NRG ENERGY, INC.
Form 10-Q
July 30, 2009

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**FORM 10-Q**

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the quarterly period ended: June 30, 2009**

**Commission File Number: 001-15891**

**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.) |
| **211 Carnegie Center Princeton, New Jersey** | **08540** |
| (Address of principal executive offices) | (Zip Code) |

**(609) 524-4500**

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required 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** þ **No** o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

**Yes** o **No** o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| **Large accelerated filer** þ | **Accelerated filer** o | **Non-accelerated filer** o<br>(Do not check if a smaller reporting company) | **Smaller reporting company** o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

**Yes** o **No** þ

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

**Yes** þ **No** o

As of July 28, 2009, there were 265,276,841 shares of common stock outstanding, par value $0.01 per share.

**TABLE OF CONTENTS**
**Index**

**Table of Contents**

## CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The words believes , projects , anticipates , plans , expects , intends , estimates expressions are intended to identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause NRG s actual results, performance and achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors, risks and uncertainties include the factors described under Risks Factors Related to NRG Energy, Inc. in Part I, Item 1A, of the Company s Annual Report on Form 10-K, for the year ended December 31, 2008 and Risk Factors in Part II, Item 1A, of this Quarterly Report on Form 10-Q, including the following:

- General economic conditions, changes in the wholesale power markets and fluctuations in the cost of fuel;
- Volatile power supply costs and demand for power;
- Hazards customary to the power production industry and power generation operations such as fuel and electricity price volatility, unusual weather conditions, catastrophic weather-related or other damage to facilities, unscheduled generation outages, maintenance or repairs, unanticipated changes to fuel supply costs or availability due to higher demand, shortages, transportation problems or other developments, environmental incidents, or electric transmission or gas pipeline system constraints and the possibility that NRG may not have adequate insurance to cover losses as a result of such hazards;
- The effectiveness of NRG s risk management policies and procedures, and the ability of NRG s counterparties to satisfy their financial commitments;
- Counterparties collateral demands and other factors affecting NRG s liquidity position and financial condition;
- NRG s ability to operate its businesses efficiently, manage capital expenditures and costs tightly, and generate earnings and cash flows from its asset-based businesses in relation to its debt and other obligations;
- NRG s ability to enter into contracts to sell power and procure fuel on acceptable terms and prices;
- The liquidity and competitiveness of wholesale markets for energy commodities;
- Government regulation, including compliance with regulatory requirements and changes in market rules, rates, tariffs and environmental laws and increased regulation of carbon dioxide and other greenhouse gas emissions;
- Price mitigation strategies and other market structures employed by ISOs or RTOs that result in a failure to adequately compensate NRG s generation units for all of its costs;
- NRG s ability to borrow additional funds and access capital markets, as well as NRG s substantial indebtedness and the possibility that NRG may incur additional indebtedness going forward;
- Operating and financial restrictions placed on NRG and its subsidiaries that are contained in the indentures governing NRG s outstanding notes, in NRG s Senior Credit Facility, and in debt and other agreements of certain of NRG subsidiaries and project affiliates generally;
- NRG s ability to implement its *Repowering*NRG strategy of developing and building new power generation facilities, including new nuclear, wind and solar projects;
- NRG s ability to implement its econrg strategy of finding ways to meet the challenges of climate change, clean air and protecting natural resources while taking advantage of business opportunities;
- NRG s ability to achieve its strategy of regularly returning capital to shareholders; and
- NRG s ability to successfully integrate and manage any acquired companies.

Forward-looking statements speak only as of the date they were made, and NRG undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors that could cause NRG s actual results to differ materially from those contemplated in any forward-looking statements included in this Quarterly Report on Form 10-Q should not be construed as exhaustive.

**Table of Contents**

## GLOSSARY OF TERMS

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below:

| | |
|---|---|
| APB | Accounting Principles Board |
| Baseload capacity | Electric power generation capacity normally expected to serve loads on an around-the-clock basis throughout the calendar year |
| BTA | Best Technology Available |
| BTU | British Thermal Unit |
| CAA | Clean Air Act |
| CAIR | Clean Air Interstate Rule |
| CAISO | California Independent System Operator |
| Capital Allocation Plan | Share repurchase program |
| Capital Allocation Program | NRG s plan of allocating capital between debt reduction, reinvestment in the business, and share repurchases through the Capital Allocation Plan |
| CDWR | California Department of Water Resources |
| C&I | Commercial, industrial and governmental/institutions |
| CL&P | The Connecticut Light & Power Company |
| $CO_2$ | Carbon dioxide |
| CS | Credit Suisse Group |
| CSF I | NRG Common Stock Finance I LLC |
| CSF II | NRG Common Stock Finance II LLC |
| CSRA | Credit Sleeve Reimbursement Agreement with Merrill Lynch in connection with acquisition of Reliant Energy, as hereinafter defined |
| DNREC | Delaware Department of Natural Resources and Environmental Control |
| DPUC | Department of Public Utility Control |
| EITF | Emerging Issues Task Force |
| EITF 07-5 | EITF No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock* |

| | |
|---|---|
| EITF 08-5 | EITF No. 08-5, *Issuer s Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement* |
| EITF 08-6 | EITF No. 08-6, *Equity Method Investment Accounting Considerations* |
| EITF 09-1 | EITF No. 09-1, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing* |
| EPC | Engineering, Procurement and Construction |
| ERCOT | Electric Reliability Council of Texas, the Independent System Operator and the Regional Reliability Coordinator of the various electricity systems within Texas |
| ESPP | Employee Stock Purchase Plan |
| Exchange Act | The Securities Exchange Act of 1934, as amended |
| FASB | Financial Accounting Standards Board the designated organization for establishing standards for financial accounting and reporting |
| FERC | Federal Energy Regulatory Commission |
| FIN | FASB Interpretation |
| FIN 46R | FIN No. 46(R), *Consolidation of Variable Interest Entities (revised 2003) an interpretation of ARB No. 51* |
| FIN 48 | FIN No. 48, *Accounting for Uncertainty in Income Taxes* |
| Fresh Start | Reporting requirements as defined by SOP 90-7 |
| FSP | FASB Staff Position |

**Table of Contents**

## GLOSSARY OF TERMS (continued)

| | |
|---|---|
| FSP FAS 107-1 and APB 28-1 | FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* |
| FSP FAS 115-2 and FAS 124-2 | FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* |
| FSP FAS 132R-1 | FSP No. FAS 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets* |
| FSP FAS 141R-1 | FSP No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* |
| FSP FAS 142-3 | FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Asset* |
| FSP FAS 157-2 | FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157* |
| FSP FAS 157-4 | FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* |
| GHG | Greenhouse Gases |
| Gross Generation | The total amount of electric energy produced by generating units and measured at the generating terminal in kWh s or MWh s |
| Heat Rate | A measure of thermal efficiency computed by dividing the total BTU content of the fuel burned by the resulting kWh s generated. Heat rates can be expressed as either gross or net heat rates, depending whether the electricity output measured is gross or net generation and is generally expressed as BTU per net kWh. |
| IGCC | Integrated Gasification Combined Cycle |
| IRS | Internal Revenue Service |
| ISO | Independent System Operator, also referred to as Regional Transmission Organizations, or RTO |
| ISO-NE | ISO New England Inc. |
| ITISA | Itiquira Energetica S.A. |
| kV | Kilovolts |
| kW | Kilowatts |
| kWh | Kilowatt-hours |

| | |
|---|---|
| LIBOR | London Inter-Bank Offer Rate |
| LTIP | Long-Term Incentive Plan |
| MACT | Maximum Achievable Control Technology |
| Market usage adjustments | The revenues and the related energy supply costs in the Reliant Energy segment includes the Company s estimates of customer usage based on initial usage information provided by the independent system operators and the distribution companies. The Company revises these estimates and records any changes in the period as additional settlement information becomes available. |
| Mass | Residential and small business |
| Merit Order | A term used for the ranking of power stations in order of ascending marginal cost |
| MIBRAG | Mitteldeutsche Braunkohlengesellschaft mbH |
| MMBtu | Million British Thermal Units |
| MRTU | Market Redesign and Technology Upgrade |
| MVA | Megavolt-ampere |
| MW | Megawatts |
| MWh | Saleable megawatt hours net of internal/parasitic load megawatt-hours |
| MWt | Megawatts Thermal |
| NAAQS | National Ambient Air Quality Standards |
| NEPOOL | New England Power Pool |

**Table of Contents**

**GLOSSARY OF TERMS (continued)**

| | |
|---|---|
| Net Capacity Factor | The net amount of electricity that a generating unit produces over a period of time divided by the net amount of electricity it could have produced if it had run at full power over that time period. The net amount of electricity produced is the total amount of electricity generated minus the amount of electricity used during generation. |
| Net Exposure | Counterparty credit exposure to NRG, net of collateral |
| Net Generation | The net amount of electricity produced, expressed in kWh s or MWh s, that is the total amount of electricity generated (gross) minus the amount of electricity used during generation. |
| NINA | Nuclear Innovation North America LLC |
| $NO_x$ | Nitrogen oxide |
| NOL | Net Operating Loss |
| NOV | Notice of Violation |
| NPNS | Normal Purchase Normal Sale |
| NRC | United States Nuclear Regulatory Commission |
| NSR | New Source Review |
| NYISO | New York Independent System Operator |
| OCI | Other Comprehensive Income |
| Padoma | Padoma Wind Power LLC |
| Phase II 316(b) Rule | A section of the Clean Water Act regulating cooling water intake structures |
| PJM | PJM Interconnection, LLC |
| PJM market | The wholesale and retail electric market operated by PJM primarily in all or parts of Delaware, the District of Columbia, Illinois, Maryland, New Jersey, Ohio, Pennsylvania, Virginia and West Virginia |
| PMI | NRG Power Marketing, LLC, a wholly-owned subsidiary of NRG which procures transportation and fuel for the Company s generation facilities, sells the power from these facilities, and manages all commodity trading and hedging for NRG |
| PPA | Power Purchase Agreement |

| | |
|---|---|
| PUCT | Public Utility Commission of Texas |
| Reliant Energy | NRG s retail business in Texas purchased on May 1, 2009 from Reliant Energy, Inc. which is now known as RRI Energy, Inc. |
| Repowering | Technologies utilized to replace, rebuild, or redevelop major portions of an existing electrical generating facility, not only to achieve a substantial emissions reduction, but also to increase facility capacity, and improve system efficiency |
| *Repowering*NRG | NRG s program designed to develop, finance, construct and operate new, highly efficient, environmentally responsible capacity over the next decade |
| Revolving Credit Facility | NRG s $1 billion senior secured revolving credit facility which matures on February 2, 2011 |
| RGGI | Regional Greenhouse Gas Initiative |
| ROIC | Return on Invested Capital |
| RPM | Reliability Pricing Model term for capacity market in PJM market |
| RTO | Regional Transmission Organization, also referred to as an Independent System Operator, or ISO |
| S&P | Standard & Poor s, a credit rating agency |
| Sarbanes-Oxley | Sarbanes-Oxley Act of 2002 (as amended) |
| SEC | United States Securities and Exchange Commission |
| Securities Act | The Securities Act of 1933, as amended |
| Senior Credit Facility | NRG s senior secured facility, which is comprised of a Term Loan Facility and a $1.3 billion Synthetic Letter of Credit Facility which mature on February 1, 2013, and a $1 billion Revolving Credit Facility, which matures on February 2, 2011 |

**Table of Contents**

**GLOSSARY OF TERMS (continued)**

| | |
|---|---|
| Senior Notes | The Company s $5.4 billion outstanding unsecured senior notes consisting of $1.2 billion of 7.25% senior notes due 2014, $2.4 billion of 7.375% senior notes due 2016, $1.1 billion of 7.375% senior notes due 2017 and $700 million of 8.5% senior notes due 2019 |
| SFAS | Statement of Financial Accounting Standards issued by the FASB |
| SFAS 133 | SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* as amended |
| SFAS 141R | SFAS No. 141 (revised 2007), *Business Combinations* |
| SFAS 157 | SFAS No. 157, *Fair Value Measurement* |
| SFAS 160 | SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements* |
| SFAS 161 | SFAS No. 161, *Disclosure about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* |
| SFAS 165 | SFAS No. 165, *Subsequent Events* |
| SFAS 167 | SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* |
| SFAS 168 | SFAS No. 168*, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* |
| Sherbino | Sherbino I Wind Farm LLC |
| $SO_2$ | Sulfur dioxide |
| SOP | Statement of Position issued by the American Institute of Certified Public Accountants |
| SOP 90-7 | Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* |
| STP | South Texas Project nuclear generating facility located near Bay City, Texas in which NRG owns a 44% Interest |
| STPNOC | South Texas Project Nuclear Operating Company |
| Synthetic Letter of Credit Facility | NRG s $1.3 billion senior secured synthetic letter of credit facility which matures on February 1, 2013 |
| TANE | Toshiba American Nuclear Energy Corporation |

| | |
|---|---|
| TANE Facility | NINA s $500 million credit facility with TANE which matures on February 24, 2012 |
| Term Loan Facility | A senior first priority secured term loan which matures on February 1, 2013, and is included as part of NRG s Senior Credit Facility |
| Texas Genco | Texas Genco LLC, now referred to as the Company s Texas Region |
| Tonnes | Metric tonnes, which are units of mass or weight in the metric system each equal to 2,205 lbs and are the global measurement for GHG |
| Uprate | A sustainable increase in the electrical rating of a generating facility |
| U.S. | United States of America |
| U.S. EPA | United States Environmental Protection Agency |
| U.S. GAAP | Accounting principles generally accepted in the United States |
| VaR | Value at Risk |
| WCP | WCP (Generation) Holdings, Inc. |

Table of Contents

**PART I FINANCIAL INFORMATION**
**ITEM 1 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES**
**NRG ENERGY, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Unaudited)**

| (In millions, except for per share amounts) | Three months ended June 30, 2009 | Three months ended June 30, 2008 | Six months ended June 30, 2009 | Six months ended June 30, 2008 |
|---|---|---|---|---|
| **Operating Revenues** | | | | |
| Total operating revenues | $ 2,237 | $ 1,316 | $ 3,895 | $ 2,618 |
| **Operating Costs and Expenses** | | | | |
| Cost of operations | 1,242 | 1,011 | 2,008 | 1,815 |
| Depreciation and amortization | 213 | 161 | 382 | 322 |
| Selling, general and administrative | 131 | 83 | 214 | 158 |
| Acquisition-related transaction and integration costs | 23 | | 35 | |
| Development costs | 9 | 4 | 22 | 16 |
| Total operating costs and expenses | 1,618 | 1,259 | 2,661 | 2,311 |
| **Operating Income** | 619 | 57 | 1,234 | 307 |
| **Other Income/(Expense)** | | | | |
| Equity in earnings/(losses) of unconsolidated affiliates | 5 | (19) | 27 | (23) |
| Gain on sale of equity method investment | 128 | | 128 | |
| Other (loss)/income, net | (11) | 12 | (14) | 21 |
| Interest expense | (159) | (144) | (297) | (300) |
| Total other expense | (37) | (151) | (156) | (302) |
| **Income/(Losses) From Continuing Operations Before Income Taxes** | 582 | (94) | 1,078 | 5 |
| Income tax expense/(benefit) | 150 | (53) | 448 | 1 |
| **Income/(Losses) From Continuing Operations** | 432 | (41) | 630 | 4 |
| Income from discontinued operations, net of income taxes | | 168 | | 172 |
| **Net Income** | 432 | 127 | 630 | 176 |
| Less: Net loss attributable to noncontrolling interest | (1) | | (1) | |
| **Net income attributable to NRG Energy, Inc.** | 433 | 127 | 631 | 176 |
| Dividends for preferred shares | 7 | 14 | 21 | 28 |
| **Income Available for NRG Energy, Inc. Common Stockholders** | $ 426 | $ 113 | $ 610 | $ 148 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Earnings per share attributable to NRG Energy, Inc. Common Stockholders** | | | | | | | | |
| Weighted average number of common shares outstanding basic | | 253 | | 236 | | 245 | | 236 |
| Income/(losses) from continuing operations per weighted average common share basic | $ | 1.68 | $ | (0.23) | $ | 2.49 | $ | (0.10) |
| Income from discontinued operations per weighted average common share basic | | | | 0.71 | | | | 0.73 |
| **Net Income per Weighted Average Common Share Basic** | $ | 1.68 | $ | 0.48 | $ | 2.49 | $ | 0.63 |
| Weighted average number of common shares outstanding diluted | | 275 | | 236 | | 275 | | 236 |
| Income/(losses) from continuing operations per weighted average common share diluted | $ | 1.56 | $ | (0.23) | $ | 2.27 | $ | (0.10) |
| Income from discontinued operations per weighted average common share diluted | | | | 0.71 | | | | 0.73 |
| **Net Income per Weighted Average Common Share Diluted** | $ | 1.56 | $ | 0.48 | $ | 2.27 | $ | 0.63 |
| **Amounts attributable to NRG Energy, Inc.:** | | | | | | | | |
| Income/(losses) from continuing operations, net of income taxes | $ | 433 | $ | (41) | $ | 631 | $ | 4 |
| Income from discontinued operations, net of income taxes | | | | 168 | | | | 172 |
| **Net Income** | $ | 433 | $ | 127 | $ | 631 | $ | 176 |

See notes to condensed consolidated financial statements.

**Table of Contents**

**NRG ENERGY, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED BALANCE SHEETS**

| (In millions, except shares) | June 30, 2009 (unaudited) | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 2,282 | $ 1,494 |
| Funds deposited by counterparties | 468 | 754 |
| Restricted cash | 19 | 16 |
| Accounts receivable, less allowance for doubtful accounts of $12 and $3, respectively | 1,186 | 464 |
| Inventory | 530 | 455 |
| Derivative instruments valuation | 4,394 | 4,600 |
| Cash collateral paid in support of energy risk management activities | 243 | 494 |
| Prepayments and other current assets | 210 | 215 |
| Total current assets | 9,332 | 8,492 |
| **Property, plant and equipment, net of accumulated depreciation of $2,689 and $2,343, respectively** | 11,609 | 11,545 |
| **Other Assets** | | |
| Equity investments in affiliates | 363 | 490 |
| Capital leases and note receivable, less current portion | 483 | 435 |
| Goodwill | 1,718 | 1,718 |
| Intangible assets, net of accumulated amortization of $327 and $335, respectively | 2,111 | 815 |
| Nuclear decommissioning trust fund | 316 | 303 |
| Derivative instruments valuation | 1,188 | 885 |
| Other non-current assets | 185 | 125 |
| Total other assets | 6,364 | 4,771 |
| **Total Assets** | $ 27,305 | $ 24,808 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| **Current Liabilities** | | |
| Current portion of long-term debt and capital leases | $ 453 | $ 464 |
| Accounts payable | 857 | 451 |
| Derivative instruments valuation | 4,196 | 3,981 |
| Deferred income taxes | 46 | 201 |
| Cash collateral received in support of energy risk management activities | 468 | 760 |
| Accrued expenses and other current liabilities | 618 | 724 |
| Total current liabilities | 6,638 | 6,581 |

| | | |
|---|---|---|
| **Other Liabilities** | | |
| Long-term debt and capital leases | 8,294 | 7,697 |
| Nuclear decommissioning reserve | 292 | 284 |
| Nuclear decommissioning trust liability | 217 | 218 |
| Deferred income taxes | 1,564 | 1,190 |
| Derivative instruments valuation | 906 | 508 |
| Out-of-market contracts | 378 | 291 |
| Other non-current liabilities | 914 | 669 |
| Total non-current liabilities | 12,565 | 10,857 |
| **Total Liabilities** | 19,203 | 17,438 |
| 3.625% convertible perpetual preferred stock (at liquidation value, net of issuance costs) | 247 | 247 |
| **Commitments and Contingencies** | | |
| **Stockholders Equity** | | |
| Preferred stock (at liquidation value, net of issuance costs) | 406 | 853 |
| Common stock | 3 | 3 |
| Additional paid-in capital | 4,561 | 4,350 |
| Retained earnings | 3,033 | 2,423 |
| Less treasury stock, at cost 17,200,777 and 29,242,483 shares, respectively | (532) | (823) |
| Accumulated other comprehensive income | 372 | 310 |
| Noncontrolling interest | 12 | 7 |
| **Total Stockholders Equity** | 7,855 | 7,123 |
| **Total Liabilities and Stockholders Equity** | $ 27,305 | $ 24,808 |

See notes to condensed consolidated financial statements.

Table of Contents

**NRG ENERGY, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited)**

| (In millions) Six months ended June 30, | 2009 | 2008 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | $ 631 | $ 176 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Distributions and equity in (earnings)/losses of unconsolidated affiliates | (27) | 32 |
| Depreciation and amortization | 382 | 322 |
| Provision for bad debts | 9 | |
| Amortization of nuclear fuel | 19 | 30 |
| Amortization of financing costs and debt discount/premiums | 21 | 19 |
| Amortization of intangibles and out-of-market contracts | 15 | (147) |
| Changes in deferred income taxes and liability for unrecognized tax benefits | 445 | 96 |
| Changes in nuclear decommissioning trust liability | 15 | 17 |
| Changes in derivatives | (368) | 669 |
| Changes in collateral deposits supporting energy risk management activities | 245 | (328) |
| (Gain)/loss on sale of assets | (1) | 2 |
| Gain on sale of equity method investment | (128) | |
| Gain on sale of discontinued operations | | (270) |
| Gain on sale of emission allowances | (9) | (42) |
| Gain recognized on settlement of pre-existing relationship | (31) | |
| Amortization of unearned equity compensation | 13 | 14 |
| Changes in option premiums collected, net of acquisition | (270) | 99 |
| Cash used by changes in other working capital, net of acquisition | (239) | (253) |
| **Net Cash Provided by Operating Activities** | 722 | 436 |
| **Cash Flows from Investing Activities** | | |
| Acquisition of Reliant Energy, net of cash acquired | (345) | |
| Capital expenditures | (374) | (409) |
| Increase in restricted cash, net | (3) | (1) |
| (Increase)/decrease in notes receivable | (11) | 21 |
| Purchases of emission allowances | (52) | (4) |
| Proceeds from sale of emission allowances | 15 | 61 |
| Investments in nuclear decommissioning trust fund securities | (172) | (285) |
| Proceeds from sales of nuclear decommissioning trust fund securities | 157 | 269 |
| Proceeds from sale of discontinued operations and assets, net of cash divested | | 229 |
| Proceeds from sale of assets, net | 6 | 14 |
| Proceeds from sale of equity method investment | 284 | |
| Other investment | (5) | |
| Equity investment in unconsolidated affiliates | | (17) |
| **Net Cash Used by Investing Activities** | (500) | (122) |
| **Cash Flows from Financing Activities** | | |

| | | |
|---|---|---|
| Payment of dividends to preferred stockholders | (21) | (28) |
| Payment of financing element of acquired derivatives | (22) | (28) |
| Payment for treasury stock | | (55) |
| Proceeds from issuance of common stock, net of issuance costs | | 8 |
| Proceeds from sale of noncontrolling interest in subsidiary | 50 | 50 |
| Proceeds from issuance of long-term debt | 820 | 10 |
| Payment of deferred debt issuance costs | (29) | (2) |
| Payments for short and long-term debt | (233) | (188) |
| **Net Cash Provided by/(Used by) Financing Activities** | 565 | (233) |
| Change in cash from discontinued operations | | 43 |
| Effect of exchange rate changes on cash and cash equivalents | 1 | 7 |
| **Net Increase in Cash and Cash Equivalents** | 788 | 131 |
| **Cash and Cash Equivalents at Beginning of Period** | 1,494 | 1,132 |
| **Cash and Cash Equivalents at End of Period** | $ 2,282 | $ 1,263 |

See notes to condensed consolidated financial statements.

**NRG ENERGY, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

**Note 1 Basis of Presentation**

NRG Energy, Inc., or NRG or the Company, is primarily a wholesale power generation company with a significant presence in major competitive power markets in the United States, as well as a major retail electricity franchise in the ERCOT (Texas) market. NRG is engaged in the ownership, development, construction and operation of power generation facilities, the transacting in and trading of fuel and transportation services, the trading of energy, capacity and related products in the United States and select international markets, and supply of electricity and energy services to retail electricity customers in the Texas market.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with the SEC s regulations for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. The following notes should be read in conjunction with the accounting policies and other disclosures as set forth in the notes to the Company s financial statements in its Annual Report on Form 10-K for the year ended December 31, 2008. Interim results are not necessarily indicative of results for a full year.

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements contain all material adjustments consisting of normal and recurring accruals necessary to present fairly the Company s consolidated financial position as of June 30, 2009, the results of operations for the three and six months ended June 30, 2009 and 2008, and cash flows for the six months ended June 30, 2009 and 2008. These financial statements and notes reflect the Company s evaluation of events occurring subsequent to the balance sheet date through July 30, 2009, the date the financial statements were issued. Certain prior-year amounts have been reclassified for comparative purposes.

***Use of Estimates***

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. They also impact the reported amount of net earnings during the reporting period. Actual results could be different from these estimates.

***Cash and Cash Equivalents***

Cash and cash equivalents at June 30, 2009, are predominantly held in money market funds invested in treasury securities, treasury repurchase agreements or government agency debt.

***Other Cash Flow Information***

NRG s non-cash investing activities for the six months ended June 30, 2009 included capital expenditures of $46 million for which the associated liability is reflected within accrued expenses.

***Recent Accounting Developments***

*SFAS 141R* The Company adopted SFAS No. 141 (revised 2007), *Business Combinations*, or SFAS 141R, on January 1, 2009. The provisions of SFAS 141R are applied prospectively to business combinations for which the acquisition date occurs after January 1, 2009. The statement requires an acquirer to recognize and measure in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at fair value at the acquisition date. It also recognizes and measures the goodwill acquired or a gain from a bargain purchase in the business combination and determines what information to disclose to enable users of an entity s financial statements to evaluate the nature and financial effects of the business combination. In addition, transaction costs are required to be expensed as incurred. As discussed in Note 3, *Business Acquisition*, on May 1, 2009 NRG acquired all of the Texas electric retail business operations, or Reliant Energy, of Reliant Energy, Inc., now known as RRI Energy, Inc., or RRI. The Company has applied the provisions of SFAS 141R to the Reliant Energy acquisition. As discussed further in Note 12, *Income Taxes*, any reductions after January 1, 2009, to existing net deferred tax assets or valuation allowances or changes to uncertain tax benefits, as they relate to Fresh Start or previously completed acquisitions, will be recorded to income tax expense rather than additional paid-in capital or goodwill.

**Table of Contents**

*FSP FAS 141R-1* In April 2009, the FASB issued FSP No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*, or FSP FAS 141R-1, which the Company adopted effective January 1, 2009. This FSP amends and clarifies SFAS 141R, to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. The provisions of FSP FAS 141R-1 are applied prospectively to assets or liabilities arising from contingencies in business combinations for which the acquisition date occurs after January 1, 2009. Accordingly, the Company has applied the provisions of FSP FAS 141R-1 to the Reliant Energy acquisition.

*SFAS 160* The Company adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51, Consolidated Financial Statements*, or SFAS 160, on January 1, 2009. This statement amends ARB No. 51 to establish accounting and reporting standards for the minority interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB No. 51 s consolidation procedures for consistency with the requirements of SFAS 141R. This statement is applied prospectively from the date of adoption, except for the presentation and disclosure requirements, which shall be applied retrospectively. Accordingly, the Company has conformed its financial statement presentation and disclosures to the requirements of SFAS 160.

*FSP APB 14-1* The Company adopted FSP No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement),* or FSP APB 14-1, on January 1, 2009, applying it retrospectively to all periods presented. FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) do not fall within the scope of paragraph 12 of Accounting Principles Board Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants,* and specifies that issuers of such instruments should separately account for the liability component and the equity component represented by the embedded conversion option in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. Upon settlement, the entity shall allocate consideration transferred and transaction costs incurred to the extinguishment of the liability component and the reacquisition of the equity component.

During the third quarter 2006, NRG s unrestricted wholly-owned subsidiaries CSF I and CSF II issued notes and preferred interests, or CSF Debt, which included an embedded derivative requiring NRG to pay to Credit Suisse Group, or CS, at maturity, either in cash or stock at NRG s option, the excess of NRG s then current stock price over a threshold price. The CSF Debt and its embedded derivative are accounted for under the guidance in FSP APB 14-1. The fair value of the embedded derivative at the date of issuance was determined to be $32 million and has been recorded as a debt discount to the CSF Debt, with a corresponding credit to Additional Paid-in Capital. This debt discount will be amortized over the terms of the underlying CSF Debt. The cumulative effect of the change in accounting principle for periods prior to December 31, 2008, was recorded as a $7 million decrease to Long-Term Debt, a $13 million decrease to Additional Paid-In Capital, and a $20 million increase to Retained Earnings on the Condensed Consolidated Balance Sheet as of December 31, 2008.

The following table summarizes the effect of the adoption of FSP APB 14-1 on income and per-share amounts for all periods presented:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| **(In millions, except per share amounts)** | **2009** | **2008** | **2009** | **2008** |
| Increase/(decrease): | | | | |
| Interest Expense | $ 2 | $ 2 | $ 3 | $ 5 |
| Income From Continuing Operations | (2) | (2) | (3) | (5) |
| Net Income attributable to NRG Energy, Inc. | (2) | (2) | (3) | (5) |
| Basic Earnings Per Share | $ (0.01) | $ (0.01) | $ (0.01) | $ (0.02) |
| Diluted Earnings Per Share | $ (0.01) | $ (0.01) | $ (0.01) | $ (0.02) |

12

*FSP FAS 157-4* In April 2009, the FASB issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,* or FSP FAS 157-4. FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS Statement No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased, includes guidance on identifying circumstances that indicate a transaction is not orderly, and requires disclosures about inputs and valuation techniques used to measure fair value. This FSP applies to all assets and liabilities within the scope of accounting pronouncements that require or permit fair value measurements. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and will be applied prospectively. The Company s adoption of FSP FAS 157-4 beginning with the interim reporting period ended June 30, 2009, did not have a material impact on the Company s results of operations, financial position, or cash flows.

*FSP 107-1 and APB 28-1* In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* or FSP 107-1 and APB 28-1. This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments,* to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting,* to require those disclosures in summarized financial information at interim reporting periods. This FSP applies to all financial instruments within the scope of FSP 107-1 held by publicly traded companies, as defined by Opinion 28. This FSP is effective for interim reporting periods ending after June 15, 2009. FSP FAS 107-1 and APB 28-1 do not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. The Company s adoption of FSP 107-1 and APB 28-1 beginning with the interim period ended June 30, 2009 did not have an impact on the Company s results of operations, financial position, or cash flows.

*FSP FAS 115-2 and FAS 124-2* In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments,* or FSP FAS 115-2 and FAS 124-2. This FSP amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP FAS 115-2 and FAS 124-2 are effective for interim and annual reporting periods ending after June 15, 2009. This FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. The Company s adoption of FSP FAS 115-2 and FAS 124-2 beginning with the interim period ended June 30, 2009 did not have an impact on the Company s results of operations, financial position, or cash flows.

*SFAS 165* In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, or SFAS 165. SFAS 165 incorporates the accounting and disclosure requirements related to subsequent events found in auditing standards into U.S. GAAP, effectively making management directly responsible for subsequent events accounting and disclosures. SFAS 165 also requires disclosure of the date through which subsequent events have been evaluated. SFAS 165 is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The Company s adoption of SFAS 165 beginning with the interim period ended June 30, 2009 did not have an impact on the Company s results of operations, financial position, or cash flows.

*SFAS 167* In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, or SFAS 167. This guidance amends FIN 46(R) by altering how a company determines when an entity that is insufficiently capitalized or not controlled through voting should be consolidated. SFAS 167 is effective at the start of the first fiscal year beginning after November 15, 2009. The Company is presently evaluating the impact of SFAS 167 on its results of operations, financial position, and cash flows.

*SFAS 168* In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, or SFAS 168. This guidance establishes the FASB Accounting Standards Codification, or Codification, as the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. In addition, SFAS 168 also specifies that rules and interpretive releases of the Securities and Exchange Commission under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. SFAS 168 is effective for financial statements issued for interim and annual reporting periods that end after September 15, 2009.

*EITF 09-1* In July 2009, the FASB ratified EITF Issue No. 09-1, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing,* or EITF 09-1. This Issue applies to equity-classified share lending arrangements on an entity s own shares, when executed in contemplation of a convertible debt offering or other financing. EITF 09-1 addresses how to account for the share-lending arrangement and the effect, if any, that the loaned shares have on earnings-per-share calculations. The share lending arrangement is required to be measured at fair value and recognized as an issuance cost associated with the convertible debt offering or other financing. Earnings-per-share calculations would not be affected by the loaned shares unless the share borrower defaults on the arrangement and does not return the shares. If counterparty default is probable, the share lender is required to recognize an expense equal to the then fair value of the unreturned shares, net of the fair value of probable recoveries. The Company will apply EITF 09-1 for share lending agreements entered into after June 15, 2009 and will apply EITF 09-1 on a retrospective basis for arrangements outstanding as of January 1, 2010. NRG is currently evaluating the impact of this statement upon its adoption on the Company s results of operations, financial position and cash flows.

*Other* The following accounting standards were adopted on January 1, 2009, with no impact on the Company s results of operations, financial position, or cash flows:

FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*

FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157*

SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities*

FSP No. FAS 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets*

EITF No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock*

EITF No. 08-5, *Issuer s Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement*

EITF No. 08-6, *Equity Method Investment Accounting Considerations*

**Note 2 Comprehensive Income/(Loss)**

The following table summarizes the components of the Company s comprehensive income/(loss), net of tax:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| **(In millions)** | **2009** | **2008** | **2009** | **2008** |
| Net income | $ 433 | $ 127 | $ 631 | $ 176 |
| Changes in derivative activity, net of tax | (109) | (698) | 64 | (1,000) |
| Foreign currency translation adjustment, net of tax | 36 | (7) | 18 | 35 |
| Reclassification adjustment for translation (gain)/loss realized upon sale of foreign investments | (22) | 15 | (22) | 15 |
| Unrealized gain on available-for-sale securities, net of tax | 1 | 1 | 2 | 3 |
| Other comprehensive (loss)/income, net of tax | (94) | (689) | 62 | (947) |
| Comprehensive income/(loss) attributable to NRG Energy, Inc. | $ 339 | $ (562) | $ 693 | $ (771) |

The following table summarizes the changes in the Company s accumulated other comprehensive income, net of tax:

| **(In millions)** | |
|---|---|
| Accumulated other comprehensive income as of December 31, 2008 | $ 310 |
| Changes in derivative activity | 64 |
| Foreign currency translation adjustment | 18 |
| Reclassification adjustment for translation gain realized upon sale of foreign investment | (22) |
| Unrealized gain on available-for-sale securities | 2 |
| Accumulated other comprehensive income as of June 30, 2009 | $ 372 |

Table of Contents

## Note 3 Business Acquisition

***General***

On May 1, 2009, NRG, through its wholly owned subsidiary NRG Retail LLC, acquired Reliant Energy, which consisted of all of the Texas electric retail business operations of RRI, including the exclusive use of the trade name Reliant . Reliant Energy arranges for the transmission and delivery of electricity to customers, bills customers, collects payments for electricity sold and maintains call centers to provide customer service. Reliant Energy is the second largest electricity provider to residential and small business, or mass, customers in Texas, with approximately 1.6 million mass customers as of June 30, 2009. Reliant Energy also sells electricity and energy services to commercial, industrial and governmental/institutional customers, or C&I customers, in Texas with 0.1 million C&I customers based on metered locations as of June 30, 2009. These customers include refineries, chemical plants, manufacturing facilities, hospitals, universities, government agencies, restaurants, and other facilities.

With its complementary generation portfolio, the Texas region will be a supplier of power to Reliant Energy, thereby creating the potential for a more stable, reliable and competitive business that benefits Texas consumers. By backing Reliant Energy s load-serving requirements with NRG s generation and risk management practices, the need to sell and buy power from other financial institutions and intermediaries that trade in the ERCOT market may be reduced, resulting in reduced transaction costs and credit exposures, which will provide for an efficient credit structure. This will also allow for a reduction in actual and contingent collateral, which will be achieved initially through offsetting transactions and over time by reducing the need to hedge the retail power supply through third parties, thus reducing collateral postings. In addition, with Reliant Energy s base of retail customers, NRG now has a platform to build on the entire class of distributed generation and retail alternative energy technologies.

***Credit Support***

On May 1, 2009, NRG arranged with Merrill Lynch Commodities, Inc. and certain of its affiliates, or Merrill Lynch, the former credit provider of RRI, to provide continuing credit support to Reliant Energy after closing the acquisition. In connection with entering into a transitional credit sleeve facility, or CSRA, NRG contributed $200 million of cash to Reliant Energy. In conjunction with the CSRA, NRG, Reliant Energy, counterparties, and Merrill Lynch novated some of NRG s in-the-money trades to move collateral from NRG to Merrill Lynch, thereby reducing Merrill Lynch s actual and contingent collateral supporting Reliant Energy out-of-money positions. As a result, $522 million of cash collateral held by NRG was moved to Merrill Lynch on the novation dates. NRG continues to record unrealized and realized gains/losses for these novated trades in its Texas and Northeast segments. The CSRA is scheduled to provide collateral support for Reliant Energy until November 1, 2010. NRG will also have two potential additional cash contribution obligations: (i) in October 2009 of $250 million if the actual collateral posted by Merrill Lynch exceeded the predetermined threshold as set forth in the CSRA; and (ii) in October 2010 for up to $400 million at the scheduled sleeve unwind. The monthly fee for the CSRA is 5.875% on an annualized basis of the predetermined exposure. As a result of the CSRA, NRG has significant credit risk with Merrill Lynch.

Additionally, on May 1, 2009, NRG entered into a $50 million working capital facility with Merrill Lynch in connection with the acquisition of Reliant Energy. The facility requires that the Company comply with all terms of the CSRA. The maturity date is November 1, 2010, and NRG initially drew $25 million under the facility. These funds accrue interest at the prime rate.

Reliant Energy conducts its business through RERH Holdings, LLC and subsidiaries, or RERH, Reliant Energy Texas Retail, LLC, and Reliant Energy Services Texas, LLC. The obligations of Reliant Energy under the CSRA are secured by first liens on substantially all of the assets of RERH. The obligations of RERH under the CSRA are non-recourse to NRG and its other non-pledgor subsidiaries. The CSRA agreement (a) restricts the ability of RERH to, among other actions, (i) encumber its assets; (ii) sell certain assets; (iii) incur additional debt; (iv) pay dividends or pay subordinated debt; (v) make investments or acquisitions; or (vi) enter into certain transactions with affiliates and (b) requires NRG to manage risks related to commodity prices. RERH is designed to maintain the separate nature of its assets in order to ensure that such assets are available first and foremost to satisfy the entities creditor claims. At June 30, 2009, the cash balance at RERH was $294 million.

***Acquisition method of accounting***

The acquisition of Reliant Energy is accounted for under the acquisition method of accounting in accordance with SFAS 141R. Accordingly, NRG has conducted a preliminary assessment of net assets acquired and has recognized provisional amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values, which are preliminary at June 30, 2009, while transaction and integration costs associated with the acquisition are expensed as incurred. The initial accounting for the business combination is not complete because the appraisals necessary to assess the fair values of the net assets acquired and the amount of goodwill (if any) to be recognized are still in process, and the Company is also in the process of valuing the tax basis of the net assets acquired, which will affect the deferred tax balances. The provisional amounts recognized are subject to revision as more detailed analyses are completed and additional information is obtained about the facts and circumstances that existed as of the acquisition date. Any changes to the fair value assessments and the tax basis values will affect the final balance of goodwill.

NRG paid RRI $287.5 million in cash at closing, funded from NRG s cash on hand, and will remit approximately $82 million of acquired net working capital to RRI over the eight months following the closing, bringing cash consideration to approximately $370 million. On June 15, 2009, NRG paid $63 million to RRI as an initial remittance of acquired net working capital. NRG also recognized a $31 million non-cash gain on the settlement of a pre-existing relationship, representing the in-the-money value to NRG of an agreement that permits Reliant Energy to call on certain NRG gas plants when necessary for Reliant Energy to meet its load obligations. NRG has recorded this gain within Operating Revenues in its condensed consolidated statement of operations. This non-cash gain is considered a component of consideration in accordance with SFAS 141R, and together with cash consideration, brings total consideration to approximately $401 million.

The following table summarizes the provisional values assigned to the net assets acquired, including cash acquired of $6 million, as of the acquisition date:

| **(In millions)** | |
|---|---|
| **Assets** | |
| Current and non-current assets | $ 635 |
| Property, plant and equipment | 72 |
| Intangible assets subject to amortization: | |
| In-market customer contracts | 733 |
| Customer relationships | 481 |
| Trade names | 178 |
| In-market energy supply contracts | 37 |
| Other | 6 |
| Derivative assets | 1,942 |
| Deferred tax asset, net | 11 |
| Goodwill | |
| Total assets acquired | 4,095 |
| **Liabilities** | |
| Current and non-current liabilities | 550 |
| Derivative liabilities | 2,996 |
| Out-of-market energy supply and customer contracts | 148 |
| Total liabilities assumed | 3,694 |

| | |
|---|---|
| Net assets acquired | $ 401 |

No goodwill is expected to be deductible for tax purposes.

Current assets include accounts receivable with a preliminary fair value of $569 million and gross contractual amounts of $589 million at the time of acquisition. The Company expects to collect the fair value of the contractual cash flows; any difference between fair value and the amount collected will be an adjustment to the acquired working capital payment due to RRI.

Table of Contents

The Company, through its acquisition of Reliant Energy, is subject to material contingencies relating to Excess Mitigation Credits (see Note 14, *Commitments and Contingencies*) and Retail Replacement Reserve (see Note 15, *Regulatory Matters*). Due to the number of variables and assumptions involved in assessing the possible outcome of these matters, sufficient information does not exist to reasonably estimate the fair value of these contingent liabilities. These material contingencies have been evaluated in accordance with SFAS No. 5, *Accounting for Contingencies*, or SFAS 5, and related guidance, and no provisional amounts for these matters have been recorded at the acquisition date. In addition, NRG provided certain indemnities in connection with the acquisition. See Note 17, *Guarantees,* to this Form 10-Q for further discussion.

***Fair value measurements***

The provisional fair values of the intangible assets/liabilities and property, plant and equipment at the acquisition date were measured primarily based on significant inputs that are not observable in the market and thus represent a Level 3 measurement as defined in SFAS No. 157, *Fair Value Measurement*, or SFAS 157. Significant inputs were as follows:

*Customer contracts* The fair value of the customer contracts, representing those with Reliant Energy s C&I customers, was estimated based on the present value of the above/below market cash flows attributable to the contracts based on contract type, discounted utilizing a current market interest rate consistent with the overall credit quality of the portfolio. The fair values also accounted for Reliant Energy s historical costs to acquire customers. The above/below market cash flows were estimated by comparing the expected cash flows to be generated based on existing contracted prices and expected volumes with the cash flows from estimated current market contract prices for the same expected volumes. The estimated current market contract prices were derived considering current market costs, such as price of energy, transmission and distribution costs, and miscellaneous fees, plus a normal profit margin. The customer contracts are amortized to revenues, over a weighted average amortization period of five years, based on expected volumes to be delivered for the portfolio.

*Customer relationships* The customer relationships, reflective of Reliant Energy s residential and small business customer base, or Mass, were valued using a variation of the income approach. Under this approach, the Company estimated the present value of expected future cash flows resulting from the existing customer relationships, considering attrition and charges for contributory assets (such as net working capital, fixed assets, software, workforce and trade names) utilized in the business, discounted at an independent power producer peer group s weighted average cost of capital. The customer relationships are amortized to depreciation and amortization, over a weighted average amortization period of eight years, based on the expected discounted future net cash flows by year.

*Trade names* The trade names were valued using a relief from royalty method, an approach under which fair value is estimated to be the present value of royalties saved because NRG owns the intangible asset and therefore does not have to pay a royalty for its use. The trade names were valued in two parts based on Reliant Energy s two primary customer segments Mass customers and C&I customers. The avoided royalty revenues were discounted at an independent power producer peer group s weighted average cost of capital. The trade names are amortized to depreciation and amortization, on a straight-line basis, over 15 years.

*Energy supply contracts* The fair value of the in-market and out-of-market energy supply contracts was determined in accordance with SFAS 157. These contracts are amortized over periods ranging through 2016, based on the expected delivery under the respective contracts.

*Property, plant and equipment* The fair value of property, plant and equipment were valued using a cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the property, less an allowance for loss in value due to depreciation.

The fair value of derivative assets and liabilities as of the acquisition date were determined in accordance with FAS 157. The breakdown of Level 1, 2 and 3 are as follows:

| | Fair Value | | | |
|---|---|---|---|---|
| **(In millions)** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Derivative assets | $ 534 | $1,375 | $ 33 | $ 1,942 |
| Derivative liabilities | $ 534 | $2,357 | $ 105 | $ 2,996 |

***Amortization of acquired intangible assets and out-of-market contracts***

The following table presents the estimated amortization related to the acquired intangible assets for 2009  2014:

| Year Ended December 31, (in millions) | Customer Contracts | Customer Relationships | Trade Names | Energy Supply Contracts |
|---|---|---|---|---|
| 2009 (six months) | $ 178 | $ 118 | $ 6 | $ 12 |
| 2010 | 208 | 106 | 12 | |
| 2011 | 134 | 63 | 12 | 2 |
| 2012 | 93 | 47 | 12 | 3 |
| 2013 | 45 | 33 | 12 | 4 |
| 2014 | | 26 | 12 | 4 |

The following table presents the estimated amortization related to the acquired out-of-market contracts for 2009  2014:

| Year Ended December 31, (in millions) | Energy Supply and Customer Contracts |
|---|---|
| 2009 (six months) | $ 49 |
| 2010 | 51 |
| 2011 | 18 |
| 2012 | 7 |
| 2013 | 3 |
| 2014 | |

***Supplemental Pro Forma Information***

Since the acquisition date, Reliant Energy contributed $1,175 million of operating revenues and $233 million in net income attributable to NRG.

The following supplemental pro forma information represents the results of operations as if NRG and Reliant Energy had combined at the beginning of the respective reporting periods:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (In millions, except per share amounts) | 2009 | 2008 | 2009 | 2008 |
| Operating revenues | $ 2,672 | $ 3,497 | $ 5,716 | $ 6,513 |
| Net income attributable to NRG Energy, Inc. | 493 | 268 | 578 | 548 |
| Earnings per share attributable to NRG common stockholders: | | | | |
| Basic | $ 1.92 | $ 1.08 | $ 2.27 | $ 2.20 |
| Diluted | $ 1.78 | $ 0.97 | $ 2.07 | $ 1.91 |

The supplemental pro forma information has been adjusted to include the pro forma impact of amortization of intangible assets and out-of-market contracts, and depreciation of property, plant and equipment, based on the preliminary purchase price allocations. The pro forma data has also been adjusted to eliminate the non-recurring transaction costs incurred by NRG. Transactions between NRG and Reliant Energy have not been eliminated. The pro forma results are presented for illustrative purposes only and do not reflect the realization of potential cost savings, or any related integration costs. Certain cost savings may result from the acquisition; however, there can be no assurance that these cost savings will be achieved. These pro forma results do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred at the beginning of the respective reporting periods, nor does the pro forma data intend to be a projection of results that may be obtained in the future.

**Table of Contents**

***Significant Accounting Policies***

The following pertains to Reliant Energy, in addition to NRG s significant accounting policies referred to in Note 1 to this Form 10-Q:

*Revenues* Gross revenues for energy sales and services to mass customers and to C&I customers are recognized upon delivery under the accrual method. Energy sales and services that have been delivered but not billed by period end are estimated. Gross revenues also includes energy revenues from resales of purchased power and other hedging activities, which were $52 million for the two months ended June 30, 2009. These revenues represent a sale of excess supply to third parties in the market.

As of June 30, 2009, Reliant Energy recorded unbilled revenues of $433 million for energy sales and services. Accrued unbilled revenues are based on Reliant Energy s estimates of customer usage since the date of the last meter reading provided by the independent system operators or electric distribution companies. Volume estimates are based on daily forecasted volumes and estimated customer usage by class. Unbilled revenues are calculated by multiplying these volume estimates by the applicable rate by customer class. Estimated amounts are adjusted when actual usage is known and billed.

The revenues and the related energy supply costs include the estimates of customer usage based on initial usage information provided by the independent system operators and the distribution companies. Reliant Energy revises these estimates and records any changes in the period as additional settlement information becomes available (collectively referred to as market usage adjustments).

*Cost of Energy* Reliant Energy records cost of energy for electricity sales and services to retail customers based on estimated supply volumes for the applicable reporting period. A portion of its cost of energy ($93 million as of June 30, 2009) consisted of estimated transmission and distribution charges not yet billed by the transmission and distribution utilities. In estimating supply volumes, Reliant Energy considers the effects of historical customer volumes, weather factors and usage by customer class. Reliant Energy estimates its transmission and distribution delivery fees using the same method that it uses for electricity sales and services to retail customers. In addition, Reliant Energy estimates ERCOT ISO fees based on historical trends, estimates supply volumes and initial ERCOT ISO settlements. Volume estimates are then multiplied by the supply rate and recorded as cost of operations in the applicable reporting period. See the discussion above regarding market usage adjustments.

*Allowance for Doubtful Accounts* Reliant Energy accrues an allowance for doubtful accounts based on estimates of uncollectible revenues by analyzing counterparty credit ratings (for commercial and industrial customers), historical collections, accounts receivable agings and other factors. Reliant Energy writes-off accounts receivable balances against the allowance for doubtful accounts when it determines a receivable is uncollectible.

*Gross Receipts Taxes* Reliant Energy records gross receipts taxes on a gross basis in revenues and cost of operations in its condensed consolidated statements of operations. During the two months ended June 30, 2009, Reliant Energy s revenues and cost of operations included gross receipts taxes of $16 million.

*Sales Taxes* Reliant Energy records sales taxes collected from its taxable customers and remitted to the various governmental entities on a net basis, thus, there is no impact on the Company s condensed consolidated statement of operations.

Table of Contents

## Note 4 Investments Accounted for by the Equity Method

*MIBRAG* On June 10, 2009, NRG completed the sale of its 50% ownership interest in Mibrag B.V. to a consortium of Severočeské doly Chomutov, a member of the CEZ Group, and J&T Group. Mibrag B.V. s principal holding is MIBRAG, which is jointly owned by NRG and URS Corporation. As part of the transaction, URS Corporation also entered into an agreement to sell its 50% stake in MIBRAG.

For its share, NRG received EUR 203 million ($284 million at an exchange rate of 1.40 US$/EUR), net of transaction costs. During the three and six months ended June 30, 2009, NRG recognized an after-tax gain of $128 million. Prior to completion of the sale, NRG continued to record its share of MIBRAG s operations to Equity in earnings of unconsolidated affiliates.

In connection with the transaction, NRG entered into a foreign currency forward contract to hedge the impact of exchange rate fluctuations on the sale proceeds. The foreign currency forward contract had a fixed exchange rate of 1.277 and required NRG to deliver EUR 200 million in exchange for $255 million on June 15, 2009. For the three and six months ended June 30, 2009, NRG recorded an exchange loss of $15 million and $24 million, respectively, on the contract within Other (loss)/income, net.

NRG provided certain indemnities in connection with its share of the transaction. See Note 17, *Guarantees,* to this Form 10-Q for further discussion.

## Note 5 Fair Value of Financial Instruments

The estimated carrying values and fair values of NRG s recorded financial instruments are as follows:

| | Carrying Amount | | Fair Value | |
|---|---|---|---|---|
| | June 30, 2009 | December 31, 2008 | June 30, 2009 | December 31, 2008 |
| | (In millions) | | | |
| Cash and cash equivalents | $ 2,282 | $ 1,494 | $ 2,282 | $ 1,494 |
| Funds deposited by counterparties | 468 | 754 | 468 | 754 |
| Restricted cash | 19 | 16 | 19 | 16 |
| Cash collateral paid in support of energy risk management activities | 243 | 494 | 243 | 494 |
| Investment in available-for-sale securities (classified within other non-current assets): | | | | |
| Debt securities | 7 | 7 | 7 | 7 |
| Marketable equity securities | 4 | 2 | 4 | 2 |
| Trust fund investments | 318 | 305 | 318 | 305 |
| Notes receivable | 190 | 156 | 204 | 166 |
| Derivative assets | 5,582 | 5,485 | 5,582 | 5,485 |
| Long-term debt, including current portion | 8,619 | 8,019 | 8,267 | 7,475 |
| Cash collateral received in support of energy risk management activities | 468 | 760 | 468 | 760 |
| Derivative liabilities | 5,102 | 4,489 | 5,102 | 4,489 |

Table of Contents

***Recurring Fair Value Measurements***

The following table presents assets and liabilities measured and recorded at fair value on the Company s condensed consolidated balance sheet on a recurring basis and their level within the fair value hierarchy:

| **(In millions)** | **Fair Value** | | | |
|---|---|---|---|---|
| **As of June 30, 2009** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Cash and cash equivalents | $ 2,282 | $ | $ | $ 2,282 |
| Funds deposited by counterparties | 468 | | | 468 |
| Restricted cash | 19 | | | 19 |
| Cash collateral paid in support of energy risk management activities | 243 | | | 243 |
| Investment in available-for-sale securities (classified within other non-current assets): | | | | |
| Debt securities | | | 7 | 7 |
| Marketable equity securities | 4 | | | 4 |
| Trust fund investments | 183 | 101 | 34 | 318 |
| Derivative assets | 1,063 | 4,394 | 125 | 5,582 |
| Total assets | $ 4,262 | $ 4,495 | $ 166 | $ 8,923 |
| Cash collateral received in support of energy risk management activities | $ 468 | $ | $ | $ 468 |
| Derivative liabilities | 1,043 | 3,984 | 75 | 5,102 |
| Total liabilities | $ 1,511 | $ 3,984 | $ 75 | $ 5,570 |

The following table reconciles, for the six months ended June 30, 2009, the beginning and ending balances for financial instruments that are recognized at fair value in the consolidated financial statements using significant unobservable inputs:

| **(In millions)** | **Fair Value Measurement Using Significant Unobservable Inputs (Level 3)** | | | |
|---|---|---|---|---|
| **Six months ended June 30, 2009** | **Debt Securities** | **Trust Fund Investments** | **Derivatives** | **Total** |
| Beginning balance as of January 1, 2009 | $ 7 | $ 31 | $ 49 | $ 87 |
| Total gains/(losses) (realized and unrealized) | | | | |
| Included in earnings | | | (30) | (30) |
| Included in nuclear decommissioning obligations | | 2 | | 2 |
| Purchases/(sales), net | | 1 | (4) | (3) |
| Transfer into Level 3 | | | 35 | 35 |
| **Ending balance as of June 30, 2009** | $ 7 | $ 34 | $ 50 | $ 91 |
| | $ | $ | $ 28 | $ 28 |

The amount of the total gains for the period included in earnings attributable to the change in unrealized gains relating to assets still held as of June 30, 2009

Realized and unrealized gains and losses included in earnings that are related to the energy derivatives are recorded in operating revenues and cost of operations.

In determining the fair value of NRG s Level 2 and 3 derivative contracts, NRG applies a credit reserve to reflect credit risk which is calculated based on credit default swaps. As of June 30, 2009, the credit reserve resulted in a $23 million increase in fair value which is composed of a $1 million loss in OCI and a $24 million gain in operating revenue and cost of operations.

This footnote should be read in conjunction with the complete description under Note 4, *Fair Value of Financial Instruments*, to the Company s financial statements in its 2008 Annual Report on Form 10-K.

Table of Contents

## Note 6 Accounting for Derivative Instruments and Hedging Activities

SFAS 133 requires NRG to recognize all derivative instruments on the balance sheet as either assets or liabilities and to measure them at fair value each reporting period unless they qualify for a Normal Purchase Normal Sale, or NPNS, exception. If certain conditions are met, NRG may be able to designate certain derivatives as cash flow hedges and defer the effective portion of the change in fair value of the derivatives to other comprehensive income, or OCI, until the hedged transactions occur and are recognized in earnings. The ineffective portion of a cash flow hedge is immediately recognized in earnings.

For derivatives designated as hedges of the fair value of assets or liabilities, the changes in fair value of both the derivative and the hedged transaction are recorded in current earnings. The ineffective portion of a hedging derivative instrument s change in fair value is immediately recognized into earnings.

For derivatives that are not designated as cash flow hedges or do not qualify for hedge accounting treatment, the changes in the fair value will be immediately recognized in earnings. Under the guidelines established per SFAS 133, certain derivative instruments may qualify for the NPNS exception and are therefore exempt from fair value accounting treatment. SFAS 133 applies to NRG s energy related commodity contracts, interest rate swaps, and foreign exchange contracts.

As the Company engages principally in the trading and marketing of its generation assets and retail business, some of NRG s commercial activities qualify for hedge accounting under the requirements of SFAS 133. In order for the generation assets to qualify, the physical generation and sale of electricity should be highly probable at inception of the trade and throughout the period it is held, as is the case with the Company s baseload plants. For this reason, many trades in support of NRG s baseload units normally qualify for NPNS or cash flow hedge accounting treatment, and trades in support of NRG s peaking units will generally not qualify for hedge accounting treatment, with any changes in fair value likely to be reflected on a mark-to-market basis in the statement of operations. Most of the retail load contracts either qualify for the NPNS exception or fail to meet the criteria for a derivative and the majority of the supply contracts are recorded under mark-to-market accounting. All of NRG s hedging and trading activities are in accordance with the Company s Risk Management Policy.

***Energy-Related Commodities***

To manage the commodity price risk associated with the Company s competitive supply activities and the price risk associated with wholesale and retail power sales from the Company s electric generation facilities, NRG may enter into a variety of derivative and non-derivative hedging instruments, utilizing the following:

- Forward contracts, which commit NRG to sell or purchase energy commodities or purchase fuels in the future.
- Futures contracts, which are exchange-traded standardized commitments to purchase or sell a commodity or financial instrument.
- Swap agreements, which require payments to or from counter-parties based upon the differential between two prices for a predetermined contractual, or notional, quantity.
- Option contracts, which convey the right or obligation to buy or sell a commodity.

The objectives for entering into derivative contracts designated as hedges include:

- Fixing the price for a portion of anticipated future electricity sales through the use of various derivative instruments including gas collars and swaps at a level that provides an acceptable return on the Company s electric generation operations.
- Fixing the price of a portion of anticipated fuel purchases for the operation of NRG s power plants.
- Fixing the price of a portion of anticipated energy purchases to supply Reliant Energy s customers.

Table of Contents

NRG s trading activities include contracts entered into to profit from market price changes as opposed to hedging an exposure, and are subject to limits in accordance with the Company s risk management policy. These contracts are recognized on the balance sheet at fair value and changes in the fair value of these derivative financial instruments are recognized in earnings. These trading activities are a complement to NRG s competitive wholesale supply and retail operations.

***Interest Rate Swaps***

NRG is exposed to changes in interest rates through the Company s issuance of variable and fixed rate debt. In order to manage the Company s interest rate risk, NRG enters into interest-rate swap agreements. As of June 30, 2009, NRG had interest rate derivative instruments extending through June 2019, all of which had been designated as either cash flow or fair value hedges.

**Volumetric Underlying Derivative Transactions**

The following table summarizes the net notional volume buy/(sell) of NRG s derivative transactions broken out by commodity, excluding those derivatives that qualified for the NPNS exception as of June 30, 2009. Option contracts are reflected using delta volume. Delta volume equals the notional volume of an option adjusted for the probability that the option will be in-the-money at its expiration date.

| Commodity | Units | Total Volume as of June 30, 2009 (In millions) |
|---|---|---|
| Coal | Short Ton | 67 |
| Natural Gas | MMBtu | (572) |
| Power[(a)] | MWH | (30) |
| Interest | Dollars | $ 3,306 |

(a) *Power volumes include capacity sales.*

**Fair Value of Derivative Instruments**

The following table summarizes the fair value within the derivative instrument valuation on the balance sheet as of June 30, 2009:

| | Fair Value | |
|---|---|---|
| **(In millions)** | **Derivatives Asset** | **Derivatives Liability** |
| **Derivatives Designated as Cash Flow or Fair Value Hedges**: | | |
| Interest rate contracts current | $ | $ 6 |
| Interest rate contracts long term | 11 | 119 |
| Commodity contracts current | 337 | 7 |
| Commodity contracts long term | 414 | 47 |
| **Total Derivatives Designated as Cash Flow or Fair Value Hedges** | 762 | 179 |
| **Derivatives Not Designated as Cash Flow or Fair Value Hedges**: | | |
| Commodity contracts current | 4,057 | 4,183 |
| Commodity contracts long term | 763 | 740 |

| | | |
|---|---|---|
| **Total Derivatives Not Designated as Cash Flow or Fair Value Hedges** | 4,820 | 4,923 |
| **Total Derivatives** | $ 5,582 | $ 5,102 |

**Impact of Derivative Instruments on the Statement of Financial Performance**

The following table summarizes the amount of gain/(loss) resulting from fair value hedges reflected in interest income/(expense) for interest rate contracts:

| **Amount of gain/(loss) recognized (In millions)** | **Three months ended June 30, 2009** | **Six months ended June 30, 2009** |
|---|---|---|
| Derivative | $ (7) | $ (8) |
| Senior Notes (hedged item) | $ 7 | $ 8 |

23

Table of Contents

The following table summarizes the location and amount of gain/(loss) resulting from cash flow hedges:

| **(In millions)** **Three months ended June 30, 2009** | **Amount of gain/(loss) recognized in OCI (effective portion) after tax** | **Location of gain/(loss) reclassified from Accumulated OCI into Income** | **Amount of gain/(loss) reclassified from Accumulated OCI into Income** | **Location of gain/(loss) recognized in income (ineffective portion)** | **Amount of gain/(loss) recognized in income (ineffective portion)** |
|---|---|---|---|---|---|
| Interest rate contracts | $ 13 | Interest expense | $ 1 | Interest expense | $ |
| Commodity contracts | (122) | Operating revenue | 76 | Operating revenue | (3) |
| Total | $ (109) | | $ 77 | | $ (3) |

| **(In millions)** **Six months ended June 30, 2009** | **Amount of gain/(loss) recognized in OCI (effective portion) after tax** | **Location of gain/(loss) reclassified from Accumulated OCI into Income** | **Amount of gain/(loss) reclassified from Accumulated OCI into Income** | **Location of gain/(loss) recognized in income (ineffective portion)** | **Amount of gain/(loss) recognized in income (ineffective portion)** |
|---|---|---|---|---|---|
| Interest rate contracts | $ 25 | Interest expense | $ | Interest expense | $ |
| Commodity contracts | 39 | Operating revenue | 323 | Operating revenue | 1 |
| Total | $ 64 | | $ 323 | | $ 1 |

The following table summarizes the amount of gain/(loss) recognized in income for derivatives not designated as cash flow or fair value hedges on commodity contracts:

| **Amount of gain/(loss) recognized in income or cost of operations for derivatives** | **Three months ended** | **Six months ended** |
|---|---|---|

| **(In millions)** | **June 30, 2009** | **June 30, 2009** |
|---|---|---|
| Location of gain/(loss) recognized in income for derivatives: | | |
| Operating revenue | $ (207) | $ 116 |
| Cost of operations | $ 325 | $ 273 |

**Credit Risk Related Contingent Features**

Certain of the Company s hedging agreements contain provisions that require the Company to post additional collateral if the counterparty determines that there has been deterioration in credit quality, generally termed adequate assurance under the agreements. Other agreements contain provisions that require the Company to post additional collateral if there was a one notch downgrade in the Company s credit rating. There are certain marginable agreements where NRG has a net liability position but the counterparty has not called for the collateral due, which was approximately $87 million as of June 30, 2009. The aggregate fair value of all derivative instruments with credit rating contingent features that are in a net liability position as of June 30, 2009 was $54 million. The aggregate fair value of all derivative instruments that have adequate assurance clauses that are in a net liability position as of June 30, 2009 was $18 million.

Under the CSRA, Merrill Lynch provides guarantees and the posting of collateral to the Company s counterparties in supply transactions for the Company s retail energy business. In the event of any unwind of the CSRA with Merrill Lynch, NRG will have to post collateral for any existing out-of-money hedging transactions that support the retail operation. The level of collateral posting would be determined based on the timing of the unwind, and the volume and pricing of the commodity hedging agreements. As of June 30, 2009, Merrill Lynch was providing $630 million in credit support to various counterparties. If Merrill Lynch experiences credit deterioration, NRG s suppliers may require varying collateral amounts depending on Merrill Lynch s credit rating, not to exceed $630 million.

**Table of Contents**

***Concentration of Credit Risk***

Credit risk relates to the risk of loss resulting from non-performance or non-payment by counterparties pursuant to the terms of their contractual obligations. The Company monitors and manages credit risk through credit policies that include: (i) an established credit approval process; (ii) a daily monitoring of counterparties credit limits; (iii) the use of credit mitigation measures such as margin, collateral, credit derivatives or prepayment arrangements; (iv) the use of payment netting agreements; and (v) the use of master netting agreements that allow for the netting of positive and negative exposures of various contracts associated with a single counterparty. Risks surrounding counterparty performance and credit could ultimately impact the amount and timing of expected cash flows. The Company seeks to mitigate counterparty risk with a diversified portfolio of counterparties, including ten participants under its first and second lien structure. The Company also has credit protection within various agreements to call on additional collateral support if and when necessary. Cash margin is collected and held at NRG to cover the credit risk of the counterparty until positions settle.

Under the current economic downturn in the U.S. and overseas, the Company has heightened its management and mitigation of counterparty credit risk by using credit limits, netting agreements, collateral thresholds, volumetric limits and other mitigation measures, where available. NRG avoids concentration of counterparties whenever possible and applies credit policies that include an evaluation of counterparties financial condition, collateral requirements and the use of standard agreements that allow for netting and other security.

As of June 30, 2009, total credit exposure to substantially all counterparties was $2.1 billion and NRG held collateral (cash and letters of credit) against those positions of $469 million resulting in a net exposure of $1.7 billion, compared with a net exposure of $1.3 billion as of March 31, 2009. This increase is due to Merrill Lynch s position as credit provider to Reliant Energy and the exposure resulting from novated trades that were completed as part of the acquisition of Reliant Energy, as discussed in Note 3 *Business Acquisition*. Total credit exposure is discounted at the risk free rate.

The following table highlights the credit quality and the net counterparty credit exposure by industry sector. Net counterparty credit exposure is defined as the aggregate net asset position for NRG with counterparties where netting is permitted under the enabling agreement and includes all cash flow, mark-to-market and normal purchase and sale, and non-derivative transactions. The exposure is shown net of collateral held, includes amounts net of receivables or payables and excludes non-affiliate third party exposure under the CSRA.

| **Category** | **Net Exposure[(a) (b)] as of June 30, 2009 (% of Total)** |
|---|---|
| Financial institutions | 82% |
| Utilities, energy, merchants, marketers and other | 14 |
| Coal suppliers | 2 |
| ISOs | 2 |
| Total | 100% |

| **Category** | **Net Exposure[(a) (b)] as of June 30, 2009 (% of Total)** |
|---|---|
| Investment grade | 94% |
| Non-Investment grade | |

| | |
|---|---|
| Non-rated | 6 |
| Total | 100% |

(a) *Credit exposure excludes California tolling, uranium, coal transportation, New England Reliability Must-Run, cooperative load contracts, and Texas Westmoreland coal contracts. The aforementioned exposures were excluded for various reasons including regulatory support or liens held against the contracts which serve to reduce the risk of loss, or credit risks for certain contracts are not readily measurable due to a lack of market reference prices.*

(b) *The exposure amounts presented in the above table do not include non-affiliate third party exposure under the CSRA. The gross credit* *exposure to third parties under the CSRA is $410 million, and the cash collateral held by Merrill Lynch against this exposure is $312 million.*

Table of Contents

NRG has credit risk exposure to certain counterparties representing more than 10% of total net exposure and the aggregate of such counterparties was $707 million. NRG has significant credit risk concentration with Merrill Lynch primarily due to cash collateral held by Merrill Lynch for positions under the CSRA. NRG expects this risk to be significantly reduced when the Company unwinds the CSRA. Approximately 85% of NRG s positions relating to credit risk roll-off by the end of 2011. Changes in hedge positions and market prices will affect credit exposure and counterparty concentration. Given the credit quality, diversification and term of the exposure in the portfolio, NRG does not anticipate a material impact on the Company s financial results from nonperformance by a counterparty.

NRG is exposed to retail credit risk through our competitive electricity supply business, which serves commercial and industrial customers and the mass market in Texas. Retail credit risk results when a customer fails to pay for services rendered. The losses could be incurred from nonpayment of customer accounts receivable and any in-the-money forward value. NRG manages retail credit risk through the use of established credit policies that include monitoring of the portfolio, and the use of credit mitigation measures such as deposits or prepayment arrangement. Retail credit risk is dependent on the overall economy, but is minimized due to the fact that NRG s portfolio of retail customers is largely diversified, with no significant single name concentration.

***Accumulated Other Comprehensive Income***

The following table summarizes the effects of SFAS 133 on NRG s accumulated OCI balance attributable to hedged derivatives, net of tax:

| **(In millions)**<br>**Three months ended June 30, 2009** | **Energy Commodities** | **Interest Rate** | **Total** |
|---|---|---|---|
| Accumulated OCI balance at March 31, 2009 | $ 567 | $ (79) | $ 488 |
| Realized from OCI during the period: | | | |
| Due to realization of previously deferred amounts | (76) | (1) | (77) |
| Mark-to-market of cash flow hedge accounting contracts | (46) | 14 | (32) |
| Accumulated OCI balance at June 30, 2009 | $ 445 | $ (66) | $ 379 |
| Gains/(losses) expected to be realized from OCI during the next 12 months, net of $181 tax | $ 303 | $ (3) | $ 300 |

| **(In millions)**<br>**Three months ended June 30, 2008** | **Energy Commodities** | **Interest Rate** | **Total** |
|---|---|---|---|
| Accumulated OCI balance at March 31, 2008 | $ (493) | $ (74) | $ (567) |
| Realized from OCI during the period: | | | |
| Due to realization of previously deferred amounts | 21 | | 21 |
| Mark-to-market of cash flow hedge accounting contracts | (763) | 44 | (719) |
| Accumulated OCI balance at June 30, 2008 | $ (1,235) | $ (30) | $(1,265) |

| **(In millions)**<br>**Six months ended June 30, 2009** | **Energy Commodities** | **Interest Rate** | **Total** |
|---|---|---|---|
| Accumulated OCI balance at December 31, 2008 | $ 406 | $ (91) | $ 315 |
| Realized from OCI during the period: | | | |
| Due to realization of previously deferred amounts | (188) | | (188) |

| | | | |
|---|---|---|---|
| Due to discontinuance of cash flow hedge accounting | (135) | | (135) |
| Mark-to-market of cash flow hedge accounting contracts | 362 | 25 | 387 |
| Accumulated OCI balance at June 30, 2009 | $ 445 | $ (66) | $ 379 |

| (In millions) | Energy Commodities | Interest Rate | Total |
|---|---|---|---|
| Accumulated OCI balance at December 31, 2007 | $ (234) | $ (31) | $ (265) |
| Realized from OCI during the period: | | | |
| Due to realization of previously deferred amounts | 6 | | 6 |
| Mark-to-market of cash flow hedge accounting contracts | (1,007) | 1 | (1,006) |
| Accumulated OCI balance at June 30, 2008 | $ (1,235) | $ (30) | $(1,265) |

Table of Contents

As of June 30, 2009, the net balance in OCI relating to SFAS 133 was an unrecognized gain of approximately $379 million, which is net of $233 million in income taxes. As of June 30, 2008, the net balance in OCI relating to SFAS 133 was an unrecognized loss of approximately $1,265 million, which was net of $829 million in income taxes.

Accounting guidelines require a high degree of correlation between the derivative and the hedged item throughout the period in order to qualify as a cash flow hedge. As of July 31, 2008, the Company s regression analysis for natural gas prices to ERCOT power prices while positively correlated did not meet the required threshold for cash flow hedge accounting for calendar years 2012 and 2013. As a result, the Company de-designated its 2012 and 2013 ERCOT cash flow hedges as of July 31, 2008 and prospectively marked these derivatives to market. Since the required threshold for cash flow hedge accounting was achieved for these transactions, on April 1, 2009, these hedges were re-designated as cash flow hedges.

***Statement of Operations***

In accordance with SFAS 133, unrealized gains and losses associated with changes in the fair value of derivative instruments not accounted for as cash flow hedge derivatives and ineffectiveness of hedge derivatives are reflected in current period earnings.

The following table summarizes the pre-tax effects of economic hedges that did not qualify for cash flow hedge accounting, ineffectiveness on cash flow hedges, and trading activity on NRG s statement of operations. These amounts are included within operating revenues and cost of operations.

| | Three Months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| **(In millions)** | **2009** | **2008** | **2009** | **2008** |
| **Unrealized mark-to-market results** | | | | |
| Reversal of previously recognized unrealized losses/(gains) on settled positions related to economic hedges | $ 192 | $ (15) | $ 176 | $ (25) |
| Reversal of previously recognized unrealized gains on settled positions related to trading activity | (35) | (7) | (104) | (12) |
| Net unrealized (losses)/gains on open positions related to economic hedges | (40) | (162) | 309 | (259) |
| (Losses)/gains on ineffectiveness associated with open positions treated as cash flow hedges | (3) | (333) | 1 | (378) |
| Net unrealized gains on open positions related to trading activity | 1 | 15 | 8 | 31 |
| **Total unrealized gains/(losses)** | $ 115 | $ (502) | $ 390 | $ (643) |

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| **(In millions)** | **2009** | **2008** | **2009** | **2008** |
| Revenue from operations energy commodities | $ (210) | $ (502) | $ 117 | $ (643) |
| Cost of operations | 325 | | 273 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Total impact to statement of operations** | $ | 115 | $ | (502) | $ | 390 | $ | (643) |

For the six months ended June 30, 2009, the unrealized gain associated with changes in the fair value of derivative instruments not accounted for as hedge derivatives of $390 million was comprised of $309 million of fair value increases in forward sales and purchases of natural gas, electricity and fuel, $1 million gain from ineffectiveness, $72 million gain from the reversal of mark-to-market losses and $8 million of gains associated with the Company s trading activity. The $309 million gain from economic hedge positions includes $217 million recognized in earnings from previously deferred amounts in OCI as the Company discontinued cash flow hedge accounting for certain 2009 transactions in Texas and New York due to lower expected generation, and $92 million of increase in value of forward purchases and sales of natural gas, electricity and fuel due to decrease in forward power and gas prices. The $1 million gain is primarily from hedge accounting ineffectiveness related to gas trades in Texas which was driven by decreasing forward gas prices while forward power prices decreased at a slower pace. The Company recognized a derivative loss of $29 million resulting from discontinued NPNS designated coal purchases due to expected lower coal consumption and accordingly could not assert taking physical delivery. This amount is included in the Company s cost of operations.

The reversal of previously recognized unrealized losses on settled positions related to economic hedges of $192 million and $176 million for the three months and six months ended June 30, 2009, includes $210 million in gains from Reliant Energy representing roll-off of positions acquired as of May 1, 2009, at the acquisition date s forward prices. These gains are offset by the losses at the settled prices and are reflected in the cost of operations during the same period.

For the six months ended June 30, 2008, the unrealized loss associated with changes in the fair value of derivative instruments not accounted for as hedge derivatives of $643 million was comprised of $259 million of fair value decreases in forward sales of electricity and fuel, a $378 million loss due to the ineffectiveness associated with financial forward contracted electric and gas sales, $37 million from the reversal of mark-to-market gains which ultimately settled as financial revenues of which $25 million was related to economic hedges and $12 million was related to trading activity. These decreases were partially offset by $31 million of gains associated with open positions related to trading activity.

*Discontinued Hedge Accounting* During the first half of 2009, a relatively sharp decline in commodity prices resulted in falling power prices and expected lower power generation for the remainder of 2009. As such, NRG discontinued cash flow hedge accounting for certain 2009 contracts previously accounted for as cash flow hedges. These contracts were originally entered into as hedges of forecasted sales by baseload plants in Texas and Northeast. As a result, $217 million of gain previously deferred in OCI was recognized in earnings for the six months ended June 30, 2009.

*Discontinued Normal Purchase and Sale for Coal Purchases* Due to the decline in commodity prices during the first quarter of 2009, the Company s coal consumption was lower than forecasted, and the Company built-up inventory due to lower baseload plant generation. The Company expected to net settle some of its coal purchases under NPNS designation and thus was no longer able to assert physical delivery under these coal contracts. The forward positions previously treated as accrual accounting have been reclassified into mark-to-market accounting during the first quarter and prospectively. The impact of discontinuance of coal NPNS designated transactions resulted in a derivative loss of $29 million that is reflected in the cost of operations for the six months ended June 30, 2009.

**Note 7 Long-Term Debt**

***2019 Senior Notes***

On June 5, 2009, NRG issued $700 million aggregate principal amount of 8.5% Senior Notes due 2019, or 2019 Senior Notes, at a discount resulting in a yield of 8.75%. The 2019 Senior Notes were issued under an Indenture, dated February 2, 2006, between NRG and Law Debenture Trust Company of New York, as trustee, as amended through Supplemental Indentures, which is discussed in Note 11 *Debt and Capital Leases,* in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008. The Indentures and the form of the notes provide, among other things, that the 2019 Senior Notes will be senior unsecured obligations of NRG.

The net proceeds of $678 million are intended to be used to facilitate the early termination of NRG s obligations pursuant to the CSRA, anticipated in the late third or early fourth quarter 2009. Prior to the termination, or in the event NRG does not reach agreement on acceptable terms with either Merrill Lynch or its counterparties, the net proceeds will be available for general corporate purposes. Interest is payable semi-annually on the 2019 Senior Notes beginning on December 15, 2009 until their maturity date of June 15, 2019. As of June 30, 2009, $700 million in principal was outstanding under the 2019 Senior Notes.

Prior to June 15, 2012, NRG may redeem up to 35% of the aggregate principal amount of the 2019 Senior Notes with the net proceeds of certain equity offerings, at a redemption price of 108.5% of the principal amount. Prior to June 15, 2014, NRG may redeem all or a portion of the 2019 Senior Notes at a price equal to 100% of the principal amount plus a premium and accrued and unpaid interest. The premium is the greater of (i) 1% of the principal amount of the note; or (ii) the excess of the principal amount of the note over the following: the present value of 104.25% of the note, plus interest payments due on the note from the date of redemption through June 15, 2014, discounted at a Treasury rate plus 0.50%. In addition, on or after June 15, 2014, NRG may redeem some or all of the notes at redemption prices expressed as percentages of principal amount as set forth in the following table, plus accrued and unpaid interest on the notes redeemed to the first applicable redemption date:

Table of Contents

| Redemption Period | Redemption Percentage |
|---|---|
| June 15, 2014 to June 14, 2015 | 104.25% |
| June 15, 2015 to June 14, 2016 | 102.83% |
| June 15, 2016 to June 14, 2017 | 101.42% |
| June 15, 2017 and thereafter | 100.00% |

***Interest Rate Swaps***

In May 2009, NRG entered into a series of forward-starting interest rate swaps. These interest rate swaps become effective on April 1, 2011 and are intended to hedge the risks associated with floating interest rates. For each of the interest rate swaps, the Company will pay its counterparty the equivalent of a fixed interest payment on a predetermined notional value, and NRG receives the monthly equivalent of a floating interest payment based on a 1-month LIBOR calculated on the same notional value. All interest rate swap payments by NRG and its counterparties are made monthly and the LIBOR is determined in advance of each interest period. The total notional amount of these swaps is $900 million. The swaps mature February 1, 2013.

***Reliant Energy Acquisition***

See discussion in Note 3, *Business Acquisition,* regarding the CSRA as a result of the acquisition of Reliant Energy on May 1, 2009. Further, see discussion in Note 3, *Business Acquisition*, regarding the $50 million working capital facility entered into on May 1, 2009, of which $25 million is outstanding as of June 30, 2009.

***Senior Credit Facility***

In March 2009, NRG made a repayment of approximately $197 million to its first lien lenders under the Term Loan Facility. This payment resulted from the mandatory annual offer of a portion of NRG s excess cash flow (as defined in the Senior Credit Facility) for the prior year.

***TANE Facility***

On February 24, 2009, Nuclear Innovation North America LLC, or NINA, executed an Engineering, Procurement and Construction, or EPC, agreement with Toshiba American Nuclear Energy Corporation, or TANE, which specifies the terms under which STP Units 3 and 4 will be constructed. Concurrent with the execution of the EPC agreement, NINA and TANE entered into a credit facility, or the TANE Facility, wherein TANE has committed up to $500 million to finance purchases of long-lead materials and equipment for the construction of STP Units 3 and 4. The TANE Facility matures on February 24, 2012, subject to two renewal periods, and provides for customary events of default, which include, among others: nonpayment of principal or interest; default under other indebtedness; the rendering of judgments; and certain events of bankruptcy or insolvency. Outstanding borrowings will accrue interest at LIBOR plus 3%, subject to a ratings grid, and are secured by substantially all of the assets of and membership interests in NINA and its subsidiaries. As of June 30, 2009, no amounts have been borrowed under the TANE Facility. NINA will be required to repay all outstanding amounts associated with its existing $20 million non-recourse revolving credit facility before borrowing under the TANE Facility.

***Debt Related to Capital Allocation Program***

*Share Lending Agreements* On February 20, 2009, CSF I and CSF II, wholly-owned unrestricted subsidiaries of the Company, entered into Share Lending Agreements with affiliates of Credit Suisse Group, or CS, relating to the shares of NRG common stock currently held by CSF I and II in connection with the CSF I and CSF II issued notes and preferred interests agreements, or CSF Debt, originally entered into during the third quarter 2006, by and between CSF I and II and affiliates of CS. The Company entered into Share Lending Agreements due to the current lack of liquidity in the stock borrow market for NRG shares and in order to maintain the intended economic benefits of the CSF Debt agreements. As of June 30, 2009, CSF I and II have lent affiliates of CS 12,000,000 shares of the 21,970,903 shares of NRG common stock held by CSF I and II. The Share Lending Agreements permit affiliates of CS to borrow up to the total number of shares of NRG common stock held by CSF I and II.

Shares borrowed by affiliates of CS under the Share Lending Agreements will be used to replace shares borrowed by affiliates of CS from third parties in connection with CS hedging activities related to the financing agreements.

The shares are expected to be returned upon the termination of the financing agreements. Until the shares are returned, the shares will be treated as outstanding for corporate law purposes, and accordingly, the holders of the borrowed shares will have all of the rights of a holder of the Company s outstanding shares, including the right to vote the shares on all matters submitted to a vote of the Company s stockholders. However, because the CS affiliates must return all borrowed shares (or identical shares), the borrowed shares are not considered outstanding for the purpose of computing and reporting the Company s basic or diluted earnings per share.

*Adoption of FSP APB 14-1* As discussed in Note 1, *Basis of Presentation*, the Company adopted FSP APB 14-1 on January 1, 2009. The following table summarizes certain information related to the CSF Debt in accordance with FSP APB 14-1:

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| **Equity Component** | | |
| Additional Paid-in Capital | $ 14 | $ 14 |
| **Liability Component** | | |
| Principal amount | $ 333 | $ 333 |
| Unamortized discount | (5) | (8) |
| **Net carrying amount** | $ 328 | $ 325 |

The unamortized discount will be amortized through the maturity of the CSF Debt. The CSF I debt has a maturity date of June 2010 and the CSF II debt has a maturity date of October 2009. Interest expense for the CSF Debt, including the debt discount amortization for the three and six months ended June 30, 2009, was $9 million and $18 million, respectively. Interest expense for the CSF Debt, including the debt discount amortization for the three and six months ended June 30, 2008 was $9 million and $19 million, respectively. The effective interest rate as of June 30, 2009, was 11.4% for the CSF I debt and 12.1% for the CSF II debt.

***Dunkirk Power LLC Tax-Exempt Bonds*** On April 15, 2009, NRG executed a $59 million tax-exempt bond financing through its wholly owned subsidiary, Dunkirk Power LLC. The bonds were issued by the County of Chautauqua Industrial Development Agency and will be used for construction of emission control equipment on the Dunkirk Generating Station in Dunkirk, NY. The bonds initially bear weekly interest based on the Securities Industry and Financial Markets Association, or SIFMA, rate, have a maturity date of April 1, 2042, and are enhanced by a letter of credit under the Company s Revolving Credit Facility covering amounts drawn on the facility. The proceeds received through June 30, 2009 were $34 million with the remaining balance being released over time as construction costs are paid.

***GenConn Energy LLC related financings*** On April 27, 2009, a wholly owned subsidiary of NRG closed on an equity bridge loan facility, or EBL, in the amount of $121.5 million from a syndicate of banks. The purpose of the EBL is to fund the Company s proportionate share of the project construction costs required to be contributed into GenConn Energy LLC, or GenConn, a 50% equity method investment of the Company. The EBL, which is fully collateralized with a letter of credit issued under the Company s Synthetic Letter of Credit Facility covering amounts drawn on the facility, will bear interest at a rate of LIBOR plus 2% on drawn amounts. The EBL will mature on the earlier of the commercial operations date of the Middletown project or July 26, 2011. The EBL also requires mandatory prepayment of the portion of the loan utilized to pay costs of the Devon project, of approximately $56 million, on the earlier of Devon s commercial operations date or January 27, 2011. The proceeds of the EBL received through June 30, 2009 were $70 million and the remaining amounts will be drawn as necessary to fund construction costs.

In April 2009, GenConn secured financing for 50% of the Devon and Middletown project construction costs through a 7-year term loan facility, and also entered into a 5-year revolving working capital loan and letter of credit facility, which collectively with the term loan is referred to as the GenConn Facility. The aggregate credit amount secured under the GenConn Facility, which is non-recourse to NRG, is $291 million, including $48 million for the revolving facility.

Table of Contents

**Note 8 Changes in Capital Structure**

The following table reflects the changes in NRG s common stock issued and outstanding during the six months ended June 30, 2009:

| | Authorized | Issued | Treasury | Outstanding |
|---|---|---|---|---|
| **Balance as of December 31, 2008** | 500,000,000 | 263,599,200 | (29,242,483) | 234,356,717 |
| Shares issued from LTIP | | 216,741 | | 216,741 |
| Shares issued under NRG Employee Stock Purchase Plan, or ESPP | | | 41,706 | 41,706 |
| Shares borrowed by affiliates of CS | | | 12,000,000 | 12,000,000 |
| 4.00% Preferred Stock conversion | | 20,650 | | 20,650 |
| 5.75% Preferred Stock conversion | | 18,601,201 | | 18,601,201 |
| **Balance as of June 30, 2009** | 500,000,000 | 282,437,792 | (17,200,777) | 265,237,015 |

***Employee Stock Purchase Plan***

As of June 30, 2009, there were 458,294 shares of treasury stock reserved for issuance under the ESPP. In July 2009, 39,826 shares of common stock were issued to employee accounts from treasury stock.

***5.75% Preferred Stock***

Certain holders of the Company s 5.75% convertible perpetual preferred stock, or 5.75% Preferred Stock, elected to convert their preferred shares into NRG common shares prior to the mandatory conversion date of March 16, 2009 at the minimum conversion rate of 8.2712. As of March 16, 2009, each remaining outstanding share of the 5.75% Preferred Stock automatically converted into shares of common stock at a rate of 10.2564, based upon the applicable market value of NRG s common stock. These conversions resulted in a decrease in preferred stock of $447 million, and a corresponding increase in Additional Paid-in Capital. The following table summarizes the conversion of the 5.75% Preferred Stock into NRG Common Stock:

| | Preferred Stock Shares | Conversion Rate (per share) | Common Stock Shares |
|---|---|---|---|
| **Balance as of December 31, 2008** | 1,841,680 | | |
| Preferred shares converted by the holders prior to March 16, 2009 | 144,975 | 8.2712 | 1,199,116 |
| Preferred shares automatically converted as of March 16, 2009 | 1,696,705 | 10.2564 | 17,402,085 |
| **Balance at June 30, 2009** | | | 18,601,201 |

***4% Preferred Stock***

As of June 30, 2009, 413 shares of the 4% Preferred Stock were converted into 20,650 shares of common stock in 2009.

Table of Contents

**Note 9 Equity Compensation**

***Non-Qualified Stock Options, or NQSO s***

The following table summarizes the Company s NQSO activity as of June 30, 2009, and changes during the six months then ended:

| | Shares | Weighted Average Exercise Price | Aggregate Intrinsic Value (In millions) |
|---|---|---|---|
| **Outstanding as of December 31, 2008** | 4,008,188 | $ 25.84 | |
| Granted | 1,297,300 | 23.37 | |
| Forfeited | (103,768) | 27.18 | |
| **Outstanding at June 30, 2009** | 5,201,720 | 25.20 | $ 22 |
| **Exercisable at June 30, 2009** | 2,862,448 | $ 21.87 | 18 |

The weighted average grant date fair value of NQSO s granted for the six months ended June 30, 2009, was $8.48.

***Restricted Stock Units, or RSU s***

The following table summarizes the Company s non-vested RSU awards as of June 30, 2009, and changes during the six months then ended:

| | Units | Weighted Average Grant-Date Fair Value Per Unit |
|---|---|---|
| **Non-vested as of December 31, 2008** | 1,061,996 | $ 32.97 |
| Granted | 160,100 | 23.35 |
| Vested | (293,312) | 23.76 |
| Forfeited | (36,040) | 33.00 |
| **Non-vested as of June 30, 2009** | 892,744 | $ 34.27 |

***Performance Units, or PU s***

The following table summarizes the Company s non-vested PU awards as of June 30, 2009, and changes during the six months then ended:

| | Units | Weighted Average Grant- Date Fair Value Per Unit |
|---|---|---|
| **Non-vested as of December 31, 2008** | 659,564 | $ 22.81 |
| Granted | 310,800 | 22.52 |
| Forfeited | (262,864) | 19.33 |

| | | |
|---|---|---|
| **Non-vested as of June 30, 2009** | 707,500 | $ 24.15 |

In the first half of 2009, there were no performance unit payouts in accordance with the terms of the performance units.

***Deferral Stock Units, or DSU s***

The following table summarizes the Company s outstanding DSU awards as of June 30, 2009, and changes during the six months then ended:

| | **Units** | **Weighted Average Grant- Date Fair Value Per Unit** |
|---|---|---|
| **Outstanding as of December 31, 2008** | 260,768 | $ 18.50 |
| Granted | 65,437 | 22.77 |
| Conversions | (22,156) | 23.69 |
| **Outstanding as of June 30, 2009** | 304,049 | $ 19.34 |

Table of Contents

**Note 10 Earnings Per Share**

Basic earnings per share attributable to NRG common stockholders is computed by dividing net income attributable to NRG adjusted for accumulated preferred stock dividends by the weighted average number of common shares outstanding. Shares issued and treasury shares repurchased during the year are weighted for the portion of the year that they were outstanding. The 12,000,000 shares outstanding under the Share Lending Agreements with CS affiliates are not treated as outstanding for earnings per share purposes because the CS affiliates must return all borrowed shares (or identical shares) upon termination of the Agreements. See Note 7 *Long-Term Debt,* for more information on the Share Lending Agreements. Diluted earnings per share attributable to NRG common stockholders is computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive common shares that were outstanding during the period.

The reconciliation of basic earnings per common share to diluted earnings per share attributable to NRG is as follows:

| | Three Months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| **(In millions, except per share data)** | **2009** | **2008** | **2009** | **2008** |
| ***Basic earnings per share attributable to NRG common stockholders*** | | | | |
| **Numerator:** | | | | |
| Income/(loss) from continuing operations, net of income taxes | $ 433 | $ (41) | $ 631 | $ 4 |
| Dividends for preferred shares | (7) | (14) | (21) | (28) |
| Net income/(loss) available to common stockholders from continuing operations | 426 | (55) | 610 | (24) |
| Income from discontinued operations, net of income taxes | | 168 | | 172 |
| Net income attributable to NRG Energy, Inc. available to common stockholders | $ 426 | $ 113 | $ 610 | $ 148 |
| **Denominator:** | | | | |
| Weighted average number of common shares outstanding | 253.2 | 235.9 | 245.2 | 236.1 |
| ***Basic earnings per share:*** | | | | |
| Income/(loss) from continuing operations | $ 1.68 | $ (0.23) | $ 2.49 | $ (0.10) |
| Income from discontinued operations, net of income taxes | | 0.71 | | 0.73 |
| Net income attributable to NRG Energy, Inc. | $ 1.68 | $ 0.48 | $ 2.49 | $ 0.63 |
| ***Diluted earnings per share attributable to NRG common stockholders*** | | | | |
| **Numerator:** | | | | |
| Net income/(loss) available to common stockholders from continuing operations | $ 426 | $ (55) | $ 610 | $ (24) |
| Add preferred stock dividends for dilutive preferred stock | 4 | | 14 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Adjusted income/(loss) from continuing operations | | 430 | | (55) | | 624 | | (24) |
| Income from discontinued operations, net of income taxes | | | | 168 | | | | 172 |
| Net income attributable to NRG Energy, Inc. available to common stockholders | $ | 430 | $ | 113 | $ | 624 | $ | 148 |
| **Denominator:** | | | | | | | | |
| Weighted average number of common shares outstanding | | 253.2 | | 235.9 | | 245.2 | | 236.1 |
| Incremental shares attributable to the issuance of equity compensation (treasury stock method) | | 1.0 | | | | 1.0 | | |
| Incremental shares attributable to assumed conversion features of outstanding preferred stock (if-converted method) | | 21.0 | | | | 29.1 | | |
| Total dilutive shares | | 275.2 | | 235.9 | | 275.3 | | 236.1 |
| ***Diluted earnings per share:*** | | | | | | | | |
| Income/(loss) from continuing operations | $ | 1.56 | $ | (0.23) | $ | 2.27 | $ | (0.10) |
| Income from discontinued operations, net of income taxes | | | | 0.71 | | | | 0.73 |
| Net income attributable to NRG Energy, Inc. | $ | 1.56 | $ | 0.48 | $ | 2.27 | $ | 0.63 |

For the three and six months ended June 30, 2008, basic and diluted per share amounts were the same within each period reported because potential common shares had an anti-dilutive effect on loss from continuing operations available to common shares and were excluded from the computation.

Table of Contents

**Effects on Earnings per Share**

The following table summarizes NRG s outstanding equity instruments that were anti-dilutive and not included in the computation of the Company s diluted earnings per share for the three and six months ended June 30:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| **(In millions of shares)** | **2009** | **2008** | **2009** | **2008** |
| Equity compensation (NQSO s and PU s) | 5.3 | 7.5 | 5.3 | 7.5 |
| 4.0% convertible preferred stock | | 21.0 | | 21.0 |
| 5.75% convertible preferred stock | | 16.5 | | 16.5 |
| Embedded derivative of 3.625% redeemable perpetual preferred stock | 16.0 | 16.0 | 16.0 | 16.0 |
| Embedded derivative of CSF preferred interests and notes | 7.6 | 18.3 | 7.6 | 18.3 |
| Total | 28.9 | 79.3 | 28.9 | 79.3 |

**Note 11 Segment Reporting**

NRG s segment structure has changed to reflect the Company s acquisition of Reliant Energy along with the previously reported core areas of operation which are primarily the geographic regions of the Company s wholesale power generation, thermal and chilled water business, and corporate activities. Within NRG s wholesale power generation operations, there are distinct components with separate operating results and management structures for the following regions: Texas, Northeast, South Central, West and International.

In the second quarter 2009, management changed its method for allocating Corporate general and administrative expenses to the segments. Corporate general and administrative expenses had been allocated based on budgeted segment revenues. Beginning in the second quarter 2009, Corporate general and administrative expenses are allocated based on forecasted earnings/(losses) before interest expense, income taxes, depreciation and amortization expense.

34

| (In millions) Three months ended June 30, 2009 | Reliant Energy (a) | Wholesale Power Generation Texas (b) | Northeast | South Central | West | International | Thermal | Corporate | Elimination | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating revenues | $ 1,175 | $ 619 | $ 237 | $ 139 | $ 42 | $ 34 | $ 28 | $ 32 | $ (69) | $ 2,237 |
| Depreciation and amortization | 43 | 117 | 30 | 17 | 2 | | 3 | 1 | | 213 |
| Equity in earnings/(loss) of unconsolidated affiliates | | (7) | | | 3 | 9 | | | | 5 |
| Income/(loss) from continuing operations before income taxes | 414 | 107 | 42 | (9) | 19 | 128 | | (119) | | 582 |
| Net income/(loss) | 233 | 98 | 42 | (9) | 19 | 125 | | (76) | | 432 |
| Net loss attributable to non-controlling interest | | (1) | | | | | | | | (1) |
| **Net income/(loss) attributable to NRG Energy, Inc.** | $ 233 | $ 99 | $ 42 | $ (9) | $ 19 | $125 | $ | $ (76) | $ | $ 433 |
| **Total assets** | $ 4,405 | $ 13,680 | $ 1,788 | $ 929 | $ 268 | $766 | $ 197 | $ 22,809 | $ (17,537) | $ 27,305 |

(a) Reliant Energy balances are for the two months ended June 30, 2009.

(b) Includes inter-segment sales of $66 million to Reliant Energy.

If the Company continued using the 2008 allocation method for corporate general and administrative expenses, the effect to net income/(loss) of each segment for the three months ended June 30, 2009 would have been as follows:

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Net income/(loss) attributable to NRG Energy, Inc. as reported | $ 233 | $ 99 | $ 42 | $ (9) | $ 19 | $ 125 | $ | $ (76) | $ | $ 433 |
| Increase/(decrease) in net income/(loss) attributable to NRG Energy, Inc. | (11) | 8 | 4 | (1) | | | | | | |
| **Adjusted net income/(loss) attributable to NRG Energy, Inc.** | $ 222 | $ 107 | $ 46 | $ (10) | $ 19 | $ 125 | $ | $ (76) | $ | $ 433 |

| (In millions) Three months ended June 30, 2008 | Wholesale Power Generation Texas | Northeast | South Central | West | International | Thermal | Corporate | Elimination | Total |
|---|---|---|---|---|---|---|---|---|---|
| Operating revenues | $ 751 | $ 265 | $ 172 | $ 49 | $ 43 | $ 34 | $ 3 | $ (1) | $ 1,316 |
| Depreciation and amortization | 113 | 25 | 17 | 3 | | 2 | 1 | | 161 |
| Equity in (losses)/earnings of unconsolidated affiliates | (32) | | | (1) | 14 | | | | (19) |
| Income/(loss) from continuing operations before income taxes | 14 | (45) | (6) | 13 | 23 | 2 | (85) | (10) | (94) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Income from discontinued operations, net of income taxes | | | | | 168 | | | | 168 |
| **Net income/(loss) attributable to NRG Energy, Inc.** | $ 13 | $ (45) | $ (6) | $ 13 | $ 186 | $ 2 | $ (26) | $ (10) | $ 127 |

Table of Contents

| (In millions) | | | Wholesale Power Generation | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Six months ended June 30, 2009 | Reliant Energy (a) | Texas (b) | Northeast | South Central | West | International | Thermal | Corporate | Elimination | Total |
| Operating revenues | $ 1,175 | $ 1,544 | $ 701 | $ 301 | $ 70 | $ 68 | $ 70 | $ 36 | $ (70) | $ 3,895 |
| Depreciation and amortization | 43 | 234 | 59 | 34 | 4 | | 5 | 3 | | 382 |
| Equity in earnings/(losses) of unconsolidated affiliates | | (3) | | | 4 | 26 | | | | 27 |
| Income/(loss) from continuing operations before income taxes | 414 | 485 | 253 | (8) | 16 | 142 | 4 | (228) | | 1,078 |
| Net income/(loss) | 233 | 315 | 253 | (8) | 16 | 137 | 4 | (320) | | 630 |
| Net loss attributable to non-controlling interest | | (1) | | | | | | | | (1) |
| **Net income/(loss) attributable to NRG Energy, Inc.** | $ 233 | $ 316 | $ 253 | $ (8) | $ 16 | $ 137 | $ 4 | $ (320) | $ | $ 631 |

(a) Reliant Energy balances are for the two months ended June 30, 2009.

(b) Includes inter-segment sales of $66 million to Reliant Energy.

If the Company continued using the 2008 allocation method for corporate general and administrative expenses, the effect to net income/(loss) of each segment for the six months ended June 30, 2009 would have been as follows:

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Net income/(loss) attributable to NRG Energy, Inc. as reported | $ 233 | $ 316 | $ 253 | $ (8) | $ 16 | $ 137 | $ 4 | $ (320) | $ | $ 631 |
| Increase/(decrease) in net income/(loss) attributable to NRG Energy, Inc. | (11) | 8 | 4 | (1) | | | | | | |
| **Adjusted net income/(loss) attributable to NRG Energy, Inc.** | $ 222 | $ 324 | $ 257 | $ (9) | $ 16 | $ 137 | $ 4 | $ (320) | $ | $ 631 |

| (In millions) | | Wholesale Power Generation | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Six months ended June 30, 2008 | Texas | Northeast | South Central | West | International | Thermal | Corporate | Elimination | Total |
| Operating revenues | $ 1,400 | $ 625 | $ 351 | $ 87 | $ 81 | $ 78 | $ (2) | $ (2) | $ 2,618 |
| Depreciation and amortization | 226 | 51 | 34 | 4 | | 5 | 2 | | 322 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Equity in (losses)/earnings of unconsolidated affiliates | (50) | | | (3) | 30 | | | | (23) |
| Income/(loss) from continuing operations before income taxes | 81 | 14 | 33 | 25 | 47 | 7 | (192) | (10) | 5 |
| Income from discontinued operations, net of income taxes | | | | | 172 | | | | 172 |
| **Net income/(loss) attributable to NRG Energy, Inc.** | $ 50 | $ 14 | $ 33 | $ 25 | $ 210 | $ 7 | $ (153) | $ (10) | $ 176 |

## Note 12 Income Taxes

***Effective Tax Rate***

Income taxes included in continuing operations were as follows:

| (In millions except otherwise noted) | Three months ended June 30, 2009 | Three months ended June 30, 2008 |
|---|---|---|
| Income tax expense (benefit) | $ 150 | $ (53) |
| Effective tax rate | 25.8% | 56.4% |

For the three months ended June 30, 2009, NRG s overall effective tax rate on continuing operations was different than the statutory rate of 35% primarily due to a reduction in the state and local income tax rate as a result of the Reliant Energy acquisition and the sale of the MIBRAG facility. For the three months ended June 30, 2008, NRG s effective tax rate was increased primarily due to the movement of the valuation allowance established as result of capital losses generated in the period for which there is no projected capital gain or available tax planning strategies.

Income taxes included in continuing operations were as follows:

| (In millions except otherwise noted) | Six months ended June 30, 2009 | Six months ended June 30, 2008 |
|---|---|---|
| Income tax expense | $ 448 | $ 1 |
| Effective tax rate | 41.5% | 20.0% |

For the six months ended June 30, 2009, NRG s overall effective tax rate on continuing operations was different than the statutory rate of 35% primarily due to an increase in valuation allowance as a result of capital losses generated in the six month period for which there are no projected capital gains or available tax planning strategies. Furthermore, the effective tax rate is decreased by the sale of the MIBRAG facility as well as a reduction of the state and local income tax rate as a result of the Reliant Energy acquisition. For the six months ended June 30, 2008, NRG s overall effective tax rate was reduced primarily by foreign earnings that are taxed at rates in foreign jurisdictions lower than the U.S. statutory rate.

***Deferred tax assets, liabilities and valuation allowance***

On a provisional basis, NRG established deferred tax assets of $1,205 million and deferred tax liabilities of $1,194 million as a result of NRG s acquisition of Reliant Energy.

Table of Contents

***Valuation Allowance***

As of June 30, 2009, the Company s valuation allowance was increased by approximately $80 million primarily due to losses generated in the period from derivative trading activity which require capital treatment for tax purposes. The Company increased its foreign valuation allowance by approximately $10 million.

***Uncertain tax benefits***

As of June 30, 2009, NRG has recorded a $463 million non-current tax liability for unrecognized tax benefits, resulting from taxable earnings for the period for which there are no NOLs available to offset for financial statement purposes. NRG has accrued interest and penalties related to these unrecognized tax benefits of approximately $9 million for the six months ended June 30, 2009, and has accrued approximately $17 million since adoption. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense.

NRG is subject to examination by taxing authorities for income tax returns filed in the U.S. federal jurisdiction and various state and foreign jurisdictions including major operations located in Germany and Australia. The Company is no longer subject to U.S. federal income tax examinations for years prior to 2002. With few exceptions, state and local income tax examinations are no longer open for years before 2002. The Company s significant foreign operations are also no longer subject to examination by local jurisdictions for years prior to 2000. The Company continues to be under examination by the Internal Revenue Service.

***Tax Receivable and Payable***

As of June 30, 2009, the Company has recorded a tax receivable of approximately $49 million that represents a domestic federal tax receivable of $9 million and state tax receivable of $40 million, net of $6 million reserve. In addition, the Company has recorded a current payable of approximately $13 million which includes domestic tax payable of approximately $1 million as well as foreign taxes payable of approximately $12 million.

## Note 13 Benefit Plans and Other Postretirement Benefits

***NRG Defined Benefit Plans***

NRG sponsors and operates three defined benefit pension and other postretirement plans. The NRG Plan for Bargained Employees and the NRG Plan for Non-Bargained Employees are maintained solely for eligible legacy NRG participants. A third plan, the Texas Genco Retirement Plan, is maintained for participation solely by eligible employees. The total amount of employer contributions paid for the six months ended June 30, 2009 was $14 million. NRG expects to make $16 million in further contributions for the remainder of 2009. The total 2009 planned contribution of $30 million was a decrease of $30 million from the expected contributions as disclosed in Note 12 *Benefit Plans and Other Postretirement Benefits*, in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008. This decrease in the 2009 expected contributions is due to the adoption by the Company in March 2009 of the new funding method options now available. The new methods were made allowable under new IRS guidance on the application of recent Congressional legislation on funding requirements.

The net periodic pension cost related to all of the Company s defined benefit pension plans include the following components:

| | Defined Benefit Pension Plans | | | |
|---|---|---|---|---|
| | Three months ended June 30, | | Six months ended June 30, | |
| **(In millions)** | **2009** | **2008** | **2009** | **2008** |
| Service cost benefits earned | $ 3 | $ 3 | $ 7 | $ 7 |
| Interest cost on benefit obligation | 5 | 4 | 10 | 9 |
| Prior service cost | 1 | | 1 | |
| Net gain | | (1) | | (1) |
| Expected return on plan assets | (4) | (3) | (8) | (7) |
| Net periodic benefit cost | $ 5 | $ 3 | $ 10 | $ 8 |

The net periodic cost related to all of the Company s other postretirement benefits plans includes the following components:

| | Other Postretirement Benefits Plans | | | |
|---|---|---|---|---|
| | Three months ended June 30, | | Six months ended June 30, | |
| **(In millions)** | **2009** | **2008** | **2009** | **2008** |
| Service cost benefits earned | $ 1 | $ | $ 2 | $ 1 |
| Interest cost on benefit obligation | 1 | 2 | 3 | 3 |
| Net periodic benefit cost | $ 2 | $ 2 | $ 5 | $ 4 |

***STP Defined Benefit Plans***

NRG has a 44% undivided ownership interest in South Texas Project, or STP. South Texas Project Nuclear Operating Company, or STPNOC, which operates and maintains STP, provides its employees a defined benefit pension plan as well as postretirement health and welfare benefits. Although NRG does not sponsor the STP plan, it reimburses STPNOC for 44% of the contributions made towards its retirement plan obligations. The total amount of employer contributions reimbursed to STPNOC for the six months ended June 30, 2009 was $2 million. The Company recognized net periodic costs related to its 44% interest in STP defined benefits plans of $2 million for both the three months ended June 30, 2009 and 2008, respectively. The Company recognized net periodic costs related to its 44%

interest in STP defined benefits plans of $5 million and $4 million for the six months ended June 30, 2009 and 2008, respectively.

Table of Contents

## Note 14 Commitments and Contingencies

***Operating Lease Commitments***

As a result of the acquisition of Reliant Energy, the Company s operating lease commitments have increased primarily due to additional lease agreements for office space through 2021. As of June 30, 2009, eight additional office space locations were under lease for future commitments of approximately $89 million.

***Fuel Commitments***

NRG enters into long-term contractual arrangements to procure fuel and transportation services for the Company s generation assets. NRG s total net coal commitments, which span from 2009 through 2012, decreased by approximately $266 million during the six months ended June 30, 2009 as the 2009 monthly commitments were settled. In addition, NRG s natural gas purchase commitments decreased by approximately $162 million during the six months ended June 30, 2009, as the 2009 monthly commitments were settled and average natural gas prices decreased.

***Purchased Power Commitments***

As a result of the acquisition of Reliant Energy, NRG is party to purchased power contracts of various quantities and durations that are not classified as derivative assets and liabilities. These contracts are not included in the consolidated balance sheet as of June 30, 2009. Minimum purchase commitment obligations under these agreements are as follows as of June 30, 2009:

| (In millions) | Fixed Pricing[(a)] | Variable Pricing[(b)] |
|---|---|---|
| Remainder of 2009 | $ 46 | $ 85 |
| 2010 | 42 | 8 |
| 2011 | 24 | |
| 2012 | 20 | |
| 2013 | 10 | |
| **Total** | $ 142 | $ 93 |

(a) As of June 30, 2009, the maximum remaining term under any individual purchased power contract is four years.

(b) For contracts with variable pricing components, estimated prices are based on forward commodity curves as of June 30, 2009.

***Other***

As a result of the acquisition of Reliant Energy, the Company acquired the naming rights, including advertising and other benefits, for a football stadium and other convention and entertainment facilities included in the stadium complex in Houston, Texas. Pursuant to this agreement, the Company is required to pay $10 million per year through 2031.

See discussion in Note 3, *Business Acquisition,* regarding the CSRA as a result of the acquisition of Reliant Energy on May 1, 2009.

**First and Second Lien Structure**

NRG has granted first and second liens to certain counterparties on substantially all of the Company s assets to reduce the amount of cash collateral and letters of credit that it would otherwise be required to post from time to time to support its obligations under out-of-the-money hedge agreements for forward sales of power or MWh equivalents. The Company s lien counterparties may have a claim on NRG s assets to the extent market prices exceed the hedged price. As of June 30, 2009 and July 23, 2009, all hedges under the first and second liens were in-the-money on a counterparty aggregate basis.

***Repowering*****NRG Initiatives**

NRG has capitalized $32 million through June 30, 2009, for the repowering of its El Segundo generating facility in California. As a result of permitting delays related to on-going Natural Resource Defense Counsel claims, the El Segundo project will not reach its original completion date of June 1, 2011. The Company is contemplating certain PPA modifications including the commercial operations date.

**Contingencies**

Set forth below is a description of the Company s material legal proceedings. The Company believes that it has valid defenses to these legal proceedings and intends to defend them vigorously. Pursuant to the requirements of SFAS No. 5, *Accounting for Contingencies,* or SFAS 5, and related guidance, NRG records reserves for estimated losses from contingencies when information available indicates that a loss is probable and the amount of the loss, or range of loss, can be reasonably estimated. In addition, legal costs are expensed as incurred. Management has assessed each of the following matters based on current information and made a judgment concerning its potential outcome, considering the nature of the claim, the amount and nature of damages sought, and the probability of success. Unless specified below, the Company is unable to predict the outcome of these legal proceedings or reasonably estimate the scope or amount of any associated costs and potential liabilities. As additional information becomes available, management adjusts its assessment and estimates of such contingencies accordingly. Because litigation is subject to inherent uncertainties and unfavorable rulings or developments, it is possible that the ultimate resolution of the Company s liabilities and contingencies could vary from its currently recorded reserves and such differences could be material.

In addition to the legal proceedings noted below, NRG and its subsidiaries are party to other litigation or legal proceedings arising in the ordinary course of business. In management s opinion, the disposition of these ordinary course matters will not materially adversely affect NRG s consolidated financial position, results of operations, or cash flows.

***Exelon Related Litigation***

**Delaware Chancery Court**

On November 11, 2008, Exelon and its wholly-owned subsidiary Exelon Xchange filed a complaint against NRG and NRG s Board of Directors. The complaint alleges, among other things, that NRG s Board of Directors failed to give due consideration and to take appropriate action in response to the acquisition proposal announced by Exelon on October 19, 2008, in which Exelon offered to acquire all of the outstanding shares of NRG common stock at an exchange ratio of 0.485 Exelon shares for each NRG common share. On November 14, 2008, NRG and NRG s Board of Directors filed a motion to dismiss Exelon s complaint on the grounds that it failed to state a claim upon which relief can be granted. On March 16, 2009, prior to responding to the motion to dismiss, Exelon and Exelon Xchange filed an amended complaint. The amended complaint seeks, among other things, declaratory and injunctive relief: (i) declaring that NRG and its Board of Directors breached its fiduciary duties by summarily rejecting the October 19, 2008 Exelon offer, by resorting to defensive measures to interfere with Exelon s tender offer, and by making false and misleading statements to NRG stockholders; (ii) compelling NRG and its Board of Directors to approve the Exelon tender offer by waiving the application of Section 203 of the Delaware General Corporation Law; (iii) compelling NRG and its Board of Directors from taking any actions with respect to regulatory authorities that would thwart or interfere with the Exelon tender offer; and (iv) compelling NRG and its Board of Directors to correct any false and misleading statements to NRG stockholders and to disclose all material facts necessary for NRG stockholders to make informed decisions regarding the October 19, 2008 Exelon offer. On April 17, 2009, NRG and NRG s Board of Directors filed a partial motion to dismiss the amended complaint asserting that many of the claims are subject to the business judgment rule, are premature, and should be dismissed for failure to state a claim upon which relief can be granted. Briefing on the motion commenced on June 12, 2009, and concluded on July 24, 2009. On July 28, 2009, Exelon, NRG, and NRG s Board of Directors collectively filed a Stipulation of Dismissal of Exelon s lawsuit, thereby ending the case.

On December 11, 2008, the Louisiana Sheriffs Pension & Relief Fund and City of St. Claire Shores Police & Fire Retirement System, on behalf of themselves and all others similarly situated, served a previously filed complaint on NRG and its Board of Directors alleging substantially similar allegations as the Exelon complaint. On December 23, 2008, NRG and NRG s Board of Directors filed a motion to dismiss the complaint on the grounds that it failed to state a claim upon which relief can be granted. On March 16, 2009, prior to responding to the motion to dismiss, these plaintiffs filed an amended complaint against only NRG s Board of Directors. The amended complaint seeks, among other things, declaratory and injunctive relief: (i) declaring that it is a proper class action; (ii) declaring that the NRG Board of Directors breached its fiduciary duties by summarily rejecting the October 19, 2008 Exelon offer and by resorting to defensive measures designed to prevent any potential acquirer from entering into a value-maximizing transaction with NRG; (iii) compelling NRG s Board of Directors to engage in a dialogue with Exelon to more fully understand the October 19, 2008 offer and to determine the potential for any improvement thereon; (iv) enjoining NRG from proceeding with the acquisition of Reliant Energy s retail business; (v) enjoining the NRG s Board of Directors from taking any actions designed to block a transaction with Exelon; and (vi) awarding plaintiffs their costs and fees. On April 17, 2009, the NRG Board of Directors filed a motion to dismiss the amended complaint asserting that it fails to state a claim upon which relief can be granted. Briefing on the motion commenced on June 11, 2009, and will conclude on a date to be determined at a July 31, 2009, hearing.

Table of Contents

**Mercer County, New Jersey Superior Court**

On January 6, 2009, three lawsuits previously filed against NRG and NRG s Board of Directors on behalf of individual shareholders and all others similarly situated were consolidated into one case in the Law Division of the Superior Court of Mercer County, New Jersey. On January 21, 2009, the plaintiffs filed an Amended Consolidated Complaint in which they allege a single count of breach of fiduciary duty against NRG s Board of Directors and seek injunctive relief: (i) declaring that the action is a class action and certifying plaintiffs as class plaintiffs and counsel as class counsel; (ii) declaring that defendants breached their fiduciary duties by summarily rejecting the Exelon offer; (iii) ordering defendants to negotiate with respect to the Exelon offer or with respect to another transaction to maximize shareholder value; (iv) ordering defendants to exempt Exelon s offer from Section 203 of the Delaware General Corporations Law; (v) awarding compensatory damages including interest; (vi) awarding plaintiffs costs and fees; and (vii) granting other relief the Court deems proper. On February 20, 2009, NRG s Board of Directors filed a motion to dismiss the amended consolidated complaint for failure to state a claim or, in the alternative, to stay the action in favor of the Delaware Chancery Court proceedings. On March 19, 2009, the plaintiffs filed their response and on April 6, 2009, NRG s Board of Directors filed its reply. On April 17, 2009, and again on May 7, 2009, oral argument was held and on June 18, 2009, the court found in favor of NRG s Board of Directors and stayed the consolidated lawsuits pending resolution of the purported class-action lawsuit filed in Delaware Chancery court by the Louisiana Sheriffs Pension & Relief Fund and City of St. Claire Shores Police & Fire Retirement System.

***California Department of Water Resources***

This matter concerns, among other contracts and other defendants, the California Department of Water Resources, or CDWR, and its wholesale power contract with subsidiaries of WCP (Generation) Holdings, Inc., or WCP. The case originated with a February 2002 complaint filed by the State of California alleging that many parties, including WCP subsidiaries, overcharged the State of California. For WCP, the alleged overcharges totaled approximately $940 million for 2001 and 2002. The complaint demanded that the Federal Energy Regulatory Commission, or FERC, abrogate the CDWR contract and sought refunds associated with revenues collected under the contract. In 2003, the FERC rejected this complaint, denied rehearing, and the case was appealed to the U.S. Court of Appeals for the Ninth Circuit where oral argument was held on December 8, 2004. On December 19, 2006, the Ninth Circuit decided that in the FERC s review of the contracts at issue, the FERC could not rely on the *Mobile-Sierra* standard presumption of just and reasonable rates, whe