useful life of the related plant and equipment.

Overhaul and Maintenance Reserves

The Company records a reserve for maintenance costs expected to be incurred that are not covered by the operations and maintenance agreement (see Note 4). Other maintenance and repair costs are charged to expense as incurred.

Environmental Costs

Environmental costs relating to current operations are expensed. Liabilities are recorded when environmental assessment indicates that remedial efforts are probable and the costs can be reasonably estimated.

Risk Management Activities

The Company periodically enters into financial instrument contracts to hedge purchase and sale commitments and fuel requirements of natural gas and electricity in order to minimize the risk of market fluctuations. Gains and losses from hedging transactions are recognized in income and are reflected as cash flows from operating activities in the periods in which the underlying commodity being hedged is sold or purchased. If necessary correlation to the commodity being hedged ceases to exist, the gain or loss

associated with such contract(s) is no longer deferred and begins to be recognized in income in the period correlation is lost, to the extent of the underlying gain or loss on the commodity being hedged. At December 31, 1998, the Company had no open risk management contracts outstanding.

Use of Estimates in
Financial Statement Preparation

The preparation of financial statements in conformity with generally accepted accounting principles requires estimates and assumptions that affect the reported amounts of assets and liabilities as well as certain disclosures. The Company's financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable and debt instruments. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable are representative of their respective fair values due to the short-term maturity of these instruments.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives will be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. SFAS No. 133 is effective for all fiscal years beginning after June 15, 1999. Management does not anticipate that the adoption of SFAS No. 133 will have a material impact on the Company's financial position or results of operations.

3. RELATED PARTIES:

The Company has contracted with affiliates of El Segundo, Inc., to provide management services, as described below. Total costs and management fees associated with these services, excluding accrued fees related to the contingent revenues (see Note 6), were approximately $3,102,000 in 1998.

The Company contracted with Dynegy Power Management Services, Inc., formerly known as Destec Management Services, Inc., an affiliate of El Segundo, Inc., to manage the Administrative Services Management Agreement which provides administrative services such as business management and accounting to the Company. Fees for such services are subject to Executive Committee approval if the amounts exceed a certain percentage of the applicable annual approved budget. The Executive Committee consists of two representatives from each Company member.

The Company contracted with Electric Clearinghouse, Inc., an affiliate of El Segundo, Inc., to provide all power scheduling, power marketing and trading and risk management for the Company under the Energy Management Agreement (EMA).

The Company contracted with Dynegy Marketing and Trade, formerly known as Natural Gas Clearinghouse, an affiliate of El Segundo, Inc., to provide all scheduling and marketing of fuel supply for the Company under the EMA.

The Company has also contracted with NRG El Segundo Operations Inc. (NRG), an affiliate of NRG El Segundo Inc., to manage the Operations and Management Services Agreement (OMSA). These services consist primarily of overseeing the operations and maintenance efforts of SCE (see SCE O&M Agreement in Note 4). SCE will operate the Company's facility for two years; after that time, the OMSA will be renegotiated and NRG will take over operations of the Facility. Fees for such services are subject to Executive Committee approval if the amounts exceed a certain percentage of the applicable annual approved budget. Fees associated with this service totaled approximately $286,000 in 1998.

4. SCE OPERATION AND MAINTENANCE AGREEMENT:

As part of the acquisition, the Company was required to enter into an operation and maintenance agreement with SCE (the SCE O&M Agreement) for a period of two years. The SCE O&M Agreement is a cost-plus agreement based on SCE's estimate of the direct and indirect service costs for operating and maintaining the Facility and the Facility's site. Charges related to such services of approximately $7,740,000 in 1998 were included in operating costs in the accompanying statement of operations.

5. DEBT:

On May 18, 1998, the Company entered into a $6,200,000 loan agreement (the Loan Agreement) to provide working capital loans on an as-needed basis. The Loan Agreement is between the Company and affiliates of the Company's members. Advances under this loan are split evenly from each member's affiliate. The interest rate used on outstanding loan balances is based upon a three-month LIBOR rate. No amounts were outstanding under the Loan Agreement at December 31, 1998. During the year, the Company borrowed and repaid approximately $5,390,000. The Company incurred interest expense on these borrowings of approximately $68,000 in 1998.

6. CONTINGENT REVENUES:

During 1998, the first year of deregulation of the state of California power industry, the Company accrued certain amounts related to contingent revenues. Such amounts relate to items that are subject to contract interpretations, compliance with processes and filed market disputes. The Company is actively pursuing resolution and/or collection of these amounts, which totaled approximately $61,133,000 in 1998, and has reserved all such revenues as contingent, as reflected in the accompanying balance sheet and statement of operations. Contingent revenues receivable in the accompanying balance sheet are reflected net of all accrued management fees, while contingent revenues collected represent cash received related to such contingent items. Management believes that all recorded amounts related to contingent items are accruable based on contractual interpretations and compliance with processes and, upon any final resolution and/or collection of these amounts, such revenues will be recognized in earnings.

7. COMMITMENTS AND CONTINGENCIES:

The Company is involved in disputes arising in the ordinary course of business. Management does not believe the outcome of such disputes will have a material adverse effect on the Company's financial position or results of operations.