MIRANT CORP
Form 10-Q
May 10, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the Quarterly Period Ended March 31, 2006**
	Or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the Transition Period from to**

Mirant Corporation

(Exact name of registrant as specified in its charter)

Delaware	**001-16107**	**20-3538156**
(State or other jurisdiction of Incorporation or Organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

1155 Perimeter Center West, Suite 100, **Atlanta, Georgia** (Address of Principal Executive Offices) **(678) 579-5000** (Registrant s Telephone Number, Including Area Code)	**30338** (Zip Code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share

Series A Warrants

Series B Warrants

Securities registered pursuant to Section 12(g) of the Act:

None

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. x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

o Large Accelerated Filer x Accelerated Filer o Nonaccelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). o Yes x No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 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. x Yes o No

The number of shares outstanding of the Registrant s Common Stock, par value $0.01 per share, at May 1, 2006, was 300,020,291.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

The information presented in this Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 in addition to historical information. These statements involve known and unknown risks and uncertainties and relate to future events, our future financial performance or our projected business results. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, plan, anticipate, estimate, predict, potential or continue or the negative of these terms or other comparable terminology.

Forward-looking statements are only predictions. Actual events or results may differ materially from any forward-looking statement as a result of various factors, which include:

- legislative and regulatory initiatives regarding deregulation, regulation or restructuring of the electric utility industry; changes in state, federal and other regulations (including rate and other regulations); changes in, or changes in the application of, environmental and other laws and regulations to which we and our subsidiaries and affiliates are or could become subject;

- failure of our assets to perform as expected, including outages for unscheduled maintenance or repair;

- our implementation of business strategies, including the acquisition of additional assets or the disposition or alternative utilization of existing assets;

- changes in market conditions, including developments in energy and commodity supply, demand, volume and pricing, or the extent and timing of the entry of additional competition in our markets or those of our subsidiaries and affiliates;

- increased margin requirements, market volatility or other market conditions that could increase our obligations to post collateral beyond amounts which are expected;

- our inability to access effectively the over-the-counter and exchange-based commodity markets or changes in commodity market liquidity or other commodity market conditions, which may affect our ability to engage in asset management and proprietary trading activities as expected;

- our ability to borrow additional funds and access capital markets;

- strikes, union activity or labor unrest;

- weather and other natural phenomena, including hurricanes and earthquakes;

- the cost and availability of emissions allowances;

- our ability to obtain adequate fuel supply and delivery for our facilities;

- curtailment of operations due to transmission constraints;

- environmental regulations that restrict our ability to operate our business;

- war, terrorist activities or the occurrence of a catastrophic loss;

- deterioration in the financial condition of our counterparties and the resulting failure to pay amounts owed to us or to perform obligations or services due to us;

- hazards customary to the power generation industry and the possibility that we may not have adequate insurance to cover losses as a result of such hazards;

- price mitigation strategies employed by independent system operators (ISOs) or regional transmission organizations (RTOs) that result in a failure to compensate our generation units adequately for all of their costs;

- volatility in our gross margin as a result of our accounting for derivative financial instruments used in our asset management activities and volatility in our cash flow from operations resulting from working capital requirements, including collateral, to support our asset management and proprietary trading activities;

- our inability to enter into intermediate and long-term contracts to sell power and procure fuel, including its transportation, on terms and prices acceptable to us;

- legislative and regulatory initiatives and changes in the application of laws and regulations by national and local governments in foreign countries where we have operations;

- political factors that affect our international operations, such as political instability, local security concerns, tax increases, expropriation of property, cancellation of contract rights and environmental regulations;

- the inability of our operating subsidiaries to generate sufficient cash flow and our inability to access that cash flow to enable us to make debt service and other payments;

- the fact that our New York subsidiaries remain in bankruptcy;

- our substantial consolidated indebtedness and the possibility that we or our subsidiaries may incur additional indebtedness in the future;

- restrictions on the ability of our subsidiaries to pay dividends, make distributions or otherwise transfer funds to us, including restrictions on Mirant Mid-Atlantic, LLC (Mirant Mid-Atlantic) contained in its leveraged lease financing agreements;

- the resolution of claims and obligations that were not resolved during the Chapter 11 process that may have a material adverse effect on our results of operations;

- our ability to negotiate favorable terms from suppliers, counterparties and others and to retain customers because we were previously subject to bankruptcy protection; and

- the disposition of the pending litigation described in this Form 10-Q as well as in our Annual Report on Form 10-K for the year ended December 31, 2005.

We undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

Factors that Could Affect Future Performance

In addition to the discussion of certain risks in Management s Discussion and Analysis of Financial Condition and Results of Operations and the accompanying Notes to Mirant s unaudited condensed consolidated financial statements, other factors that could affect the Company s future performance (business, financial condition or results of operations and cash flows) are set forth in our 2005 Annual Report on Form 10-K.

Certain Terms

As used in this report, we, us, our, the Company and Mirant refer to Mirant Corporation and its subsidiaries, unless the context requires otherwise. Also as used in this report we, us, our, the Company and Mirant refer to old Mirant prior to January 3, 2006 and to new Mirant on or after January 3, 2006.

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MIRANT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended March 31,	
	2006	**2005**
	(in millions, except per share data)	
Operating Revenues:		
Generation	**$ 1,113**	$ 691
Integrated utilities and distribution	**190**	153
Total operating revenues	**1,303**	844
Cost of fuel, electricity and other products	**440**	448
Gross Margin	**863**	396
Operating Expenses:		
Operations and maintenance	**239**	230
Depreciation and amortization	**75**	77
Gain on sales of assets, net	**(40)**	(3)
Total operating expenses	**274**	304
Operating Income	**589**	92
Other Expense (Income), net:		
Interest expense	**101**	31
Equity in income of affiliates	**(9)**	(7)
Impairment losses on minority owned affiliates	**7**	
Interest income	**(25)**	(5)
Other, net	**(3)**	
Total other expense, net	**71**	19
Income From Continuing Operations Before Reorganization Items, Income Taxes and Minority Interest	**518**	73
Reorganization items, net		61
Provision (benefit) for income taxes	**47**	(3)
Minority interest	**4**	7
Income From Continuing Operations	**467**	8
Income From Discontinued Operations, net		3
Net Income	**$ 467**	$ 11
Basic earnings per share	**$ 1.56**	
Diluted earnings per share	**$ 1.51**	
Average shares outstanding	**300**	
Effect of dilutive securities	**9**	
Average shares outstanding assuming dilution	**309**	

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

MIRANT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	At March 31, 2006 (Unaudited) (in millions)	At December 31, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 1,730**	$ 1,551
Funds on deposit	**617**	1,729
Receivables, net	**638**	873
Price risk management assets	**609**	608
Inventories	**411**	372
Prepaid expenses	**200**	217
Investment in securities available for sale	**55**	30
Other	**37**	40
Total current assets	**4,297**	5,420
Property, Plant and Equipment, net	**6,105**	6,015
Noncurrent Assets:		
Intangible assets, net	**286**	288
Investments	**229**	227
Price risk management assets	**127**	115
Funds on deposit	**168**	188
Deferred income taxes	**389**	315
Other	**370**	344
Total noncurrent assets	**1,569**	1,477
Total assets	**$ 11,971**	$ 12,912
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Short-term debt	**$ 31**	$ 32
Current portion of long-term debt	**318**	394
Claims payable and estimated claims accrual	**167**	1,948
Accounts payable and accrued liabilities	**551**	783
Price risk management liabilities	**589**	849
Accrued taxes and other	**477**	369
Total current liabilities	**2,133**	4,375
Noncurrent Liabilities:		
Long-term debt	**4,145**	3,307
Price risk management liabilities	**433**	458
Deferred income taxes	**251**	242
Asset retirement obligations	**34**	35
Deferred revenue	**156**	150
Other	**304**	299
Total noncurrent liabilities	**5,323**	4,491
Liabilities Subject to Compromise	**18**	18
Minority Interest in Subsidiary Companies	**145**	172
Commitments and Contingencies		
Stockholders Equity:		
Preferred stock, par value $.01 per share, authorized 100,000,000 shares, issued 0 shares at March 31, 2006 and December 31, 2005, respectively		
Common stock, par value $.01 per share, authorized 1.5 billion shares, issued 300,017,296 and 300,000,000 at March 31, 2006 and December 31, 2005, respectively, and outstanding 300,014,586 shares and 300,000,000 at March 31, 2006 and December 31, 2005, respectively	**3**	3
Treasury stock, at cost, 2,710 shares and 0 shares at March 31, 2006 and December 31, 2005, respectively		
Additional paid-in capital	**11,300**	11,298
Accumulated deficit	**(6,995)**	(7,462)
Accumulated other comprehensive income	**44**	17
Treasury stock, at cost		
Total stockholders equity	**4,352**	3,856
Total liabilities and stockholders equity	**$ 11,971**	$ 12,912

The accompanying notes are an integral part of these condensed consolidated statements.

MIRANT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(UNAUDITED)

	Common Stock (in millions)	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income
Balance, December 31, 2005	$ 3	$ 11,298	$ (7,462)	$ 17
Net income			**467**	
Stock-based compensation		**2**		
Other comprehensive income				**27**
Balance, March 31, 2006	**$ 3**	**$ 11,300**	**$ (6,995)**	**$ 44**

MIRANT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended March 31,	
	2006	2005
	(in millions)	
Net Income	**$ 467**	$ 11
Other comprehensive income, net of tax		
Cumulative translation adjustment	**1**	7
Unrealized gains on available-for-sale securities	**26**	
Other comprehensive income, net of tax	**27**	7
Total Comprehensive Income	**$ 494**	$ 18

The accompanying notes are an integral part of these condensed consolidated statements.

MIRANT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31, 2006 (in millions)	2005
Cash Flows from Operating Activities:		
Net income	**$ 467**	$ 11
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	**75**	79
Gain on sales of assets and investments	**(41)**	(3)
Non-cash charges for reorganization items		26
Price risk management activities, net	**(298)**	11
Other, net	**37**	4
Changes in operating assets and liabilities:		
Receivables, net	**232**	25
Other current assets	**203**	(41)
Other assets	**20**	22
Accounts payable and accrued liabilities	**(228)**	(49)
Settlement of claims payable	**(746)**	
Taxes accrued	**33**	18
Other liabilities		1
Total adjustments	**(713)**	93
Net cash provided by (used in) operating activities	**(246)**	104
Cash Flows from Investing Activities:		
Capital expenditures	**(30)**	(32)
Cash paid for acquisitions	**(35)**	
Issuance of notes receivable	**(22)**	
Proceeds from the sales of assets and minority owned investments	**50**	72
Other		(5)
Net cash provided by (used in) investing activities	**(37)**	35
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt	**2,119**	10
Repayment of long-term debt	**(627)**	(96)
Settlement of debt under the Plan	**(1,035)**	
Debt issuance cost	**(51)**	
Change in debt service reserve fund	**58**	38
Other	**(1)**	(2)
Net cash provided by (used in) financing activities	**463**	(50)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(1)**	
Net Increase in Cash and Cash Equivalents	**179**	89
Cash and Cash Equivalents, beginning of period	**1,551**	1,485
Cash and Cash Equivalents, end of period	**$ 1,730**	$ 1,574
Supplemental Cash Flow Disclosures:		
Cash paid for interest, net of amounts capitalized	**$ 59**	$ 49
Cash paid for income taxes	**$ 1**	$
Cash paid for claims and professional fees from bankruptcy	**$ 1,833**	$ 33

The accompanying notes are an integral part of these condensed consolidated statements.

MIRANT CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. Description of Business

Overview

Mirant Corporation and its subsidiaries (collectively, Mirant or the Company) is an international energy company whose revenues primarily are generated through the production of electricity in the United States, the Philippines and the Caribbean. As of March 31, 2006, the Company owned or leased approximately 17,500 megawatts (MW) of electric generating capacity.

Mirant Corporation was incorporated in Delaware on September 23, 2005, and is the successor to a corporation of the same name that was formed in Delaware on April 3, 1993. This succession occurred by virtue of the transfer of substantially all of old Mirant s assets to new Mirant in conjunction with old Mirant s emergence from bankruptcy protection on January 3, 2006. Old Mirant was then renamed and transferred to a trust, which is not affiliated with new Mirant. New Mirant serves as the corporate parent of the business enterprise and, pursuant to the Plan of Reorganization (the Plan) that was approved in connection with old Mirant s emergence from bankruptcy, has no successor liability for any unassumed obligations of old Mirant.

Mirant manages its business through three principal operating segments: United States, Philippines and Caribbean. The Company s United States segment consists of the ownership, long-term lease and operation of power generation facilities and energy trading and marketing operations. The Philippine segment includes ownership, long-term lease or similar interest and operation of power generation businesses. The Caribbean segment includes investment in power generation businesses in Curacao and Trinidad and Tobago and ownership and operation of fully integrated utilities in the Bahamas and Jamaica which generate power sold to residential, commercial and industrial customers.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Mirant and its wholly-owned subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

The accompanying financial statements include the accounts of Mirant and its wholly-owned and controlled majority-owned subsidiaries, as well as variable interest entities in which Mirant has an interest and is the primary beneficiary, and have been prepared from records maintained by Mirant and its subsidiaries in their respective countries of operation. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in minority-owned companies in which Mirant exercises significant influence over operating and financial policies are accounted for using the equity method of accounting. Jointly owned affiliates, which Mirant does not control, as well as interests in variable interest entities in which Mirant is not the primary beneficiary, are also accounted for using the equity method of accounting.

The Company has held a minority equity interest in Ilijan, a non-consolidated variable interest entity (VIE), since July 2000. The non-consolidated VIE primarily holds an interest in a generation facility and has total assets of approximately $119 million at March 31, 2006. The Company believes that its maximum exposure to loss associated with its interest in the non-consolidated VIE is the Company s carrying value of its investment in the VIE at March 31, 2006, of approximately $62 million.

Certain prior period amounts have been reclassified to conform to the current year financial statement presentation. All amounts are presented in U.S. dollars unless otherwise noted.

Recently Adopted Accounting Standard

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment* (SFAS No. 123R), which requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees. Mirant adopted the provisions of SFAS No. 123R on January 1, 2006, using the modified prospective transition method. All awards that are granted, modified or settled after the date of adoption will be measured and accounted for in accordance with SFAS No. 123R, with no restatement of prior periods.

Mirant s unvested awards of stock-based compensation at December 31, 2005, were cancelled pursuant to the Plan. Under the modified prospective transition method, a company is required to recognize compensation cost for unvested awards that are outstanding on the effective date based on the fair value that the company had originally estimated for purposes of preparing its SFAS No. 123 pro forma disclosures. Therefore, there was no cumulative effect recognized upon adoption of SFAS No. 123R. As a result, SFAS No.123R only applied to stock-based instruments issued to employees and others during the first quarter of 2006. Pre-tax expense related to stock-based compensation was approximately $2 million for the three months ended March 31, 2006. See Note F for additional information on the Company s stock-based compensation.

New Accounting Standards Not Yet Adopted

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* (SFAS No. 155), which allows fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a re-measurement event beginning in the first fiscal year after September 15, 2006. At the date of adoption, any difference between the total carrying amount of the existing bifurcated hybrid financial instrument and the fair value of the combined hybrid financial instrument will be recognized as a cumulative effect adjustment to beginning retained earnings. The Company will adopt SFAS No. 155 on January 1, 2007. The adoption of SFAS No. 155 is not expected to have a material impact on the Company s statements of operations, financial position or cash flows.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets* (SFAS No. 156), which requires all separately recognized servicing assets and servicing liabilities to be measured initially at fair value and permits, but does not require, an entity to subsequently measure those servicing assets or liabilities at fair value. SFAS No. 156 is effective at the beginning of the first fiscal year after September 15, 2006. All requirements for recognition and initial measurement of servicing assets and servicing liabilities will be applied prospectively to all transactions occurring after the adoption of this statement. The Company will adopt SFAS No. 156 on January 1, 2007. The adoption of SFAS No. 156 is not expected to have a material impact on the Company s statements of operations, financial position or cash flows.

In September 2005, the FASB ratified Emerging Issues Task Force (EITF) Issue 04-13, *Accounting for Purchases and Sales of Inventory with the Same Counterparty* (EITF 04-13), which requires companies to account for exchanges of inventory with the same counterparty as one transaction. EITF 04-13 will be applied to new arrangements, and modifications or renewals of existing arrangements, beginning in the first interim or annual reporting period after March 15, 2006. The Company will adopt EITF 04-13 on April 1, 2006. EITF 04-13 will impact the Company s accounting for emissions allowances classified as inventory to the extent the allowances are exchanged in a transaction with the same counterparty.

In April 2006, the FASB issued FASB Staff Position (FSP) FASB Interpretation (FIN) 46R-6, *Determining the Variability to Be Considered in Applying FASB Interpretation No. 46R* (FSP FIN 46R-6). The variability that is considered in applying FIN 46R affects the determination of whether an entity is a VIE, which interests are variable interests in the entity, and which party, if any, is the primary beneficiary of the VIE. According to FSP FIN 46R-6, the variability to be considered should be based on the nature of the risks of the entity and the purpose for which the entity was created. The guidance in FSP FIN 46R-6 is applicable prospectively to an entity at the time a company first becomes involved with such entity and is applicable to all entities previously required to be analyzed under FIN 46R when a reconsideration event has occurred beginning the first reporting period after June 15, 2006. Retrospective application to the date of the initial application of FIN 46R is permitted but not required. The Company will adopt FSP FIN 46R-6 on July 1, 2006, on a prospective basis.

B. Bankruptcy Related Disclosures

Mirant s Plan was confirmed by the United States Bankruptcy Court for the Northern District of Texas (the Bankruptcy Court) on December 9, 2005, and the Company emerged from bankruptcy on January 3, 2006. For financial statement presentation purposes, Mirant recorded the effects of the Plan at December 31, 2005.

At March 31, 2006, and December 31, 2005, amounts related to allowed claims, estimated unresolved claims and professional fees associated with the bankruptcy that are to be settled in cash are $167 million and $1.948 billion, respectively, and these amounts are recorded in claims payable and estimated claims accrual on the accompanying unaudited condensed consolidated balance sheets. These amounts do not include unresolved claims that will be settled in common stock or the stock portion of claims that are expected to be settled with cash and stock. During the three months ended March 31, 2006, the Company paid approximately $1.781 billion in cash related to bankruptcy claims. Of this amount approximately $1.035 billion is reflected in cash flows from financing activities and represents the principal amount of debt claims. The remaining $746 million is reflected in cash flows from operating activities and represents other bankruptcy claims and interest.

Financial Statements of Subsidiaries in Bankruptcy

Mirant s New York subsidiaries remain in bankruptcy and include the following entities: Mirant Lovett, LLC (Mirant Lovett), Mirant Bowline, LLC (Mirant Bowline), Mirant NY-Gen, LLC (Mirant NY-Gen), Mirant New York, Inc. (Mirant New York) and Hudson Valley Gas Corporation. Unaudited condensed consolidated financial statements of Mirant s New York subsidiaries are set forth below:

Mirant New York Subsidiaries
Unaudited Condensed Consolidated Statement of Operations Data
(in millions)

	Three Months Ended March 31, 2006	2005
Operating revenues	$ 118	$ 65
Cost of fuel, electricity and other products	43	49
Operating expenses	42	38
Operating income (loss)	33	(22)
Other expense, net	2	
Reorganization items, net	(1)	
Provision for income taxes		1
Net income (loss)	$ 32	$ (23)

Mirant New York Subsidiaries
Unaudited Condensed Consolidated Balance Sheet Data
(in millions)

	March 31, 2006	December 31, 2005
Current assets	$ 103	$ 31
Intercompany receivables	97	149
Property, plant and equipment, net	498	502
Other	8	4
Total assets	$ 706	$ 686
Liabilities not subject to compromise:		
Current liabilities	$ 173	$ 168
Intercompany payables	19	36
Other noncurrent liabilities	9	9
Liabilities subject to compromise affiliate	62	62
Liabilities subject to compromise nonaffiliate	18	18
Stockholders equity	425	393
Total liabilities and stockholders equity	$ 706	$ 686

Mirant New York Subsidiaries
Unaudited Condensed Consolidated Statement of Cash Flow Data
(in millions)

	Three Months Ended March 31, 2006	2005
Net cash (used in) provided by:		
Operating activities	$ (2)	$ 5
Investing activities	74	(6)
Financing activities	2	1
Net increase in cash and cash equivalents	74	
Cash and cash equivalents, beginning of period	1	
Cash and cash equivalents, end of period	$ 75	$

Liabilities Subject to Compromise

The Company s liabilities subject to compromise are $18 million and $18 million at March 31, 2006, and December 31, 2005, respectively, and relate to its New York subsidiaries that remain in bankruptcy.

Reorganization Items, net

For the three months ended March 31, 2006, reorganization items, net were less than $1 million and relate to the New York subsidiaries. For the three months ended March 31, 2005, reorganization items, net represents amounts that were recorded in the financial statements as a result of the bankruptcy proceedings.

The following were the significant items within this category (in millions):

	Three Months Ended March 31, 2005
Estimated claims and losses on rejected and amended contracts	$ 30
Professional fees and administrative expense	37
Interest income, net	(6)
Total	$ 61

For the three months ended March 31, 2006, the Company incurred $6 million of professional fees and administrative expenses related to the bankruptcy proceedings for entities that have emerged from bankruptcy. As these expenses were incurred subsequent to the Company s January 3, 2006, emergence from bankruptcy, these amounts are included in operations and maintenance expense in the unaudited condensed consolidated statements of operations.

C. Discontinued Operations and Assets Held for Sale

Discontinued Operations

The Company has reclassified amounts for prior periods in the financial statements to report separately, as discontinued operations, the revenues and expenses of components of the Company that have been disposed of or are expected to be disposed of in the next year. In February 2006,

Mirant executed an agreement to sell its 77 MW combined cycle Wichita Falls facility in Texas. The sale was completed on May 4, 2006.

For the three months ended March 31, 2006, income from discontinued operations relates to the Wichita Falls facility and was less than $1 million. For the three months ended March 31, 2005, income from discontinued operations includes Wichita Falls as well as the Company s Wrightsville generating facility that was sold in September 2005. A summary of the operating results for these discontinued operations for the three months ended March 31, 2005, follows (in millions):

	March 31, 2006	2005
Operating expenses	$	$ (2)
Loss before reorganization items		(2)
Reorganization benefit, net		5
Net income	$	$ 3

Assets Held for Sale

Current assets held for sale includes discontinued operations and other assets that the Company expects to dispose of within the next year. Current assets held for sale as of March 31, 2006, and December 31, 2005, are comprised of $11 million of property, plant and equipment, net. These amounts are included in other current assets in the condensed consolidated balance sheets.

D. Price Risk Management Assets and Liabilities

The fair values of Mirant s price risk management assets and liabilities, net of credit reserves, at March 31, 2006, are included in the following table (in millions).

	Net Price Risk Management Asset/(Liabilities)				
	Assets		Liabilities		
	Current	Noncurrent	Current	Noncurrent	Net Fair Value
Electricity	$ 530	$ 104	$ (509)	$ (14)	$ 111
Back-to-Back Agreement (1)			(31)	(406)	(437)
Natural Gas	52	11	(43)	(13)	7
Oil	17	1	(1)		17
Coal	16	11	(4)		23
Other, including credit reserve	(6)		(1)		(7)
Total	$ 609	$ 127	$ (589)	$ (433)	$ (286)

(1) Contractual arrangement between Mirant and Potomac Electric Power Company (PEPCO) with respect to certain power purchase agreements (PPAs).

Of the $286 million net fair value liability at March 31, 2006, a $27 million net price risk management asset relates to the remainder of 2006, a net price risk management asset of $14 million relates to 2007 and a net price risk management liability of $327 million relates to periods thereafter. The volumetric weighted average maturity, or weighted average tenor, of the price risk management portfolio at March 31, 2006, was approximately 14 months. The net notional amount of the price risk management assets and liabilities at March 31, 2006, was a net short position of approximately 25 million equivalent megawatt-hours (MWh).

In January 2006, the Company entered into financial swap transactions with a counterparty, the effect of which was to hedge its Mid-Atlantic expected on-peak coal fired generation by approximately 80%, 50% and 50% for 2007, 2008 and 2009, respectively.

The following table provides a summary of the factors impacting the change in net fair value of the price risk management asset and liability accounts in the first quarter of 2006 (in millions):

	Proprietary Trading	Asset Management	Back-to-Back Agreement	Total
Net fair value of portfolio at December 31, 2005	$ 40	$ (181)	$ (443)	$ (584)
Gains (losses) recognized in the period, net	17	215	(1)	231
Contracts settled during the period, net	(5)	65	7	67
Net fair value of portfolio at March 31, 2006	$ 52	$ 99	$ (437)	$ (286)

E. Debt

Pursuant to the Plan, Mirant s wholly-owned subsidiary Mirant Americas Generation, LLC (Mirant Americas Generation) reinstated $1.7 billion of senior notes maturing in 2011, 2021 and 2031. As part of the Plan, the Company and its subsidiaries eliminated approximately $5.9 billion of debt through the distribution of new common stock and cash to its creditors.

Senior Secured Credit Facilities

Mirant North America, LLC (Mirant North America), a wholly-owned subsidiary of Mirant Americas Generation, entered into senior secured credit facilities in January 2006, which are comprised of an $800 million six-year senior secured revolving credit facility and a $700 million seven-year senior secured term loan. The full amount of the senior secured revolving credit facility is available as cash or for the issuance of letters of credit. On January 3, 2006, Mirant North America drew $465 million under its senior secured revolving credit facility. All amounts were repaid during the quarter. The senior secured term loan was fully drawn at closing and will amortize in nominal quarterly installments aggregating 0.25% of the original principal of the term loan per quarter for the first 27 quarters, with the remainder payable on the final maturity date. At the closing, $200 million drawn under the senior secured term loan was deposited into a cash collateral account to support the issuance of up to $200 million of letters of credit.

Loans under the senior secured credit facilities are available at either of the following rates: (i) a fluctuating rate of interest per annum equal to, on any given day, the greater of (a) the interest rate per annum publicly announced by JPMorgan Chase Bank, N.A. as its prime rate in effect at its principal office in New York City on that day, and (b) the federal funds rate in effect on that day plus 0.50%, plus the applicable margin described below (the base rate), or (ii) a fixed rate determined for selected interest periods of one, two, three or six months equal to U.S. dollar London InterBank Offered Rate (LIBOR), plus the applicable margin described below (the Eurodollar rate).

The applicable margin with respect to loans under the senior secured revolving credit facility is 1.25% in the case of base rate loans or 2.25% in the case of Eurodollar rate loans. The applicable margin is subject to a reduction of up to 0.50% based on the achievement and maintenance of certain leverage ratios by Mirant North America. The applicable margin with respect to the senior secured term loan is 0.75% in the case of base rate loans or 1.75% in the case of Eurodollar rate loans.

Senior Notes

In December 2005, Mirant North America issued senior notes in an aggregate principal amount of $850 million that bear interest at 7.375% and mature on December 31, 2013. Interest on the notes is payable on each June 30 and December 31, commencing June 30, 2006.

The proceeds of the notes offering initially were placed in escrow pending the emergence of Mirant North America from bankruptcy. The proceeds were released from escrow in connection with Mirant North America s emergence from bankruptcy and the closing of the senior secured credit facilities.

Mirant Grand Bahama Limited Credit Facility

In August 1996, Mirant Grand Bahama Limited entered into a $28 million senior secured credit facility. The outstanding balance of the facility was $12.4 million as of December 31, 2005, and was due to mature during 2006. During the first quarter of 2006, the term of the facility was extended to August 2011.

Mirant Trinidad Investments, LLC Notes

Mirant Trinidad Investments, LLC (Mirant Trinidad Investments) issued $100 million of 7.017% notes pursuant to an indenture dated January 30, 2006. Interest on the notes is payable semiannually and the principal is due on February 1, 2016. Most of the net proceeds of the offering were used by Mirant Trinidad Investments to repay its $73 million aggregate principal amount of 10.20% notes due January 31, 2006. The remaining net proceeds will be used by Mirant Trinidad Investments to finance a portion of its 39% ownership share of The Power Generation Company of Trinidad and Tobago, Limited s (PowerGen) expansion project. The notes are secured by a pledge and assignment by Mirant Trinidad Investments of its shares of common stock issued by PowerGen and by certain other collateral. The notes are solely the obligation of Mirant Trinidad Investments without recourse to any other Mirant entity or to PowerGen.

Capital Leases

In March 2006, Jamaica Public Service Company Limited (JPS) renegotiated an existing 70 MW PPA with Jamaica Energy Partners, an independent power producer in Jamaica, to include an additional 49 MW and to extend the term of the PPA until 2026. This PPA is accounted for as a capital lease. As of March 31, 2006, the amount outstanding under the PPA is $120 million. The lease has an annual interest rate of 13.37%.

F. Stock-based Compensation

The Mirant Corporation 2005 Omnibus Incentive Plan (the Omnibus Incentive Plan) for certain employees and directors of Mirant became effective on January 3, 2006. The Omnibus Incentive Plan provides for the granting of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock (nonvested shares), restricted stock units (nonvested share units), performance shares, performance units, cash-based awards, other stock-based awards, covered employee annual incentive awards and non-employee director awards. Under the Omnibus Incentive Plan, incentive stock options may be granted only to employees.

Pursuant to the Omnibus Incentive Plan, the Company may grant options or other stock-based awards to its directors, officers and key employees. The Omnibus Incentive Plan was approved as part of the Plan of Reorganization, and all stock compensation awards are made under this Omnibus Incentive Plan.

Under the Omnibus Incentive Plan, 18,575,851 shares of Mirant common stock are available for issuance to participants. The Omnibus Incentive Plan contains the following limitations: (1) the maximum number of shares that may be issued as incentive stock options is 5 million shares; (2) the maximum number of shares that may be issued to non-employee directors is 2.5 million shares; (3) with certain exceptions, a non-employee director may not be granted an award covering

more than 2.5 million shares in any plan year; and (4) the maximum grant of options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units or other stock-based awards in any one plan year to any one participant is limited to 5 million shares.

Shares covered by an award are counted as used only to the extent that they are actually issued. Any shares related to awards that terminate by expiration, forfeiture, cancellation or otherwise without the issuance of such shares will be available again for grant under the Omnibus Incentive Plan.

As discussed in Note A, SFAS No. 123R was adopted by the Company during the first quarter of 2006, using the modified prospective transition method. For the three months ended March 31, 2006, the Company recognized approximately $2 million of expense with respect to stock-based compensation. This amount is included in operations and maintenance expense in the unaudited condensed consolidated statement of operations.

As of March 31, 2006, there was approximately $36 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Omnibus Incentive Plan. That cost is expected to be recognized over a weighted-average period of 1.5 years. No shares were vested as of March 31, 2006.

Prior to the Company s adoption of SFAS No. 123R, Mirant accounted for stock-based employee compensation plans under the intrinsic-value method of accounting for recognition, but disclosed fair value pro forma information. Under that method, compensation expense for employee stock options is measured on the date of grant only if the current market price of the underlying stock exceeds the exercise price. The following table illustrates the effect on net income for the three months ended March 31, 2005, if the fair-value-based method had been applied to all outstanding and unvested stock-based awards (in millions):

	Three Months Ended March 31, 2005
Net income, as reported	$ 11
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	(2)
Pro forma net income	$ 9

Pursuant to the Plan, all share-based payment awards issued prior to the Company s emergence from bankruptcy were cancelled. As a result, the presentation of information above for the period ending March 31, 2005, is not comparable to the information presented below for the period ending March 31, 2006, as the instruments in existence at March 31, 2005, do not exist at March 31, 2006. Additionally, the Company s pre-bankruptcy capital structure differed significantly from the Company s post-emergence capital structure, further degrading comparability between the two periods.

Stock Options

During the first quarter of 2006, Mirant made awards of approximately 2.8 million non-qualified stock options. These options were granted with a 10-year term. Approximately 1 million options vest in three equal installments on each of the first, second and third anniversaries of the grant date. The remaining 1.8 million options vest 25% six months from the grant date, and 25% on each of the first, second and third anniversaries of the grant date. These options provide for

accelerated vesting if there is a change of control (as defined in the Omnibus Incentive Plan). These instruments have been accounted for under SFAS No. 123R and are included as a component of stockholders equity. The Company does not anticipate making additional broad grants of stock options during 2006, although incremental individual grants are expected in conjunction with the hiring of new employees.

The fair value of stock options is estimated on the date of grant using a Black-Scholes option-pricing model based on the assumptions noted in the following table. Due to the Company s bankruptcy and other factors, historical information concerning the Company s stock price volatility for purposes of valuing stock option grants is not available. Therefore, the implied volatility derived from peer group companies was used as the basis for valuing the stock options. Due to the lack of exercise history for the Company, the Simplified Method for estimating expected term has been used in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 107. The risk-free rate for periods within the contractual term of the stock option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The table below includes significant assumptions used in valuing the Company s stock options:

Expected volatility	34 - 35	%
Weighted-average volatility	34.51	%
Expected dividends	0	%
Expected term	5.8 - 6 years	
Risk-free rate	4.30 - 4.75	%

The weighted average grant-date fair value of stock options granted during the three months ended March 31, 2006, was $10.37. The total intrinsic value of stock options exercised during the period ending March 31, 2006, was $0. A summary of option activity under the Omnibus Incentive Plan as of March 31, 2006, and changes during the three month period then ended are presented below:

Stock Options	**Number**	**Weighted Average Exercise Price**
Outstanding at beginning of the quarter		
Changes during the quarter:		
Granted	2,768,805	$ 24.85
Exercised or converted		
Forfeited	(23,810)	$ 24.80
Expired		
Outstanding at the end of the quarter	2,744,995	$ 24.85
Exercisable or convertible at the end of the quarter		

As there was no exercise of stock options and similar instruments for the quarter ended March 31, 2006, no cash was received from exercises of instruments under the Omnibus Incentive Plan and no tax benefit was realized during these periods.

Nonvested Shares and Share Units

The Company also has issued approximately 384,000 nonvested share units and 170,000 nonvested shares to certain employees during the first quarter of 2006 under the Omnibus Incentive Plan. Approximately 34,000 of the share units and all of the nonvested shares vest in three equal installments on each of the first, second and third anniversaries of the grant date. The remaining approximately 350,000 share units vest 25% six months from the grant date, and 25% on each of the first, second and third anniversaries of the grant date. These instruments have been accounted for under SFAS No. 123R and are included as a component of shareholders equity. The Company does not anticipate making additional broad grants of nonvested shares or share units during 2006, although incremental individual grants are possible in conjunction with the hiring of new employees.

No portion of the awards granted has vested as of March 31, 2006. The grant date fair value of the nonvested shares and nonvested share units is equal to the Company s closing stock price on the previous day. A summary of the status of the Company s nonvested shares and nonvested share units as of March 31, 2006, and changes during the period ending March 31, 2006, is presented below:

Nonvested Shares and Nonvested Share Units	Number	Weighted Average Grant Date Fair Value
Outstanding at beginning of the quarter		
Changes during the quarter:		
Granted	553,768	$ 24.85
Exercised or converted		
Forfeited	(4,762)	$ 24.80
Expired		
Outstanding at the end of the quarter	549,006	$ 24.85

G. Litigation and Other Contingencies

The Company is involved in a number of significant legal proceedings. In certain cases, plaintiffs seek to recover large and sometimes unspecified damages, and some matters may be unresolved for several years. The Company cannot currently determine the outcome of the proceedings described below or the ultimate amount of potential losses and therefore has not made any provision for such matters unless specifically noted below. Pursuant to SFAS No. 5, *Accounting for Contingencies,* management provides for estimated losses to the extent information becomes available indicating that losses are probable and that the amounts are reasonably estimable. Additional losses could have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

Chapter 11 Proceedings

On July 14, 2003 (the Petition Date), and various dates thereafter, Mirant Corporation and certain of its subsidiaries (collectively, the Mirant Debtors) filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. On August 21, 2003, and September 8, 2003, the Bankruptcy Court entered orders establishing a December 16, 2003, bar date (the Bar Date) for filing proofs of claim against the Mirant Debtors estates.

Most of the material claims filed against the Mirant Debtors estates were disallowed or were resolved and became allowed claims before confirmation of the Plan that became effective for Mirant and most of the Mirant Debtors on January 3, 2006. For example, the claims filed by the

California Attorney General, Pacific Gas & Electric Company (PG&E), various other California parties, plaintiffs in certain rate payer class action lawsuits, the plaintiffs in certain shareholder or bondholder litigation, and Utility Choice, L.P., which are described in the Company s 2004 Annual Report on Form 10-K, are among the claims that were resolved prior to confirmation of the Plan. A number of claims, however, remain unresolved.

Except for claims and other obligations not subject to discharge under the Plan and unless otherwise provided below, all claims against the Mirant Debtors estates representing obligations that arose prior to July 14, 2003, are subject to compromise under the Plan. This means that the claimant will receive a distribution of Mirant common stock, cash, or both Mirant common stock and cash in accordance with the terms of the Plan in satisfaction of the claim. As a result, the exact amount of the claim may still be litigated, but the Company will not be required to make any payment in respect of such litigation until a resolution is obtained, through settlement, judgment or otherwise.

As of March 31, 2006, approximately 21.4 million of the shares of Mirant common stock to be distributed under the Plan have not yet been distributed and have been reserved for distribution with respect to claims that are disputed by the Mirant Debtors and have not been resolved, including any claims resulting from Mirant s rejection of certain contracts with PEPCO, as described below in *PEPCO Litigation*. Under the terms of the Plan, to the extent such claims are resolved now that the Company has emerged from bankruptcy, the claimants will be paid from the reserve of 21.4 million shares on the same basis as if they had been paid out when the Plan became effective. That means that their allowed claims will receive the same pro rata distributions of Mirant common stock, cash, or both common stock and cash as previously allowed claims in accordance with the terms of the Plan. To the extent the aggregate amount of the payouts determined to be due with respect to such disputed claims ultimately exceeds the amount of the funded claim reserve, Mirant would have to issue additional shares of common stock to address the shortfall, which would dilute existing shareholders, and pay additional cash amounts as necessary under the terms of the Plan to satisfy such pre-petition claims. The Company will continue to monitor its obligations as the disputed claims are resolved. If Mirant is required to issue additional shares of common stock to satisfy unresolved claims, certain parties who under the Plan received common stock and warrants also are entitled to receive additional shares of common stock to avoid dilution of their distributions under the Plan.

The Company s Lovett and Bowline generation facilities in New York are subject to disputes with local tax authorities regarding property tax assessments and with the New York State Department of Environmental Conservation (NYSDEC) regarding environmental controls. Mirant Lovett is also in discussions with the State of New York and other parties regarding an agreement that would compensate Mirant Lovett for the contribution of the Lovett facility to the reliability of the New York electric power system. The facilities are forecasted to have negative operating cash flows at their current property taxation levels. Until a settlement is reached on property taxes, environmental controls and reliability that would permit economically feasible operation, the Company s subsidiaries that own the facilities, Mirant Lovett and Mirant Bowline, will remain in Chapter 11. Mirant Lovett and Mirant Bowline are currently in settlement discussions on all of these issues. Although negotiations are continuing, settlements may not be reached in the near future, or at all. Until such settlements are reached and the companies emerge from bankruptcy, Mirant will not have access to the cash from operations generated from these subsidiaries. Mirant NY-Gen, which owns hydroelectric facilities at Swinging Bridge, Rio and Mongaup, and small combustion turbine facilities at Hillburn and Shoemaker, is insolvent. Its expenses are being funded under a debtor-in-possession facility made by Mirant Americas, Inc. (Mirant Americas) with the approval of, and under the supervision of, the Bankruptcy Court. Mirant NY-Gen is currently discussing with the Federal Energy Regulatory Commission (FERC)

appropriate remediation for a sinkhole discovered in May 2005 in the dam at the Swinging Bridge facility. Mirant NY-Gen conducted a flood study to determine downstream consequences if the maximum capacities of the reservoirs were exceeded at its New York Swinging Bridge, Rio and Mongaup generation facilities, and Mirant NY-Gen could be requested by the FERC to remediate those dams as well. Mirant NY-Gen has initiated discussions with the FERC for surrendering its permits to operate all the hydroelectric facilities at Swinging Bridge, Rio and Mongaup, and expects to begin that formal process soon. It is not possible at this point to determine the cost of remediation of the dam at Swinging Bridge and surrendering the permits, but such costs may be substantial.

Actions Pursued by MC Asset Recovery, LLC

In 2005, Mirant Corporation and various of its subsidiaries filed several actions before the Bankruptcy Court seeking to recover damages for fraudulent transfers that occurred prior to the filing of Mirant s bankruptcy proceedings. Each of those actions alleges that the defendants engaged in transactions with Mirant or its subsidiaries at a time when they were insolvent or were rendered insolvent as a result of the resulting transfers and that they did not receive fair value for those transfers. Several of these actions indicate that the named plaintiff, typically Mirant Corporation, is joined by the debtor affiliates of Mirant Corporation to the extent of their respective interests in the claims asserted. In addition to these avoidance actions, the Official Committee of Unsecured Creditors of Mirant Corporation filed an action against Arthur Andersen on behalf of the Mirant Debtors alleging malpractice. Under the Plan, the rights to most of these avoidance actions, and the suit filed against Arthur Andersen, have been transferred to MC Asset Recovery, LLC (MC Asset Recovery). MC Asset Recovery, while wholly-owned by Mirant, is managed by managers that are independent of Mirant and its other subsidiaries. Mirant is obligated to make capital contributions to MC Asset Recovery as necessary to pay up to $20 million of professional fees and to pay certain other costs incurred by MC Asset Recovery, including expert witness fees and other costs of the avoidance actions and the Andersen suit. Under the Plan, any cash recoveries received by MC Asset Recovery from the avoidance actions or the Andersen suit, net of costs incurred in prosecuting the actions including all capital contributions from Mirant, are to be paid to the unsecured creditors of Mirant Corporation in the Chapter 11 proceedings and the holders of the equity interests in Mirant Corporation immediately prior to the effective date of the Plan. Mirant may not reduce such payments for the taxes owed on any recoveries up to $175 million. If the aggregate recoveries exceed $175 million net of costs, then Mirant may reduce the payments to be made to such unsecured creditors and former holders of equity interests under the Plan by the amount of any taxes it will owe on the amount in excess of $175 million.

PEPCO Litigation

In 2000, Mirant purchased power generating facilities and other assets from PEPCO, including certain PPAs between PEPCO and third parties. Under the terms of the Asset Purchase and Sale Agreement (APSA), Mirant and PEPCO entered into a contractual agreement (the Back-to-Back Agreement) with respect to certain PPAs, including PEPCO s long-term PPAs with Ohio Edison Company (Ohio Edison) and Panda-Brandywine L.P. (Panda), under which (1) PEPCO agreed to resell to Mirant all capacity, energy, ancillary services and other benefits to which it is entitled under those agreements; and (2) Mirant agreed to pay PEPCO each month all amounts due from PEPCO to the sellers under those agreements for the immediately preceding month associated with such capacity, energy, ancillary services and other benefits. The Ohio Edison PPA terminated in December 2005 and the Panda PPA runs until 2021. Under the Back-to-Back Agreement, Mirant is obligated to purchase power from PEPCO at prices that typically are higher than the market prices for power.

Mirant assigned its rights and obligations under the Back-to-Back Agreement to Mirant Americas Energy Marketing, LP (Mirant Americas Energy Marketing). In the Chapter 11 cases of the Mirant Debtors, PEPCO asserted that an Assignment and Assumption Agreement dated December 19, 2000, that includes as parties PEPCO and various subsidiaries of ours causes our subsidiaries that are parties to the agreement to be jointly and severally liable to PEPCO for various obligations, including the obligations under the Back-to-Back Agreement. The Mirant Debtors have sought to reject the APSA, the Back-to-Back Agreement, and the Assignment and Assumption Agreement, and the rejection motions have not been resolved. Under the Plan, the obligations of the Mirant Debtors under the APSA (including any other agreements executed pursuant to the terms of the APSA and found by a final court order to be part of the APSA), the Back-to-Back Agreement, and the Assignment and Assumption Agreement are to be performed by Mirant Power Purchase, LLC (Mirant Power Purchase), whose performance is guaranteed by Mirant. If any of the agreements is successfully rejected, the obligations of Mirant Power Purchase and Mirant s guarantee obligations terminate with respect to that agreement, and PEPCO would be entitled to a claim in the Chapter 11 proceedings for any resulting damages. That claim would then be addressed under the terms of the Plan.

PEPCO Contract Litigation. On August 28, 2003, the Mirant Debtors filed a motion in the bankruptcy proceedings to reject the Back-to-Back Agreement (the First Rejection Motion). On October 9, 2003, the United States District Court for the Northern District of Texas entered an order that had the effect of transferring the First Rejection Motion to that court from the Bankruptcy Court. In December 2003, the district court denied the First Rejection Motion. The district court ruled that the Federal Power Act preempts the Bankruptcy Code and that a bankruptcy court cannot affect a matter within the FERC s jurisdiction under the Federal Power Act, including the rejection of a wholesale power purchase agreement regulated by the FERC.

The Mirant Debtors appealed the district court s order to the United States Court of Appeals for the Fifth Circuit (the Fifth Circuit). The Fifth Circuit reversed the district court s decision, holding that the Bankruptcy Code authorizes a district court (or bankruptcy court) to reject a contract for the sale of electricity that is subject to the FERC s regulation under the Federal Power Act as part of a bankruptcy proceeding and that the Federal Power Act does not preempt that authority. The Fifth Circuit remanded the proceeding to the district court for further action on that motion. The Fifth Circuit indicated that on remand the district court could consider applying a more rigorous standard than the business judgment standard typically applicable to contract rejection decisions by debtors in bankruptcy, which more rigorous standard would take into account the public interest in the transmission and sale of electricity.

On December 9, 2004, the district court held that the Back-to-Back Agreement was a part of and not severable from, and therefore could not be rejected apart from, the APSA. The Mirant Debtors have appealed the district court s December 9, 2004, decision to the Fifth Circuit.

On January 21, 2005, the Mirant Debtors filed a motion in the bankruptcy proceedings to reject the APSA, including the Back-to-Back Agreement but not including other agreements entered into between Mirant and its subsidiaries and PEPCO under the terms of the APSA (the Second Rejection Motion). On March 1, 2005, the district court ruled that it would withdraw the reference to the Bankruptcy Court of the Second Rejection Motion and would itself hear that motion. On August 16, 2005, the district court informally stayed the Second Rejection Motion pending rulings by the Fifth Circuit on the Mirant Debtors appeals from the district court s December 9, 2004, decision denying the First Rejection Motion and from the district court s March 1, 2005, order as subsequently modified described below in *PEPCO Litigation Payments to PEPCO Under Back-to-Back Agreement*.

On December 1, 2005, the Mirant Debtors filed a complaint with the Bankruptcy Court seeking to recharacterize the Back-to-Back Agreement as a debt obligation arising prior to the filing of the Chapter 11 proceedings. The complaint seeks the recovery of all payments made to PEPCO under the Back-to-Back Agreement since the filing of the Chapter 11 proceedings. If the Mirant Debtors succeed in recovering such payments, PEPCO would receive a claim in the bankruptcy proceedings for the amount recovered. Also on December 1, 2005, the Mirant Debtors filed a motion in the Bankruptcy Court to assume, assume and assign, or reject certain agreements with PEPCO and for the disgorgement of funds paid post-petition under the Back-to-Back Agreement (the Motion to Assume or Reject). This motion is pending in the Bankruptcy Court. The likely outcome of these proceedings and the previously filed motions to reject the Back-to-Back Agreement and the APSA cannot now be determined.

Payments to PEPCO Under Back-to-Back Agreement. On December 9, 2004, in an effort to halt further out-of-market payments under the Back-to-Back Agreement while awaiting resolution of issues related to the potential rejection of the Back-to-Back Agreement (but prior to notice of entry of the district court s order of December 9, 2004), the Mirant Debtors filed a notice in the Bankruptcy Court stating that the Mirant Debtors were suspending further payments to PEPCO under the Back-to-Back Agreement absent further order of the court (the Suspension Notice). On January 19, 2005, the Bankruptcy Court entered an order requiring the Mirant Debtors to pay amounts due under the Back-to-Back Agreement in January 2005 and thereafter until either (1) the Mirant Debtors filed a motion to reject the APSA, (2) the Fifth Circuit issued an order reversing the district court s order of December 9, 2004, denying the motion to reject the Back-to-Back Agreement, or (3) the Mirant Debtors were successful in having the obligations under the Back-to-Back Agreement recharacterized as debt obligations. PEPCO filed an appeal of the Bankruptcy Court s January 19, 2005, order. On January 21, 2005, the Mirant Debtors filed the Second Rejection Motion.

On March 1, 2005, the district court withdrew the reference to the Bankruptcy Court of the Second Rejection Motion, dismissed PEPCO s appeal of the January 19, 2005, order of the Bankruptcy Court as moot, and ordered the Mirant Debtors to pay PEPCO all past-due, unpaid obligations under the Back-to-Back Agreement by March 10, 2005. On March 7, 2005, the district court modified the March 1, 2005, order to delay until March 18, 2005, the date by which the Mirant Debtors were to pay past-due, unpaid obligations under the Back-to-Back Agreement. On March 16, 2005, the district court further modified its order of March 1, 2005, to clarify that the amounts to be paid by the Mirant Debtors by March 18, 2005, did not include any amounts that became due prior to the filing of the Chapter 11 cases on July 14, 2003. The Mirant Debtors have appealed the district court s March 1, 2005, order, as modified, to the Fifth Circuit. The Mirant Debtors have paid all amounts due under the Back-to-Back Agreement accruing since the Petition Date.

Potential Adjustment Related to Panda Power Purchase Agreement. At the time of the acquisition of the Mirant Mid-Atlantic, LLC (Mirant Mid-Atlantic) assets from PEPCO, Mirant also entered into an agreement with PEPCO that, as subsequently modified, provided that the price paid by Mirant for its December 2000 acquisition of PEPCO assets would be adjusted if by April 8, 2005, a binding court order had been entered finding that the Back-to-Back Agreement violated PEPCO s power purchase agreement with Panda (the Panda PPA) as a prohibited assignment, transfer or delegation of the Panda PPA or because it effected a prohibited delegation or transfer of rights, duties or obligations under the Panda PPA that was not severable from the rest of the Back-to-Back Agreement. Panda initiated legal proceedings in 2000 asserting that the Back-to-Back Agreement violated provisions in the Panda PPA prohibiting PEPCO from assigning the Panda PPA or delegating its duties under the Panda PPA to a third party without Panda s prior written consent. On June 10, 2003, the Maryland Court of Appeals, Maryland s highest court, ruled that the assignment of certain rights and delegation of certain duties by PEPCO to Mirant did violate the

non-assignment provision of the Panda PPA and was unenforceable. The court, however, left open the issues whether the provisions found to violate the Panda PPA could be severed and the rest of the Back-to-Back Agreement enforced and whether Panda s refusal to consent to the assignment of the Panda PPA by PEPCO to Mirant was unreasonable and violated the Panda PPA. It is the Company s view that the June 10, 2003, decision by the Maryland Court of Appeals does not suffice to trigger a purchase price adjustment under the agreement between Mirant and PEPCO. If that court order were found to have triggered the purchase price adjustment, the agreement between Mirant and PEPCO provides that the amount of the adjustment would be negotiated in good faith by the parties or determined by binding arbitration so as to compensate PEPCO for the termination of the benefit of the Back-to-Back Agreement while also holding Mirant economically indifferent from such court order.

PEPCO Avoidance Action. On July 13, 2005, Mirant and several of its subsidiaries, including Mirant Mid-Atlantic and Mirant Americas Generation, filed a lawsuit against PEPCO before the Bankruptcy Court asserting that Mirant did not receive fair value in return for the purchase price paid for the PEPCO assets and that the acquisition occurred at a time when Mirant was either insolvent or was rendered insolvent as a result of the transaction. The suit seeks damages for fraudulent transfer under 11 U.S.C. §§ 544 and 550 and applicable state law and disallowance of claims filed by PEPCO in the Chapter 11 proceedings. On November 3, 2005, the district court granted a motion filed by PEPCO asking that the suit be heard by the district court rather than the Bankruptcy Court. The likely outcome of this proceeding cannot now be determined, and the Company cannot estimate what recovery, if any, it may obtain in this action.

Plan Treatment of PEPCO. Pending a final determination of the Mirant Debtors ability to reject the APSA, the Back-to-Back Agreement, and certain other agreements with PEPCO, the Mirant Debtors obligations under the APSA and the Back-to-Back Agreement are interim obligations of Mirant Power Purchase and are unconditionally guaranteed by Mirant. If the Mirant Debtors succeed in rejecting any of these agreements, the obligations of Mirant Power Purchase and Mirant s guarantee obligations terminate with respect to that agreement, and PEPCO would be entitled to a claim in the Chapter 11 proceedings for any resulting damages. PEPCO s resulting rejection damages claim would be satisfied pursuant to the terms of the Plan. See *Chapter 11 Proceedings* above for further discussion of the treatment under the Plan of unresolved claims in the Chapter 11 proceedings.

California and Western Power Markets

California Rate Payer Litigation. Certain of our subsidiaries are subject to litigation related to their activities in California and the western power markets and the high prices for wholesale electricity experienced in the western markets during 2000 and 2001. Various lawsuits were filed in 2000 through 2003 that asserted claims under California law based on allegations that certain owners of electricity generation facilities in California and energy marketers, including the Company, Mirant Americas Energy Marketing and our subsidiaries owning generating facilities in California, engaged in various unlawful and anti-competitive acts that served to manipulate wholesale power markets and inflate wholesale electricity prices in California. All of these suits have been dismissed by final orders except for six such suits that were filed between November 27, 2000, and May 2, 2001, in various California Superior Courts and consolidated before the Superior Court for the County of San Diego for pretrial purposes. Although the plaintiffs dismissed Mirant from those suits, they have not filed to dismiss certain of our subsidiaries that are also defendants. On October 3, 2005, the California state court dismissed those six consolidated suits on the grounds that the plaintiffs claims were barred by federal preemption as a result of the Federal Power Act. On December 5, 2005, the plaintiffs filed an appeal of the dismissal. On April 14, 2006, the California Court of Appeal dismissed the appeal as to the remaining Mirant defendants pursuant to

a stipulation and remanded the suit to the superior court. The plaintiffs have filed a request for voluntary dismissal of the remaining Mirant defendants before the superior court, which remains pending. The plaintiffs in the six consolidated suits did not file claims in the Chapter 11 proceedings, and it is the Company s view that their claims are in any event barred by the Plan now that it has become effective.

FERC Refund Proceedings. On July 25, 2001, the FERC issued an order requiring proceedings (the FERC Refund Proceedings) to determine the amount of any refunds and amounts owed for sales made by market participants, including Mirant Americas Energy Marketing, to the California Independent System Operator (CAISO) or the California Power Exchange (Cal PX) from October 2, 2000, through June 20, 2001 (the Refund Period). Various parties have appealed these FERC orders to the United States Court of Appeals for the Ninth Circuit (the Ninth Circuit) seeking review of a number of issues, including changing the Refund Period to include periods prior to October 2, 2000, and expanding the sales of electricity subject to potential refund to include bilateral sales made to the California Department of Water Resources (the DWR) and other parties. Any such expansion of the Refund Period or the types of sales of electricity potentially subject to refund could significantly increase the refund exposure of Mirant Americas Energy Marketing in this proceeding. Although Mirant Americas Energy Marketing is the Mirant entity that engaged in transactions with the CAISO and the Cal PX, the orders issued by the FERC in the refund proceedings, and the filings made by other parties in those proceedings, generally refer to the Mirant entity involved as Mirant without being more specific. It is the Company s view that the Mirant entity that would actually be liable to third parties for any refunds determined by the FERC to be owed, or that would be due any receivables found to be owed to Mirant, is Mirant Americas Energy Marketing.

In the July 25, 2001, order, the FERC also ordered that a preliminary evidentiary proceeding be held to develop a factual record on whether there had been unjust and unreasonable charges for spot market bilateral sales in the Pacific Northwest from December 25, 2000, through June 20, 2001. In that proceeding, the California Attorney General, the California Public Utility Commission (the CPUC) and the California Electricity Oversight Board (the EOB) filed to recover certain refunds from parties, including Mirant Americas Energy Marketing, for bilateral sales of electricity to the DWR at the California/Oregon border, claiming that such sales took place in the Pacific Northwest. In an order issued June 25, 2003, the FERC ruled that no refunds were owed and terminated the proceeding. On November 10, 2003, the FERC denied requests for rehearing filed by various parties. Various parties have appealed the FERC s decision to the Ninth Circuit.

On September 9, 2004, the Ninth Circuit reversed the FERC s dismissal of a complaint filed in 2002 by the California Attorney General that sought refunds for transactions conducted in markets administered by the CAISO and the Cal PX outside the Refund Period set by the FERC and for transactions between the DWR and various owners of generation and power marketers, including Mirant Americas Energy Marketing and subsidiaries of Mirant Americas Generation. The Ninth Circuit remanded the proceeding to the FERC for it to determine what remedies, including potential refunds, are appropriate where entities, including Mirant Americas Energy Marketing, purportedly did not comply with certain filing requirements for transactions conducted under market-based rate tariffs. Mirant Americas Energy Marketing and other parties have filed a petition for rehearing with the Ninth Circuit that remains pending.

On January 14, 2005, Mirant and certain of its subsidiaries entered into a Settlement and Release of Claims Agreement (the California Settlement) with PG&E, Southern California Edison Company (SCE), San Diego Gas and Electric Company, the CPUC, the DWR, the EOB and the Attorney General of the State of California (collectively, the California Parties) and with the Office of Market Oversight and Investigations of the FERC. The California Settlement settled a

number of disputed lawsuits and regulatory proceedings that were pursued originally in state and federal courts and before the FERC. The Mirant entities that are parties to the California Settlement (collectively, the Mirant Settling Parties) include Mirant Corporation, Mirant Americas Energy Marketing, Mirant Americas Generation, and Mirant North America (as the successor to Mirant California Investments, Inc.). The California Settlement was approved by the FERC on April 13, 2005, and became effective April 15, 2005, upon its approval by the Bankruptcy Court. The California Settlement resulted in the release of most of Mirant Americas Energy Marketing s potential liability (1) in the FERC Refund Proceedings for sales made in the CAISO or the Cal PX markets, (2) in the proceeding also initiated by the FERC in July 2001 to determine whether there had been unjust and unreasonable charges for spot market bilateral sales in the Pacific Northwest from December 25, 2000, through June 20, 2001, and (3) in any proceedings at the FERC resulting from the Ninth Circuit s reversal of the FERC s dismissal of the complaint filed in 2002 by the California Attorney General. Under the California Settlement, the California Parties and those other market participants who have opted into the settlement have released the Mirant Settling Parties from any liability for refunds related to sales of electricity and natural gas in the western markets from January 1, 1998, through July 14, 2003. Also, the California Parties have assumed the obligation of Mirant Americas Energy Marketing to pay any refunds determined by the FERC to be owed by Mirant Americas Energy Marketing to other parties that do not opt into the settlement for transactions in the CAISO and Cal PX markets during the Refund Period, with the liability of the California Parties for such refund obligation limited to the amount of certain receivables assigned by Mirant Americas Energy Marketing to the California Parties under the California Settlement. Subject to applicable bankruptcy law, however, Mirant Americas Energy Marketing will continue to be liable for any refunds that the FERC determines it to owe (1) to participants in the Cal PX and CAISO markets that are not California Parties (or that did not elect to opt into the settlement) for periods outside of the Refund Period and (2) to participants in bilateral transactions with Mirant Americas Energy Marketing that are not California Parties (or that did not elect to opt into the settlement).

It is the Company s view that the bulk of any obligations of Mirant Americas Energy Marketing to make refunds as a result of sales completed prior to July 14, 2003, in the CAISO or Cal PX markets or in bilateral transactions either have been addressed by the California Settlement or have been resolved as part of Mirant Americas Energy Marketing s bankruptcy proceedings. To the extent that Mirant Americas Energy Marketing s potential refund liability arises from contracts that were transferred to Mirant Energy Trading, LLC (Mirant Energy Trading) as part of the transfer of the trading and marketing business under the Plan, Mirant Energy Trading may have exposure to any refund liability related to transactions under those contracts.

FERC Show Cause Proceeding Relating to Trading Practices. On June 25, 2003, the FERC issued a show cause order (the Trading Practices Order) to more than 50 parties, including Mirant Americas Energy Marketing and subsidiaries of Mirant Americas Generation, that a FERC staff report issued on March 26, 2003, identified as having potentially engaged in one or more trading strategies of the type employed by Enron Corporation and its affiliates (Enron), as described in Enron memos released by the FERC in May 2002. The Trading Practices Order identified certain specific trading practices that the FERC indicated could constitute gaming or anomalous market behavior in violation of the CAISO and Cal PX tariffs. The Trading Practices Order requires the CAISO to identify transactions between January 1, 2000, and June 20, 2001, that may involve the identified trading strategies, and then requires the applicable sellers involved in those transactions to demonstrate why such transactions were not violations of the CAISO and Cal PX tariffs. On September 30, 2003, the Mirant entities filed with the FERC for approval of a settlement agreement (the Trading Settlement Agreement) entered into between certain Mirant entities and the FERC Trial Staff, under which Mirant Americas Energy Marketing would pay

$332,411 to settle the show cause proceeding, except for an issue related to sales of ancillary services, which is discussed below. In a November 14, 2003, order in a different proceeding, the FERC ruled that certain allegations of improper trading conduct with respect to the selling of ancillary services during 2000 should be resolved in the show cause proceeding. On December 19, 2003, the Mirant entities filed with the FERC for approval of an amendment to the Trading Settlement Agreement reached with the FERC Trial Staff with respect to the sale of ancillary services. Under that amendment, the FERC would have an allowed unsecured claim in Mirant Americas Energy Marketing s bankruptcy proceeding for $3.67 million in settlement of the allegations with respect to the sale of ancillary services. The FERC approved the Trading Settlement Agreement, as amended, on June 27, 2005, and the Bankruptcy Court approved it on August 24, 2005. Certain parties have filed motions for rehearing with the FERC, which motions remain pending.

Shareholder-Bondholder Litigation

Mirant Securities Consolidated Action. Twenty lawsuits filed in 2002 against Mirant and four of its officers have been consolidated into a single action, In re Mirant Corporation Securities Litigation, before the United States District Court for the Northern District of Georgia. In their original complaints, the plaintiffs allege, among other things, that the defendants violated federal securities laws by making material misrepresentations and omissions to the investing public regarding Mirant s business operations and future prospects during the period from January 19, 2001, through May 6, 2002, due to potential liabilities arising out of its activities in California during 2000 and 2001. The plaintiffs seek unspecified damages, including compensatory damages, and the recovery of reasonable attorneys fees and costs.

In November 2002, the plaintiffs filed an amended complaint that added as defendants Southern Company (Southern), the directors of Mirant immediately prior to its initial public offering of stock and various firms that were underwriters for the initial public offering by the Company. In addition to the claims set out in the original complaint, the amended complaint asserts claims under the Securities Act of 1933, alleging that the registration statement and prospectus for the initial public offering in 2000 of Mirant s old common stock terminated under the Plan misrepresented and omitted material facts. On July 14, 2003, the district court dismissed the claims asserted by the plaintiffs based on the Company s California business activities but allowed the case to proceed on the plaintiffs other claims. On December 11, 2003, the plaintiffs filed a proof of claim against Mirant in the Chapter 11 proceedings, but they subsequently withdrew their claim in October 2004. On August 29, 2005, the district court, at the request of the plaintiffs, dismissed Mirant as a defendant in this action.

A master separation agreement between Mirant and Southern entered into in conjunction with Mirant s spin off from Southern in 2001 obligates Mirant to indemnify Southern for any losses arising out of any acts or omissions by Mirant and its subsidiaries in the conduct of the business of Mirant and its subsidiaries. Mirant has filed to reject the separation agreement in the Chapter 11 proceedings. Any damages determined to be owed to Southern arising from the rejection of the separation agreement will be addressed as a claim in the Chapter 11 proceedings under the terms of the Plan. The underwriting agreements between Mirant and the various firms added as defendants that were underwriters for the initial public offering by the Company in 2000 also provide for Mirant to indemnify such firms against any losses arising out of any acts or omissions by Mirant and its subsidiaries. The underwriters filed a claim against Mirant in the Chapter 11 proceedings that was subordinated to claims of Mirant s creditors and extinguished under the Plan.

Shareholder Derivative Litigation. Four purported shareholders derivative suits have been filed against Mirant, its directors and certain officers of the Company. Two of those suits have been

consolidated. These lawsuits allege that the directors breached their fiduciary duty by allowing the Company to engage in alleged unlawful or improper practices in the California energy markets in 2000 and 2001. The Company practices alleged in these lawsuits largely mirror those alleged with respect to the Company s activities in California in the shareholder litigation discussed above. One suit also alleges that the defendant officers engaged in insider trading. The complaints seek unspecified damages on behalf of the Company, including attorneys fees, costs and expenses and punitive damages. The captions of each of the cases follow:

Caption	Date Filed
Kester v. Correll, et al.	June 26, 2002
Pettingill v. Fuller, et al.	July 30, 2002
White v. Correll, et al.	August 9, 2002
Cichocki v. Correll, et al.	November 7, 2002

The Kester and White suits were filed in the Superior Court of Fulton County, Georgia, and were consolidated on March 13, 2003, under the name In re Mirant Corporation Derivative Litigation. The consolidated action has been removed by Mirant to the United States District Court for the Northern District of Georgia. The Pettingill suit was filed in the Court of Chancery for New Castle County, Delaware, and was removed by Mirant to the United States District Court for the District of Delaware. The Cichocki suit was filed in the United States District Court for the Northern District of Georgia. The order entered by the Bankruptcy Court confirming the Plan enjoins the prosecution of these actions and requires that they be dismissed. On March 8, 2006, the Bankruptcy Court entered an order compelling the plaintiffs in these actions to dismiss their complaints in accordance with the terms of the Plan. The plaintiffs in the consolidated Kester and White suits, the Pettingill suit, and the Cichocki suit have all filed to dismiss their complaints.

Mirant Americas Generation Bondholder Suit. On June 10, 2003, certain holders of senior notes of Mirant Americas Generation maturing after 2006 filed a complaint in the Court of Chancery of the State of Delaware*, California Public Employees Retirement System, et al. v. Mirant Corporation, et al.,* that named as defendants Mirant, Mirant Americas, Inc. (Mirant Americas), Mirant Americas Generation, certain past and present Mirant directors, and certain past and present Mirant Americas Generation managers. Among other claims, the plaintiffs assert that a restructuring plan pursued by the Company prior to its filing a petition for reorganization under Chapter 11 of the Bankruptcy Code was in breach of fiduciary duties allegedly owed to them by Mirant, Mirant Americas and Mirant Americas Generation s managers. In addition, the plaintiffs challenge certain dividends and distributions made by Mirant Americas Generation prior to the Petition Date. The plaintiffs seek damages in excess of $1 billion. Mirant has removed this suit to the United States District Court for the District of Delaware. This action was stayed with respect to the Mirant entities that are defendants by the filing of the Chapter 11 proceedings of these entities. The order entered by the Bankruptcy Court confirming the Plan enjoins the prosecution of this action and requires that it be dismissed. On March 8, 2006, the Bankruptcy Court entered an order compelling the plaintiffs in this action to dismiss their complaint in accordance with the terms of the Plan. On March 17, 2006, the parties filed a stipulation of dismissal dismissing the suit.

U.S. Government Inquiries

Department of Justice Inquiries. In November 2002, Mirant received a subpoena from the Department of Justice (DOJ), acting through the United States Attorney s office for the Northern District of California, requesting information about its activities and those of its subsidiaries for the period since January 1, 1998. The subpoena requested information related to the California energy markets and other topics, including the reporting of inaccurate information to the trade press that publish natural gas or electricity spot price data. The subpoena was issued as part of a grand jury investigation. The DOJ s investigation of the reporting of inaccurate natural gas price information is continuing, and Mirant has held preliminary discussions with DOJ regarding the disposition of this matter. The DOJ s investigation is based upon the same circumstances that were the subject of an investigation by the Commodity Futures Trading Commission (CFTC) that was settled in December 2004. As described in the Company s Annual Report on Form 10-K for the year ended December 31, 2004, in *Legal Proceedings Other Governmental Proceedings CFTC Inquiry*, Mirant and Mirant Americas Energy Marketing pursuant to the settlement consented to the entry of an order by the CFTC in which it made findings, which are neither admitted nor denied by Mirant and Mirant Americas Energy Marketing, that (1) from January 2000 through December 2001, certain Mirant Americas Energy Marketing natural gas traders (a) knowingly reported inaccurate price, volume, and/or counterparty information regarding natural gas cash transactions to publishers of natural gas indices and (b) inaccurately reported to index publishers transactions observed in the market as Mirant Americas Energy Marketing transactions and (2) from January to October 2000, certain Mirant Americas Energy Marketing west region traders knowingly delivered the false reports in an attempt to manipulate the price of natural gas. Under the settlement, the CFTC received a subordinated allowed, unsecured claim against Mirant Americas Energy Marketing of $12.5 million in the Chapter 11 proceedings. The DOJ could decide that further action against the Company is not appropriate or could seek indictments against one or more Mirant entities, or the DOJ and the Company could agree to a disposition that might involve undertakings or fines, the amount of which cannot be reasonably estimated at this time but which could be material. The Company has cooperated fully with the DOJ and intends to continue to do so.

Department of Labor Inquiries. On August 21, 2003, the Company received a notice from the Department of Labor (the DOL) that it was commencing an investigation pursuant to which it was undertaking to review various documents and records relating to the Mirant Services Employee Savings Plan and the Mirant Services Bargaining Unit Employee Savings Plan. The DOL has interviewed Mirant personnel regarding those plans. The Company intends to continue to cooperate fully with the DOL.

Environmental Matters

EPA Information Request. In January 2001, the Environmental Protection Agency (the EPA) issued a request for information to Mirant concerning the air permitting and air emissions control implications under the EPA s new source review (NSR) regulations promulgated under the Federal Clean Air Act (Clean Air Act) of past repair and maintenance activities at the Potomac River plant in Virginia and the Chalk Point, Dickerson and Morgantown plants in Maryland. The requested information concerns the period of operations that predates the Company subsidiaries ownership and lease of those plants. Mirant has responded fully to this request. Under the APSA, PEPCO is responsible for fines and penalties arising from any violation associated with historical operations prior to the Company subsidiaries acquisition or lease of the plants. If the Mirant Debtors succeed in rejecting the APSA as described above in *PEPCO Litigation PEPCO Contract Litigation*, PEPCO may assert that it has no obligation to reimburse Mirant for any fines or penalties imposed upon Mirant for periods prior to the Company subsidiaries acquisition or lease of the plants. If a violation is determined to have occurred at any of the plants, the Company

subsidiary owning or leasing the plant may be responsible for the cost of purchasing and installing emissions control equipment, the cost of which may be material. If such violation is determined to have occurred after the Company s subsidiaries acquired or leased the plants or, if occurring prior to the acquisition or lease, is determined to constitute a continuing violation, the Company subsidiary owning or leasing the plant at issue would also be subject to fines and penalties by the state or federal government for the period subsequent to its acquisition or lease of the plant, the cost of which may be material.

New York State Administrative Claim. On January 24, 2006, the State of New York and the NYSDEC filed a notice of administrative claims in the Company s Chapter 11 proceedings asserting a claim seeking to require the Company to provide funding to its subsidiaries owning generating facilities in New York to satisfy certain specified environmental compliance obligations. The State of New York alleges that during the pendency of the Chapter 11 proceedings the Company and its subsidiaries that have emerged from bankruptcy made decisions on behalf of the Company s subsidiaries owning generating facilities in New York and did not appropriately maintain the corporate separateness between itself and those subsidiaries. The Company disputes those allegations. The State of New York cites various existing outstanding matters between the State and the Company s subsidiaries owning generating facilities in New York related to compliance with environmental laws and regulations, most of which are not material. The most significant compliance obligation identified by the State of New York in its notice of administrative claim relates to a consent decree entered into on June 11, 2003 (the 2003 Consent Decree), by Mirant New York and Mirant Lovett with the State of New York to resolve issues related to NSR requirements under the Clean Air Act related to the Lovett plant. Under the 2003 Consent Decree, Mirant Lovett is required to make an election to install certain environmental controls on units 4 and 5 of the Lovett facility or shut down those units by 2007 to 2008. The State of New York notes in its notice of administrative claim that the cost of implementing such environmental controls could exceed $200 million. The State of New York and the NYSDEC have executed a stipulated order with the Company and its New York subsidiaries to stay resolution of this administrative claim. That stipulated order was approved by the Bankruptcy Court on February 23, 2006.

Mirant Potomac River Notice of Violation. On September 10, 2003, the Virginia Department of Environmental Quality (Virginia DEQ) issued a Notice of Violation (NOV) to Mirant Potomac River, LLC (Mirant Potomac River) alleging that it violated its Virginia Stationary Source Permit to Operate by emitting nitrogen oxide (NOx) in excess of the cap established by the permit for the 2003 summer ozone season. Mirant Potomac River responded to the NOV, asserting that the cap is unenforceable, noting that it can comply through the purchase of emissions allowances and raising other equitable defenses. Virginia s civil enforcement statute provides for injunctive relief and penalties. On January 22, 2004, the EPA issued an NOV to Mirant Potomac River alleging the same violation of its Virginia Stationary Source Permit to Operate as set out in the NOV issued by the Virginia DEQ.

On September 27, 2004, Mirant Potomac River, Mirant Mid-Atlantic, the Virginia DEQ, the Maryland Department of the Environment (the MDE), the DOJ and the EPA entered into, and filed for approval with the United States District Court for the Eastern District of Virginia, a proposed consent decree (the Original Consent Decree) that, if approved, would resolve Mirant Potomac River s potential liability for matters addressed in the NOVs previously issued by the Virginia DEQ and the EPA. The Original Consent Decree requires Mirant Potomac River and Mirant Mid-Atlantic to (1) install pollution control equipment at the Potomac River plant and at the Morgantown plant leased by Mirant Mid-Atlantic in Maryland, (2) comply with declining system-wide ozone season NOx emissions caps from 2004 through 2010, (3) comply with system-wide annual NOx emissions caps starting in 2004, (4) meet seasonal system average emissions rate targets in 2008 and (5) pay civil penalties and perform supplemental environmental projects in and

around the Potomac River plant expected to achieve additional environmental benefits. Except for the installation of the controls planned for the Potomac River units and the installation of selective catalytic reduction (SCR) or equivalent technology at Mirant Mid-Atlantic s Morgantown Units 1 and 2 in 2007 and 2008, the Original Consent Decree does not obligate the Company s subsidiaries to install specifically designated technology, but rather to reduce emissions sufficiently to meet the various NOx caps. Moreover, as to the required installations of SCRs at Morgantown, Mirant Mid-Atlantic may choose not to install the technology by the applicable deadlines and leave the units off either permanently or until such time as the SCRs are installed. The Original Consent Decree is subject to the approval of the district court and the Bankruptcy Court. As described below, the Original Consent Decree has not yet been approved and the parties have filed an amended proposed consent decree.

The owners/lessors under the lease-financing transactions covering the Morgantown and Dickerson plants (the Owners/Lessors) objected to the Original Consent Decree in the Bankruptcy Court and filed a motion to intervene in the district court action. As part of a resolution of disputed matters in the Chapter 11 proceedings, the Owners/Lessors agreed not to object to the Original Consent Decree, subject to certain terms set forth in the Plan and Confirmation Order.

On July 22, 2005, the district court granted a motion filed by the City of Alexandria seeking to intervene in the district court action, although the district court imposed certain limitations on the City of Alexandria s participation in the proceedings. On September 23, 2005, the City of Alexandria filed a motion seeking authority to file an amended complaint in the action seeking injunctive relief and civil penalties under the Clean Air Act for alleged violations by Mirant Potomac River of its Virginia Stationary Source Permit To Operate and the State of Virginia s State Implementation Plan. Based upon a computer modeling, the City of Alexandria asserted that emissions from the Potomac River plant cause or contribute to exceedances of national ambient air quality standards (NAAQS) for sulfur dioxide (SO2), nitrogen dioxide (NO2) and particulate matter. The City of Alexandria also contended based on its modeling analysis that the plant s emissions of hydrogen chloride and hydrogen fluoride exceed Virginia State standards. Mirant Potomac River disputes the City of Alexandria s allegations that it has violated the Clean Air Act and Virginia law. On December 2, 2005, the district court denied the City of Alexandria s motion seeking to file an amended complaint.

In early May 2006, the parties to the Original Consent Decree and Mirant Chalk Point, LLC entered into an amended consent decree (the Amended Consent Decree) to be filed for approval with the United States District Court for the Eastern District of Virginia, that, if approved, will resolve Mirant Potomac River s potential liability for matters addressed in the NOVs previously issued by the Virginia DEQ and the EPA. The district court and the Bankruptcy Court must approve the Amended Consent Decree for it to become effective. The Amended Consent Decree includes the requirements that were to be imposed under the terms of the Original Consent Decree as described above. It also defines the rights and remedies of the parties in the event of a rejection in bankruptcy or other termination of any of the long-term leases under which Mirant Mid-Atlantic leases the coal units at the Dickerson and Morgantown plants. The Amended Consent Decree provides that if Mirant Mid-Atlantic rejects or otherwise loses one or more of its leasehold interests in the Morgantown and Dickerson plants and ceases to operate one or both of the plants, Mirant Mid-Atlantic, Mirant Chalk Point and/or Mirant Potomac will (i) provide the EPA, Virginia DEQ and the MDE with the written agreement of the new owner or operator of the affected plant or plants to be bound by the obligations of the Amended Consent Decree and (ii) where the affected plant is the Morgantown plant, offer to any and all prospective owners and/or operators of the Morgantown plant to pay for completion of engineering, construction and installation of the SCRs required by the Amended Consent Decree. If the new owner or operator of the affected plant or plants does not agree to be bound by the obligations of the Amended Consent Decree, it requires

Mirant Mid-Atlantic, Mirant Chalk Point and/or Mirant Potomac to install an alternative suite of environmental controls at the plants they continue to own.

On April 26, 2006, Mirant Mid-Atlantic and the MDE entered into an agreement to allow Mirant Mid-Atlantic to implement the consent decree with respect to the Morgantown plant, if the consent decree receives the necessary approvals. Under the agreement, Mirant Mid-Atlantic agreed to certain ammonia and particulate matter emissions limits and to submit testing results to the MDE.

Mirant Potomac River Downwash Study. On September 23, 2004, the Virginia DEQ and Mirant Potomac River entered into an order by consent with respect to the Potomac River plant under which Mirant Potomac River agreed to perform a modeling analysis to assess the potential effect of downwash from the plant (1) on ambient concentrations of SO2, NO2, carbon monoxide (CO) and particulate matter less than or equal to 10 micrometers (PM10) for comparison to the applicable NAAQS and (2) on ambient concentrations of mercury for comparison to Virginia Standards of Performance for Toxic Pollutants. Downwash is the effect that occurs when aerodynamic turbulence induced by nearby structures causes emissions from an elevated source, such as a smokestack, to be mixed rapidly toward the ground resulting in higher ground level concentrations of emissions. If the modeling analysis indicates that emissions from the facility may cause exceedances of the NAAQS for SO2, NO2, CO or PM10, or exceedances of mercury compared to Virginia Standards of Performance for Toxic Pollutants, the consent order requires Mirant Potomac River to submit to the Virginia DEQ a plan and schedule to eliminate and prevent such exceedances on a timely basis. Upon approval by the Virginia DEQ of the plan and schedule, the approved plan and schedule is to be incorporated by reference into the consent order. The results of the computer modeling analysis showed that emissions from the Potomac River plant have the potential to contribute to localized, modeled instances of exceedances of the NAAQS for SO2, NO2 and PM10 under certain conditions.

On August 24, 2005, power production at all five units of the Potomac River generating facility was temporarily halted in response to a directive from the Virginia DEQ. The decision to temporarily shut down the facility arose from findings of a study commissioned under the order by consent referred to above. The Virginia DEQ s directive was based on results from the study s computer modeling showing that air emissions from the facility have the potential to contribute to localized, modeled exceedances of the health-based NAAQS under certain conditions. On August 25, 2005, the District of Columbia Public Service Commission filed an emergency petition and complaint with the FERC and the Department of Energy (DOE) to prevent the shutdown of the Potomac River facility. The matter remains pending before the FERC and the DOE. On September 21, 2005, Mirant Potomac River commenced partial operation of one unit of the plant. On December 20, 2005, due to a determination by the DOE that an emergency situation exists with respect to a shortage of electric energy, the DOE ordered Mirant Potomac River to generate electricity at the Potomac River generation facility, as requested by Pennsylvania-New Jersey-Maryland Interconnection, LLC (PJM), during any period in which one or both of the transmission lines serving the central Washington, D.C. area are out of service due to a planned or unplanned outage. In addition, the DOE ordered Mirant Potomac River, at all other times, for electric reliability purposes, to keep as many units in operation as possible and to reduce the start-up time of units not in operation without contributing to any NAAQS exceedances. The DOE required Mirant Potomac River to submit a plan, on or before December 30, 2005, that met these requirements. The DOE advised that it would consider Mirant Potomac River s plan in consultation with the EPA. The order further provides that Mirant Potomac River and its customers should agree to mutually satisfactory terms for any costs incurred by it under this order or just and reasonable terms shall be established by a supplemental order. Certain parties filed for rehearing of the DOE order, and on February 17, 2006, the DOE issued an order granting rehearing solely for

purposes of considering the rehearing requests further. Mirant Potomac River submitted an operating plan in accordance with the order. On January 4, 2006, the DOE issued an interim response to Mirant Potomac River s operating plan authorizing operation of the units of the Potomac River facility on a reduced basis, but making it possible to bring the entire plant into service within approximately 28 hours when necessary for reliability purposes. The DOE s order expires after September 30, 2006, but Mirant Potomac River expects it will be able to continue to operate these units after that expiration. In a letter received December 30, 2005, the EPA invited Mirant Potomac River and the Virginia DEQ to work with the EPA to ensure that Mirant Potomac River s operating plan submitted to the DOE adequately addresses NAAQS issues. The EPA also asserts in its letter that Mirant Potomac River did not immediately undertake action as directed by the Virginia DEQ s August 19, 2005, letter and failed to comply with the requirements of the Virginia State Implementation Plan established by that letter. Mirant Potomac River received a second letter from the EPA on December 30, 2005, requiring Mirant to provide certain requested information as part of an EPA investigation to determine the Clean Air Act compliance status of the Potomac River facility. The facility, in accordance with the operating plan submitted to the DOE, is currently operating at reduced capacity except when one or both of the transmission lines serving the central Washington, D.C. area are out of service. The facility will not resume normal operations until it can satisfy the requirements of the Virginia DEQ and the EPA with respect to NAAQS, unless, for reliability purposes, it is required to return to operation by a governmental agency having jurisdiction to order its operation. On January 9, 2006, the FERC issued an order directing PJM and PEPCO to file a long-term plan to maintain adequate reliability in the Washington D.C. area and surrounding region and a plan to provide adequate reliability pending implementation of this long-term plan. On February 8, 2006, PJM and PEPCO filed their proposed reliability plans. The Company is working with the relevant state and federal agencies with the goal of restoring all five units of the facility to normal operation in 2007. The financial and operational implications of the discontinued or limited operation of the Potomac River plant are not known at this time, but could be material depending on the length of time that operations are discontinued or limited.

City of Alexandria Nuisance Suit. On October 7, 2005, the City of Alexandria filed a suit against Mirant Potomac River and Mirant Mid-Atlantic in the Circuit Court for the City of Alexandria. The suit asserts nuisance claims, alleging that the Potomac River plant s emissions of coal dust, flyash, NOx, SO2, particulate matter, hydrogen chloride, hydrogen fluoride, mercury and oil pose a health risk to the surrounding community and harm property owned by the City. The City seeks injunctive relief, damages and attorneys fees. On February 17, 2006, the City amended its complaint to add additional allegations in support of its nuisance claims relating to noise and lighting, interruption of traffic flow by trains delivering coal to the Potomac River plant, particulate matter from the transport and storage of coal and flyash, and potential coal leachate into the soil and groundwater from the coal pile.

Riverkeeper Suit Against Mirant Lovett. On March 11, 2005, Riverkeeper, Inc. filed suit against Mirant Lovett in the United States District Court for the Southern District of New York under the Federal Water Pollution Control Act (the Clean Water Act). The suit alleges that Mirant Lovett s failure to implement a marine life exclusion system at its Lovett generating plant and to perform monitoring for the exclusion of certain aquatic organisms from the plant s cooling water intake structures violates Mirant Lovett s water discharge permit issued by the State of New York. The plaintiff requests the court to enjoin Mirant Lovett from continuing to operate the Lovett generating plant in a manner that allegedly violates the Clean Water Act, to impose civil penalties of $32,500 per day of violation, and to award the plaintiff attorney s fees. On April 20, 2005, the district court approved a stipulation agreed to by the plaintiff and Mirant Lovett that stays the suit until 60 days after entry of an order by the Bankruptcy Court confirming a plan of reorganization for Mirant Lovett becomes final and non-appealable.

City of Alexandria Zoning Action

On December 18, 2004, the City Council for the City of Alexandria, Virginia (the City Council) adopted certain zoning ordinance amendments recommended by the City Planning Commission that resulted in the zoning status of Mirant Potomac River s generating plant being changed from noncomplying use to nonconforming use subject to abatement. Under the nonconforming use status, unless Mirant Potomac River applies for and is granted a special use permit for the plant during the seven-year abatement period, the operation of the plant must be terminated within a seven-year period, and no alterations that directly prolong the life of the plant will be permitted during the seven-year period. If Mirant Potomac River were to apply for and receive a special use permit for the plant, the City Council would likely impose various conditions and stipulations as to the permitted use of the plant and seek to limit the period for which it could continue to operate.

At its December 18, 2004, meeting, the City Council also approved revocation of two special use permits issued in 1989 (the 1989 SUPs), one applicable to the administrative office space at Mirant Potomac River s plant and the other for the plant s transportation management plan. Under the terms of the approved action, the revocation of the 1989 SUPs was to take effect 120 days after the City Council s action, provided, however, that if Mirant Potomac River within such 120-day period filed an application for the necessary special use permits to bring the plant into compliance with the zoning ordinance provisions then in effect, the effective date of the revocation of the 1989 SUPs would be stayed until final decision by the City Council on such application. The approved action further provides that if such special use permit application is approved by the City Council, revocation of the 1989 SUPs will be dismissed as moot, and if the City Council does not approve the application, the revocation of the 1989 SUPs will become effective and the plant will be considered a nonconforming use subject to abatement.

On January 18, 2005, Mirant Potomac River and Mirant Mid-Atlantic filed a complaint against the City of Alexandria and the City Council in the Circuit Court for the City of Alexandria. The complaint seeks to overturn the actions taken by the City Council on December 18, 2004, changing the zoning status of Mirant Potomac River s generating plant and approving revocation of the 1989 SUPs, on the grounds that those actions violated federal, state and city laws. The complaint asserts, among other things, that the actions taken by the City Council constituted unlawful spot zoning, were arbitrary and capricious, constituted an unlawful attempt by the City Council to regulate emissions from the plant, and violated Mirant Potomac River s due process rights. Mirant Potomac River and Mirant Mid-Atlantic request the court to enjoin the City of Alexandria and the City Council from taking any enforcement action against Mirant Potomac River or from requiring it to obtain a special use permit for the continued operation of its generating plant. On January 18, 2006, the court issued an oral ruling following a trial that the City of Alexandria acted unreasonably and arbitrarily in changing the zoning status of Mirant Potomac River s generating plant and in revoking the 1989 SUPs. On February 24, 2006, the court entered judgment in favor of Mirant Potomac River and Mirant Mid-Atlantic declaring the change in the zoning status of Mirant Potomac River s generating plant adopted December 18, 2004, to be invalid and vacating the City Council s revocation of the 1989 SUPs. The City of Alexandria has filed notice seeking to appeal this judgment.

PEPCO Assertion of Breach of Local Area Support Agreement

Following the shutdown of the Potomac River plant on August 24, 2005, Mirant Potomac River notified PEPCO on August 30, 2005, that it considered the circumstances resulting in the shutdown of the plant to constitute a force majeure event under the Local Area Support Agreement dated December 19, 2000, between PEPCO and Mirant Potomac River. That agreement imposes obligations upon Mirant Potomac River to dispatch the Potomac River plant under certain conditions, to give PEPCO several years advance notice of any indefinite or permanent shutdown of the plant, and to pay all or a portion of certain costs incurred by PEPCO for transmission additions or upgrades when an indefinite or permanent shutdown of the plant occurs prior to December 19, 2010. On September 13, 2005, PEPCO notified Mirant Potomac River that it considers Mirant Potomac River s shutdown of the plant to be a material breach of the Local Area Support Agreement that is not excused under the force majeure provisions of the agreement. PEPCO contends that Mirant Potomac River s actions entitle PEPCO to recover as damages the cost of constructing additional transmission facilities. PEPCO, on January 24, 2006, filed a notice of administrative claims asserting that Mirant Potomac River s shutdown of the Potomac River plant causes Mirant Potomac River to be liable for the cost of such transmission facilities, which cost it estimates to be in excess of $70 million. Mirant Potomac River disputes PEPCO s interpretation of the agreement. The outcome of this matter cannot be determined at this time.

New York Tax Proceedings

The Company s subsidiaries that own the Bowline and Lovett generating plants in New York are the petitioners in various proceedings (Tax Certiorari Proceedings) initially brought in the New York state courts challenging the assessed value of those generating plants determined by their respective local taxing authorities. Mirant Bowline has challenged the assessed value of the Bowline generating facility and the resulting local tax assessments paid for tax years 1995 through 2005. Mirant Bowline succeeded to rights held by Orange & Rockland Utilities, Inc. (Orange & Rockland) for the tax years prior to its acquisition of the Bowline Plant in 1999 under its agreement with Orange & Rockland for the purchase of that plant. Mirant Lovett has initiated proceedings challenging the assessed value of the Lovett facility for each of the years 2000 through 2005. If the Tax Certiorari Proceedings result in a reduction of the assessed value of the generating facility at issue in each proceeding, the New York Debtor owning the facility would be entitled to a refund with interest of any excess taxes paid for those tax years.

On September 30, 2003, the Mirant Debtors filed a motion (the Tax Determination Motion) with the Bankruptcy Court requesting that it determine what the property tax liability should have been for the Bowline generating facility in each of the years 1995 through 2003 and for the Lovett generating facility in each of the years 2000 through 2003. The bases for the relief requested in the Tax Determination Motion on behalf of Mirant Bowline and Mirant Lovett were that the assessed values of the generating facilities made by the relevant taxing authorities had no justifiable basis and were far in excess of their actual value. The local taxing authorities have opposed the Tax Determination Motion, arguing that the Bankruptcy Court either lacks jurisdiction over the matters addressed by the Tax Determination Motion or should abstain from addressing those issues so that they can be addressed by the state courts in which the Tax Certiorari Proceedings described in the preceding paragraph were originally filed.

Collectively, Mirant Bowline and Mirant Lovett have not paid approximately $62 million assessed by local taxing authorities on the Bowline and Lovett generating facilities for 2003, which fell due on September 30, 2003, and January 30, 2004, approximately $53 million assessed by local taxing authorities on the generating facilities for 2004 that fell due on September 30, 2004, and January 30, 2005, and approximately $59 million assessed by local taxing authorities on the

generating facilities for 2005 that fell due on September 30, 2005, and January 30, 2006, in order to preserve their respective rights to offset the overpayments of taxes made in earlier years against the sums payable on account of current taxes. The failure to pay the taxes due on September 30, 2003, January 30, 2004, September 30, 2004, January 30, 2005, September 30, 2005, and January 30, 2006, could subject Mirant Bowline and Mirant Lovett to additional penalties and interest.

Philippine Real Property Taxes

Real property taxes in the Philippines are levied by applying the tax rate to a locally determined taxable value of the property. Under the Philippine Local Government Code (LGC), the taxable value of property depends on the nature and use of the property. For land, machinery and equipment owned by commercial and industrial users, the taxable value of property is assessed at up to 80% of its fair market value. For land, machinery and equipment owned and used by government-owned or -controlled corporations in the provision of certain services, including electricity generation, the taxable value is assessed at up to 10% of the property s fair market value. The local taxing authorities in Pagbilao have assessed real property taxes at the 80% assessment level. The local taxing authorities in Sual have assessed property taxes at the 10% level. Sual may pass an ordinance or resolution applying an assessment level of up to 80% on future assessments.

Another provision of the LGC provides that machinery and equipment that is actually, directly, or exclusively used by government-owned or -controlled corporations engaged in the generation and transmission of electric power is exempt from real property taxes.

Under the energy conversion agreements for Pagbilao and Sual which were executed under the Philippine government s build operate transfer (BOT) program, National Power Corporation (NPC) is responsible for payment of real property taxes. NPC, a government-owned corporation, is the owner of the land on which the power plants are situated and has paid the real property tax on the land. Mirant s subsidiaries are currently the owners of record of the machinery, buildings and equipment constituting the Sual and Pagbilao plants (collectively, the Plants). When the local taxing authorities in Pagbilao and Sual assessed property taxes on the Plants, the Company referred the matter to NPC. NPC has taken the position that it is the beneficial owner of the machinery and equipment for purposes of the real property tax, because it will own the Plants when they are transferred to NPC pursuant to the energy conversion agreements. NPC has filed petitions for exemption with the relevant tax courts, claiming that it is exempt from real property taxes on this machinery and equipment that is used to generate electricity pursuant to the LGC.

In a case filed by NPC, the Philippine Court of Tax Appeals ruled that NPC is not exempt from real property taxes on machinery and equipment and cannot be treated as the owner of the machinery and equipment. Therefore, the machinery and equipment may be assessed at a taxable level of up to 80% of its fair market value. This ruling would impact any BOT facilities. The case is now before the Philippine Supreme Court. Unless the Supreme Court issues an injunction or a restraining order, the local authorities would have the right to issue a notice of delinquency to Mirant s subsidiaries as the record owners of the property and, if the taxes were not paid, to levy against the Plants. The disputed tax assessments are approximately $70 million related to periods through December 31, 2005, for Pagbilao. The local taxing authorities in Sual have assessed and been paid all taxes at the 10% level through December 31, 2005. In February 2006, Mirant Sual Corporation (Mirant Sual) received an assessment (in the amount of approximately $1.4 million) representing the 2006 real property tax on the plant. Mirant Sual forwarded the assessment to NPC, which is responsible for paying the tax under the energy conversion agreement. The outcome of this matter cannot be predicted, but if the Company is held liable for payment of the real property taxes it shall seek full recovery from NPC or, in the event NPC does not pay, from the

Government of the Philippines. Payment of NPC s obligations to Mirant Sual under the energy conversion agreements is guaranteed by the Government of the Philippines.

In order to provide assistance to the local governments while the real property tax matter is being resolved and to avoid the possibility that the local governments might issue a notice of delinquency, Mirant s subsidiaries advanced $11 million to the local governments in 2005 towards the disputed tax assessments. The Company may elect to make further advances until the matter is finally decided by the courts. The Company may seek to recover these advances from NPC or from the local governments when the outcome of the dispute is decided by the Philippines Supreme Court.

NPC Claims

Mirant Sual Corporation is contracted to sell 1,000 MW of its 1,218 MW capacity to NPC. Pursuant to excess capacity agreements, it is entitled to sell the 218 MW of excess capacity to retail customers with the approval of NPC, which Mirant (Philippines) Corporation (Mirant Philippines) does through its energy supply business. Mirant Philippines received a letter from NPC dated March 22, 2006, claiming refunds in the amount of $26 million relating to sales of such excess capacity. Mirant Philippines believes that the claims are without merit and is disputing the claims.

Other Legal Matters

The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company s financial position, results of operations or cash flows.

Philippine Deferred Tax Asset

The Company's financial statements at December 31, 2005, reflect a deferred tax asset approximating $84 million related to the anticipated future tax benefits of unrealized foreign exchange losses arising from the U.S. dollar denominated borrowings of its Philippine entities. On May 2, 2006, the Philippine tax authorities issued final regulations governing the selection and use of a functional currency for Philippine tax reporting purposes. The regulation is expected to become official on May 18, 2006. The total impact of this regulation on the Company's financial statements and books of accounts for internal revenue tax purposes is still being evaluated. However, the Company will determine and recognize any necessary adjustment related to this matter in the second quarter of 2006.

Other Contingencies

On May 5, 2005, Mirant NY-Gen discovered a sinkhole at its Swinging Bridge dam, located in Sullivan County, New York. In response, Mirant NY-Gen filled this sinkhole, inspected the dam s penstock and slopes for damage, drew down the lake level, and cleaned the diversion tunnel. Mirant NY-Gen s analysis indicates that the most probable cause of the sinkhole was erosion of soil comprising the dam through a hole in the penstock. The dam is currently stabilized, but is in need of additional repairs. Mirant NY-Gen currently expects to incur additional costs to repair the dam that could be material and to recover insurance proceeds for a portion of these repair costs. As a result of the sinkhole, Mirant NY-Gen was required to perform and provide to the FERC a flood study relating to the Swinging Bridge, Rio and Mongaup reservoirs to determine the maximum capacity of the reservoirs and the down stream consequences of a rain event resulting in a greater than the maximum capacity event. The flood study found that under the very extreme weather

conditions assumed for the study (which included rainfall over a short period in amounts well in excess of the highest rainfall amounts recorded for such a period historically), the water flowing into the reservoirs could cause the level of the reservoirs to exceed the height of the dams at Mirant NY-Gen s hydro facilities, leading to downstream flooding. Mirant NY-Gen is evaluating the results of the flood study and determining what modifications may be warranted to its hydro facilities based on those results. The costs of such modifications, if any are necessary, are unknown at this time, but could be significant. Mirant NY-Gen currently remains in Chapter 11. The Bankruptcy Court has approved a debtor-in-possession loan to Mirant NY-Gen from Mirant Americas under which Mirant Americas, subject to certain conditions, would lend up to $4.5 million to Mirant NY-Gen to provide funding for the repairs on the Swinging Bridge dam.

Enron Bankruptcy Proceedings

Beginning on December 2, 2001, Enron and a number of its subsidiaries filed for bankruptcy. Mirant filed formal claims in the Enron bankruptcy proceedings. On March 21, 2006, the Company sold its remaining claims against Enron and its subsidiaries. The Company recorded a gain of approximately $40 million as a result of that sale.

Other Tax Matters

The Company has contingent liabilities relating to taxes arising in the ordinary course of business. The Company periodically assesses its contingent liabilities in connection with these matters based upon the latest information available. For those matters where it is probable that a loss has been incurred and the loss or range of loss can be reasonably estimated, a liability is recorded on the consolidated financial statements. As additional information becomes available, the assessment and estimates of such liabilities are adjusted accordingly.

H. Earnings Per Share

Mirant calculates basic earnings per share by dividing income available to shareholders by the weighted average number of common shares outstanding. Diluted earnings per share gives effect to dilutive potential common shares, including restricted stock, restricted stock units, stock options and warrants. Pursuant to the Plan, on January 3, 2006, all shares of Mirant s old common stock were cancelled and 300 million shares of new common stock were issued. Mirant also issued two series of warrants that will expire on January 3, 2011.

Due to the changes in the capital structure, earnings per share information is not presented for the three months ended March 31, 2005, because it is not meaningful. The following table shows the computation of basic and diluted earnings per share for the three months ended March 31, 2006 (in millions except per share data):

Net income	$ 467
Basic and diluted:	
Weighted average shares outstanding basic	300
Shares due to assumed exercise of warrants	8
Shares due to assumed vesting of restricted stock and restricted stock units	1
Weighted average shares outstanding diluted	309
Basic income per share	$ 1.56
Diluted income per share	$ 1.51

The Company excluded 2.7 million potential common shares representing antidilutive stock options from the earnings per share calculations for the three months ended March 31, 2006.

I. Segment Reporting

Mirant manages its business through three principal operating segments: United States, Philippines and Caribbean. The Company s reportable segments are strategic businesses that are separated geographically and managed independently.

Business Segments
(In Millions)

Three Months Ended March 31, 2006:

	United States	Philippines	Caribbean	Corporate and Eliminations	Consolidated
Operating Revenues:					
Generation	$ 993	$ 118	$ 2	$	$ 1,113
Integrated utilities and distribution		4	186		190
Total operating revenues	993	122	188		1,303
Cost of fuel, electricity and other products	329	7	104		440
Gross margin	664	115	84		863
Operating Expenses:					
Operations and maintenance	177	20	47	(5)	239
Depreciation and amortization	39	19	12	5	75
Gain on sales of assets, net	(40)				(40)
Total operating expenses	176	39	59		