MIRANT CORP
Form 10-Q
December 23, 2002

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 QUARTER ENDED SEPTEMBER 30, 2002

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____TO_____

COMMISSION FILE NUMBER: 001-16107

MIRANT CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	58-2056305
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1155 Perimeter Center West, Suite 100, Atlanta, Georgia	30338
(Address of Principal Executive Offices)	(Zip Code)

(678) 579-5000

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No [ ]

The number of shares outstanding of the Registrant's Common Stock, par value $0.01 per share, at December 16, 2002 was 403,910,772.

MIRANT CORPORATION AND SUBSIDIARIES

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FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

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DEFINITIONS

TERM	MEANING
APB	Accounting Principles Board
AQC	Allied Queensland Coalfields Pty Ltd.
Bewag	Bewag AG
BP	BP p.l.c.
CAISO	California Independent System Operator
CEMIG	Companhia Energetica de Minas Gerais
Cleco	Cleco Midstream Resources, LLC
the Company	Mirant Corporation and its subsidiaries
CPUC	California Public Utilities Commission
DWR	California Department of Water Resources
EITF	Emerging Issues Task Force
Enron	Enron Corporation and its affiliates
EPA	U. S. Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fitch	Fitch, Inc.
GAAP	Generally accepted accounting principles
Hyder	Hyder Limited
IPP	Independent Power Producers
JPSCo	Jamaica Public Service Company Limited
Kogan Creek	MAP Australia (BVI) Limited
LIBOR	London Interbank Offering Rate
Mirant Americas	Mirant Americas, Inc.
Mirant Americas Energy Marketing	Mirant Americas Energy Marketing, L. P.
Mirant Americas Energy Capital	Mirant Americas Energy Capital, LP
Mirant Americas Generation	Mirant Americas Generation, LLC
Mirant Asia-Pacific	Mirant Asia-Pacific Ventures, Inc.
Mirant Canada Energy Marketing	Mirant Canada Energy Marketing, Ltd.

Mirant	Mirant Corporation and its subsidiaries
Mirant Delta	Mirant Delta, LLC
Mirant Mid-Atlantic	Mirant Mid-Atlantic, LLC and its subsidiaries
Mirant New England	Mirant New England, LLC
Mirant New York	Mirant New York, Inc., Mirant New York Investments, Inc., and subsidiaries
Mirant Potrero	Mirant Potrero, LLC
Moody's	Moody's Investors Service
MW	Megawatts
Neenah	Mirant Corporation's Neenah generating facility
NPC	National Power Corporation
OCI	Other comprehensive income
OTC	Over-the-counter
Pacific Gas and Electric	Pacific Gas and Electric Co.
PEPCO	Potomac Electric Power Company
Perryville	Perryville Energy Partners, LLC
PX	California Power Exchange Corporation
RMR	Reliability-Must-Run
SCE	Southern California Edison
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
Shajiao C	Guangdong Guanghope Power Company Limited
SIPD	Shandong International Power Development Company Limited
Southern	Southern Company
S&P	Standard & Poor's
State Line	State Line Energy, L.L.C.
Vastar	Vastar Resources Inc.
WPD	Western Power Distribution group headed by WPD 1953 Limited

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

The information presented in this quarterly report on Form 10-Q includes forward-looking statements, in addition to historical information. These statements involve known and unknown risks and relate to future events, Mirant's future financial performance or projected business results. In some cases, forward-looking statements by terminology may be identified by statements such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "targets," "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;

- the extent and timing of the entry of additional competition in the markets of our subsidiaries and affiliates;

- our pursuit of potential business strategies, including acquisitions or dispositions of assets or internal restructuring;

- political, legal and economic conditions and developments and state, federal and other rate regulations in the United States and in foreign countries in which our subsidiaries and affiliates operate;

- changes in or application of environmental and other laws and regulations to which we and our subsidiaries and affiliates are subject;

- financial market conditions and the results of our financing or refinancing efforts;

- changes in market conditions, including developments in energy and commodity supply, volume and pricing and interest rates;

- weather and other natural phenomena;

- developments in the California power markets, including, but not limited to, governmental intervention, deterioration in the financial condition of our counterparties, default on receivables due and adverse results in current or future litigation;

- the direct or indirect effects on our business, including the availability of insurance, resulting from the terrorist actions on September 11, 2001 or any other terrorist actions or responses to such actions, including, but not limited to, acts of war;

- the direct or indirect effects on our business resulting from the financial difficulties of competitors of Mirant, including, but not limited to, their effects on liquidity in the trading and power industry, and their effects on the capital markets views of the energy or trading industry and our ability to access the capital markets on the same favorable terms as in the past;

- the direct or indirect effects on our business of a further lowering of our credit rating (or actions we may take in response to changing credit ratings criteria), including increased collateral requirements to execute our business plan, demands for increased collateral by our current counterparties, refusal by our current or potential counterparties to enter into transactions with us and our inability to obtain credit or capital in amounts or on terms favorable to us;

- the disposition of the pending litigation described in our Form 10-K/A filed on March 11, 2002, our Form 10-Q filed on May 13, 2002, as amended on November 7, 2002, our Form 10-Q filed on November 7, 2002, our Form 8-K filed on June 27, 2002 and this Form 10-Q;

- the direct or indirect effects of the accounting issues discussed in Note A in the notes to the unaudited condensed consolidated financial statements included in this Form 10-Q and the additional issues arising from the weaknesses identified by the internal control and procedures review discussed in Item 4 of Part I of this Form 10-Q;

- the direct or indirect ramifications of the results of the reaudit of our 2000 and 2001 financial statements and the restatements that will be required as a result of these reaudits including potential effects on our financing arrangements and refinancing efforts;

- the direct or indirect effects of inquiries by the U.S. Securities & Exchange Commission and the U.S. Department of Justice and the Commodities Futures Trading Commission regarding, among other things, the accounting issues described in the Company's July 30 and August 14, 2002 press releases and energy trading issues;

- the direct or indirect effects on our business of our or our subsidiaries' failure to timely file our or their Form 10-Q for the quarters ended June 30, 2002 and September 30, 2002; and

- other factors discussed in this Form 10-Q and in our reports filed from time to time with the SEC (including our Form 10-K filed on March 11, 2002, as amended by Form 10-K/A, filed on March 11, 2002, our Form 10-Q filed on May 13, 2002, as amended by Form 10-Q/A, filed on November 7, 2002 and our Form 10-Q filed on November 7, 2002).

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance or achievements. We expressly disclaim a duty to update any of the forward-looking statements contained herein.

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

	For the Three Months Ended September 30,		For the Nine Mont Ended September 3	
	2002	2001	2002	2001
	(in millions, except per share data			
OPERATING REVENUES (NOTE A):	$ 2,258	$ 2,484	$ 4,981	$ 7,04
OPERATING EXPENSES (NOTE A):				
Cost of fuel, electricity and other products, excluding depreciation	1,473	1,611	3,027	4,59
GROSS MARGIN	785	873	1,954	2,45
OTHER OPERATING EXPENSES:				
Depreciation and amortization	82	98	236	27
Maintenance	31	30	92	9
Selling, general and administrative	172	178	479	65
Impairment loss (Note D)	204	3	204	9
Restructuring charges (Note H)	8	--	598	-
Gain on sales of assets, net (Note H)	(5)	--	(33)	-
Other	137	116	363	37
Total other operating expenses	629	425	1,939	1,49
OPERATING INCOME	156	448	15	96
OTHER (EXPENSE) INCOME, NET:				
Interest income	28	29	60	11
Interest expense	(128)	(141)	(354)	(42
Gain/(loss) on sales of assets, net (Note H)	(4)	(1)	276	
Equity in income of affiliates	25	38	145	16
Impairment loss on minority owned affiliates (Note D)	(18)	--	(335)	-
Receivables recovery (Note A)	--	--	29	1
Other, net	(4)	10	(1)	1
Total other expense, net	(101)	(65)	(180)	(12

INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	55	383	(165)	84
PROVISION FOR INCOME TAXES	38	135	19	27
MINORITY INTEREST	20	18	54	4
(LOSS) INCOME FROM CONTINUING OPERATIONS	(3)	230	(238)	51
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX PROVISION OF $3 AND $2 FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001, AND $8 FOR BOTH THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001, RESPECTIVELY	2	4	11	1
NET (LOSS) INCOME	$ (1)	$ 234	$ (227)	$ 53
(LOSS) EARNINGS PER SHARE:				
Basic	$ --	$ 0.69	$ (0.56)	$ 1.5
Diluted	$ --	$ 0.67	$ (0.56)	$ 1.5

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

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MIRANT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	AT SEPTEMBER 30, 2002	(Note (Restat At Decemb 200
	(in millions)	
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,283	$ 8
Receivables:		
Customer accounts, less provision for uncollectibles of $153 and $159 for 2002 and 2001, respectively	1,852	1,9
Other, less provision for uncollectibles of $34 and $32 for 2002 and 2001, respectively	204	7
Notes receivable	4	
Energy marketing and risk management assets (Note G)	1,186	9
Derivative hedging instruments (Notes C and G)	145	2
Deferred income taxes	363	4
Inventories	326	3
Assets held for sale (Note J)	105	3
Other	305	3
Total current assets	6,773	6,2
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	5,127	4,2

Less accumulated provision for depreciation and depletion	(469)	(3
	4,658	3,9
Leasehold interest, net of accumulated amortization of $356 and $297 for 2002 and 2001, respectively	1,697	1,7
Construction work in progress	1,044	1,9
Investment in suspended construction (Note H)	732	
Total property, plant and equipment, net	8,131	7,5
NONCURRENT ASSETS:		
Investments (Note H)	522	2,2
Notes and other receivables, less provision for uncollectibles of $131 and $116 for 2002 and 2001, respectively	462	2
Energy marketing and risk management assets (Note G)	747	5
Goodwill, net of accumulated amortization of $293 and $275 for 2002 and 2001, respectively (Notes A and B)	3,422	3,1
Other intangible assets, net of accumulated amortization of $63 and $70 for 2002 and 2001, respectively (Notes A and B)	581	8
Derivative hedging instruments (Notes C and G)	110	
Deferred income taxes	342	4
Other	285	2
Total noncurrent assets	6,471	7,8
TOTAL ASSETS	$ 21,375	$ 21,6

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

MIRANT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY:	AT SEPTEMBER 30, 2002	(At
	(in millions, except sh	
CURRENT LIABILITIES:		
Short-term debt	$ 109	
Current portion of long-term debt (Note F):		
Mirant Corporation term loan	1,125	
Sual and Pagbilao project loans	163	
Mirant Asia-Pacific	34	
Mirant Holdings Beteiligungsgesellschaft (Note H)	--	
Other	224	
Accounts payable and accrued liabilities	2,381	
Taxes accrued	56	
Energy marketing and risk management liabilities (Note G)	1,140	
Obligations under energy delivery and purchase commitments (Note I)	598	

Derivative hedging instruments (Notes C and G)	91
Accrued restructuring charges	197
Liabilities related to assets held for sale (Note J)	12
Other	182

Total current liabilities	6,312

NONCURRENT LIABILITIES:	
Notes payable (Note F)	5,066
Other long-term debt (Note F)	1,848
Energy marketing and risk management liabilities (Note G)	700
Deferred income taxes	113
Obligations under energy delivery and purchase commitments (Note I)	976
Derivative hedging instruments (Notes C and G)	96
Other	384

Total noncurrent liabilities	9,183

MINORITY INTEREST IN SUBSIDIARY COMPANIES	304
COMPANY OBLIGATED MANDATORILY REDEEMABLE SECURITIES OF A SUBSIDIARY HOLDING SOLELY PARENT COMPANY DEBENTURES	345
COMMITMENTS AND CONTINGENT MATTERS (NOTES I AND L)	
STOCKHOLDERS' EQUITY:	
Common stock, $.01 par value, per share	4
Authorized -- 2,000,000,000 shares	
Issued -- September 402,585,030 shares;	
-- December 31, 2001: 400,880,937 shares	
Treasury -- September 30, 2002: 100,000 shares	
-- December 31, 2001: 100,000 shares	
Additional paid-in capital	4,901
Retained earnings	451
Accumulated other comprehensive loss	(123)
Treasury stock, at cost	(2)

Total stockholders' equity	5,231

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 21,375
	========

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

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

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TR
	-----	-------	--------	----	
			(in millions)		

BALANCE, DECEMBER 31, 2001, AS PREVIOUSLY REPORTED	$4	$4,886	$ 729	$ (119)	$
Restatement adjustments (Note A)	--	--	(51)	7	
BALANCE, DECEMBER 31, 2001, AS RESTATED	4	4,886	678	(112)	
Net loss	--	--	(227)	--	
Other comprehensive loss (Note C)	--	--	--	(11)	
Comprehensive loss					
Issuance of common stock	--	15	--	--	--
BALANCE, SEPTEMBER 30, 2002	$4	$4,901	$ 451	$ (123)	$

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

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

	For the Nine Mo Ended September	
	2002	2
	(in millions	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (227)	$
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Equity in income of affiliates	(145)	
Dividends received from equity investments	29	
Depreciation and amortization	258	
Amortization of obligations under energy delivery and purchase commitments:		
Power purchase agreements	(42)	
Transition power agreements	(320)	
Other agreements	(74)	
Impairment loss	539	
Energy marketing and risk management activities, net	(169)	
Restructuring charge, net of amounts paid	541	
Deferred income taxes	101	
Gain on sales of assets	(309)	
Minority interest	38	
Other, net	65	
Changes in operating assets and liabilities, excluding effects from acquisitions:		
Receivables, net	609	
Other current assets	106	

Other assets	(72)
Accounts payable and accrued liabilities	(200)
Taxes accrued	(52)
Other current liabilities	23
Other liabilities	(16)
Total adjustments	910
Net cash provided by operating activities	683
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital expenditures	(1,111)
Cash paid for acquisitions	(94)
Issuance of notes receivable	(329)
Repayments on notes receivable	142
Disposal of Southern Company affiliates and other companies	--
Proceeds from the sale of assets	242
Proceeds from the sale of minority owned investments	1,987
Property insurance proceeds	7
Other	(18)
Net cash provided by (used in) investing activities	826
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from issuance of long-term debt	2,562
Repayment of long-term debt	(2,765)
Proceeds from issuance of common stock	15
Capital contributions from minority interests	17
Payment of dividends to minority interests	(17)
Purchase of treasury stock	--
Issuance of short-term debt, net	52
Change in debt service reserve fund	47
Net cash (used in) provided by financing activities	(89)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	7
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,427
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	856
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,283
SUPPLEMENTAL CASH FLOW DISCLOSURES:	
Cash paid for interest, net of amounts capitalized	$ 294
Refunds received for income taxes	$ 276
BUSINESS ACQUISITIONS:	
Fair value of assets acquired	$ 97
Less cash paid	94
Liabilities assumed	$ 3

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

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MIRANT CORPORATION AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. ACCOUNTING AND REPORTING POLICIES

GENERAL

Mirant Corporation (formerly Southern Energy, Inc.) was incorporated in Delaware in 1993. Mirant Corporation and its subsidiaries (collectively, "Mirant" or the "Company") are a global competitive energy company that delivers value primarily by producing and selling electricity in the U.S., Philippines, China and the Caribbean. Mirant's business includes independent power projects, integrated utilities and energy marketing and risk management operations.

ADJUSTMENTS TO PREVIOUSLY ISSUED FINANCIAL STATEMENTS. Prior to filing its second quarter 2002 Form 10-Q, the Company identified accounting errors in its previously issued financial statements, primarily related to its risk management and marketing operations. The Company restated its December 31, 2001 balance sheet, reducing retained earnings for after tax charges totaling approximately $51 million. The principal reasons and effects of the adjustments on the accompanying 2001 balance sheet from amounts previously reported on the Company's Form 10-K/A are summarized below (in millions):

	INCREASE (DECREASE) DECEMBER 31, 2001 RETAINED EARNINGS
Receivables - Other (a)	$(117)
Current deferred income tax assets (b)	47
Non-current deferred income tax liabilities (c)	25
Other, net	(6)
	$ (51)

a) reflects the correction of the overstatement of a natural gas asset and the correction of accrued revenues at December 31, 2001.

b) reflects the income tax benefits related to the corrections discussed in (a) above.

c) reflects the correction of $42 million of excess income tax provisions recorded in Asia, offset by $17 million of additional income tax expenses related to WPD.

The Company also reduced both energy marketing and risk management assets and liabilities in its December 31, 2001 consolidated balance sheets from amounts previously reported in its Form 10-K/A by $820 million to eliminate intracompany transactions. These adjustments do not have any effect on the Company's consolidated results of operations or cash flows.

The Company has engaged its independent auditors to reaudit the Company's 2000 and 2001 financial statements to address these and other accounting errors that have been identified, which are expected to result in a restatement of its statement of income for either or both of 2000 and 2001 and potentially for interim periods in 2001 and 2002. In addition, the Company would have been required to have its independent auditors reaudit the Company's 2000 and 2001 financial statements as a result of the Company's adoption of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," and the change in reporting energy trading activities required by EITF Issue 02-3, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," both of which require significant modifications to the Company's previously issued financial statements.

The specific interim periods within previous years to which $70 million of the charges (described in (a) and (b) above) relate have not been determined at this time; accordingly, their effect has not been reflected in the accompanying 2001 interim condensed consolidated statements of income. The interim periods to which the $70 million relates will be determined in connection with the reaudit. Rather than correct the 2001 results of operations and cash flows to reflect a portion of these accounting errors, the Company has

presented the comparative 2001 amounts as previously reported until the review of accounting issues is resolved and the reaudit is completed. The Company expects to correct the financial statements, as needed, for each reporting period in 2000 or 2001. Until the reaudit is completed, the Company does not believe it is appropriate to revise the historical results for the interim periods. There may be significant changes in previously reported amounts of operating revenues, operating income, equity in income of affiliates, provision for income taxes, net income and operating cash flows.

In its first quarter 2002 Form 10-Q/A, the Company also restated its previously reported results of operations for the first quarter of 2002 to a net loss of $6 million from an originally reported net loss of $42 million. These corrections have been reflected in the accompanying 2002 unaudited condensed consolidated statements of income. The Company also restated its previously reported first quarter 2002 statement of cash flows, increasing originally reported cash provided from operations by $46 million to reflect cash receipts and disbursements in the appropriate period, and increasing cash provided by investing activities by $11 million.

A summary comparison of the previously reported on Form 10-Q and restated on Form 10-Q/A first quarter 2002 unaudited condensed consolidated statements of income follows (in millions):

	THREE MONTHS ENDED MARCH 31, 2002, AS PREVIOUSLY REPORTED	THREE MONTHS ENDED MARCH 31, 2002, AS RESTATED
Operating revenues	$ 7,037	$ 6,908
Operating expenses	6,465	6,298
Gross margin	572	610
Other	(614)	(616)
Net loss	$ (42)	$ (6)

BASIS OF ACCOUNTING. These unaudited condensed consolidated financial statements should be read in conjunction with Mirant's audited 2000 and 2001 consolidated financial statements and the accompanying footnotes which are contained in the Company's annual report on Form 10-K, as amended on Form 10-K/A, for the year ended December 31, 2001. As previously discussed, the Company has engaged its independent auditors to reaudit its 2000 and 2001 financial statements. As discussed below, in the quarter ended September 30, 2002, the Company adopted the June 2002 consensus reached by the EITF related to EITF Issue 02-3. This effect of the consensus significantly reduces the amounts of revenues and costs of sales in the accompanying financial statements, but has no impact on gross margin or net income.

The results for interim periods are not necessarily indicative of the results for the entire year. Specifically, Mirant has sold its investments in Bewag and WPD, which contributed substantial earnings to the Company's historical results of operations in the first and fourth fiscal quarters.

Management believes that the accompanying unaudited condensed consolidated financial statements as of September 30, 2002 and 2001 and for the three and nine months then ended reflect adjustments, consisting of normal recurring items, necessary for a fair presentation of results for those interim periods presented.

Certain prior-year amounts have been reclassified to conform with current-year financial statement presentation.

REVENUE RECOGNITION. Mirant recognizes revenue from the sale of energy commodities when it is earned and reasonably assured of collection. The Company's wholesale electric generating operations record revenue when the electric power is delivered to the customer pursuant to contractual commitments that specify volume, price and delivery requirements. When the contractual sales agreement includes formula pricing, Mirant recognizes revenues at the lower of the amount of the formula pricing or the amount billable under the contract. When a long-term electric power agreement conveys the right to use the generating

capacity of Mirant's plant to the buyer of the electric power, that agreement is evaluated to determine if it is a lease of the generation asset rather than a sale of electric power.

When Mirant hedges the forward sale of electricity produced by its generation assets, the settlement of that hedging derivative is netted against the hedged revenue. When economical, the Company may choose to not operate its plants and, alternatively, purchase electric power in the wholesale power markets to physically meet its sales commitments. The resale of electric power purchased is reflected as revenue and the cost of power purchased is reflected as operating expense.

The Company, through its energy marketing and risk management operations (see Note G), engages in risk management activities with counterparties. All such transactions and related expenses are recorded on a trade-date basis. Financial instruments and contractual commitments related to these activities, which includes energy related contracts for storage and transportation, are accounted for using the mark-to-market method of accounting. Under the mark-to-market method of accounting, financial instruments and contractual commitments are recorded at fair value in the accompanying unaudited condensed consolidated balance sheets. The determination of fair value considers various factors, including closing exchange or over-the-counter market price quotations, time value and volatility factors underlying options and contractual commitments. The net gain or loss resulting from the change in the fair value of these energy trading contracts and derivative instruments are reported as operating revenues.

ACCOUNTING CHANGES. In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." These pronouncements significantly change the accounting for business combinations, goodwill and intangible assets. SFAS No. 141 establishes that all business combinations will be accounted for using the purchase method; use of the pooling-of-interests method is no longer allowed. The statement further clarifies the criteria to recognize intangible assets separately from goodwill. The provisions of SFAS No. 141 are effective for all business combinations initiated after June 30, 2001 and for business combinations accounted for using the purchase method for which the acquisition date was before July 1, 2001. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and, generally, adopts a non-amortization and periodic impairment-analysis approach to goodwill and indefinitely-lived intangibles (Note H). SFAS No. 142 is effective for the Company's 2002 fiscal year or for business combinations initiated after June 30, 2001. Mirant adopted these statements on January 1, 2002.

Upon initial application of SFAS No. 141, Mirant reassessed the classification of its intangible assets and determined that trading rights resulting from business combinations did not meet the new criteria for recognition apart from goodwill. Effective January 1, 2002, trading rights related to business combinations were reclassified to goodwill as required by the Statement. The reclassification increased goodwill by $194 million, net of accumulated amortization of $18 million.

As a result of the adoption of SFAS No. 142, Mirant discontinued amortization of goodwill effective January 1, 2002. During the first quarter of 2002, Mirant completed the transitional impairment test required by SFAS No. 142 and did not record any impairments of goodwill (Note H). Net income and earnings per share (basic and diluted) for the three and nine months ended September 30, 2001 have been adjusted below to exclude amortization related to goodwill and trading rights recognized in business combinations (in millions, except per share data).

		Three Months Ended September 30, 2001 Earnings Per Share		
	Net Income	Basic	Diluted	Net Incom
As reported	$ 234	$ 0.69	$ 0.67	$ 538
Effect of goodwill and trading rights amortization	17	0.05	0.05	55
As adjusted	$ 251	$ 0.74	$ 0.72	$ 593

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The provisions of SFAS No. 143 are effective for the Company's 2003 fiscal year. Mirant has not yet determined the financial statement impact of this statement.

In October 2001, the FASB issued SFAS No. 144 which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," and APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS

No. 144 amends accounting and reporting standards for the disposal of segments of a business and addresses various issues related to the accounting for impairments or disposals of long-lived assets (Note H). Mirant adopted SFAS No. 144 on January 1, 2002. Prior to SFAS No. 144, the dispositions of State Line, AQC and Neenah would not have been classified as discontinued operations. Because SFAS No. 144 expanded the breadth of transactions subject to discontinued operations classification, the dispositions of State Line, AQC and Neenah are now required to be presented as a discontinued operations (Note J).

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires companies to recognize certain costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. Mirant will adopt SFAS No. 146 on January 1, 2003 and management has not determined the impact on its consolidated financial statements.

In June 2002, the EITF reached consensus on certain issues related to EITF Issue 02-3. The Task Force reached a consensus that gains and losses on energy trading contracts (accounted for pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, and EITF Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities,") should be reported net in the statements of income.

In October 2002, the Task Force reached the following additional consensus related to EITF Issue 02-3:

- EITF Issue 98-10 was rescinded. Accordingly, energy-related contracts that are not accounted for pursuant to SFAS No. 133 such as transportation contracts, storage contracts and tolling agreements, should be accounted for as executory contracts using the accrual method of accounting and not at fair value. Energy-related contracts that do meet the definition of a derivative pursuant to SFAS No. 133 should continue to be carried at fair value. Additionally, the Task Force observed that accounting for energy-related inventory at fair value by analogy to the consensus in EITF Issue 98-10 was no longer appropriate and that such inventory should be carried at the lower of cost or market in accordance with Accounting Research Bulletin ("ARB") No. 43, "Restatement and Revision of Accounting Research Bulletins," and not at fair value.

- The consensus reached as part of the rescission of EITF Issue 98-10 above is required to be applied prospectively to energy trading contracts entered into after October 25, 2002. Additionally, the

consensus should be applied to all energy trading contracts and energy related inventory that existed on October 25, 2002 in periods beginning after December 15, 2002. Changes to the accounting for existing contracts as a result of the rescission of EITF Issue 98-10 will be reported as a cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, ("Accounting Changes"). Changes in accounting for energy-related inventory will also be reported as a cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20 unless information to calculate the impact of the change is not available. In that case, the carrying value of the energy-related inventory becomes the cost basis of the inventory at the effective date.

- The Task Force also reached a consensus that its previous conclusion on reporting gains and losses on derivatives in the statements of income should be expanded to include all trading activities. That is, gains and losses on any derivative contracts within the scope of SFAS No. 133 that are held for trading purposes should be reported net in the statements of income. The original (June 2002) consensus on net reporting of gains and losses on energy trading contracts is required for financial statements for periods ending after July 15, 2002.

- The Task Force agreed to rescind its previous consensus on EITF Issue 02-3 that required additional disclosures for energy trading contracts and activities and asked the FASB to reconsider the disclosures required by SFAS No. 133.

The implementation of the EITF consensus with respect to netting revenues and expenses on energy trading activities has been reflected in the accompanying condensed consolidated statements of income/(loss) and has reduced revenues and cost of fuel, electricity and other products for all periods presented. The reclassification did not impact Mirant's gross margin or net income. The following table reconciles gross revenues from generation and energy marketing products and cost of fuel, electricity and other products to revenues from generation and energy marketing products and cost of fuel, electricity and other products reported after the effects of the adoption of EITF Issue 02-3 (in millions).

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001
Gross revenues from generation and energy marketing products	$ 8,893	$ 8,012	$21,684	$23,897
Costs from generation and energy marketing products netted per EITF Issue 02-3	6,793	5,695	17,122	17,206
Reported net revenues from generation and energy marketing products	$ 2,100	2,317	$ 4,562	$ 6,691
Gross cost of fuel, electricity and other products	$ 8,266	$ 7,306	$20,149	$21,799
Cost of fuel, electricity and other products netted per EITF Issue 02-3	6,793	5,695	17,122	17,206
Reported net cost of fuel, electricity and other products	$ 1,473	$ 1,611	$ 3,027	$ 4,593

The Company has not yet determined the impact of ceasing use of the fair value (or mark-to-market) method of accounting for non-derivative energy trading contracts and energy-related inventory held for trading purposes. The Company currently has certain storage and transportation agreements accounted for under the mark-to-market method of accounting under EITF Issue 98-10, which will be required to be accounted for as executory contracts and not mark-to-market upon adoption of EITF Issue 02-3. The Company does not have long-term tolling agreements accounted for under the mark-to-market method of accounting under EITF Issue 98-10.

CONCENTRATION OF REVENUES AND CREDIT RISK. For the three and nine months ended September 30, 2002, revenues earned from a single customer did not exceed 10% of Mirant's total operating revenues.

For the three and nine months ended September 30, 2001, gross operating revenues earned from Enron, through energy marketing and risk management operations, approximated 19% for both periods of Mirant's total gross operating revenues, prior to netting of gains and losses under EITF Issue 02-03.

As of September 30, 2002, the CAISO owed Mirant approximately $238 million, which represented more than 10% of Mirant's total credit exposure. The Company's total credit exposure is computed as total accounts and notes receivable, adjusted for energy marketing and risk management and derivative hedging activities and netted against offsetting payables and posted collateral, as appropriate.

RECEIVABLES RECOVERY. During the nine months ended September 30, 2002, Mirant received $29 million as final payment related to receivables that were assumed in conjunction with the Mirant Asia-Pacific Limited business acquisition. During the nine months ended September 30, 2001 Mirant received $10 million related to these receivables. At the time of the Mirant Asia-Pacific Limited business acquisition, Mirant did not place value on the receivables due to the uncertain credit standing of the party from whom the receivables were due.

CAPITALIZATION OF INTEREST COST. Mirant capitalizes interest on projects during the advanced stages of development and the construction period, in accordance with SFAS No. 34, "Capitalization of Interest Cost," as amended by SFAS No. 58, "Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for by the Equity Method." The Company determines which debt instruments represent a reasonable measure of the cost of financing construction assets in terms of interest cost incurred that otherwise could have been avoided. These debt instruments and associated interest cost are included in the calculation of the weighted average interest rate used for determining the capitalization rate. Upon commencement of commercial operations of the plant or project, capitalized interest, as a component of the total cost of the plant, is amortized over the estimated useful life of the plant or the life of the cooperation period of the various energy conversion agreements ("ECAs"). For the three and nine months ended September 30, 2002, the Company incurred $152 million and $445 million, respectively, in interest costs, of which $24 million and $91 million, respectively, were capitalized and included in construction work in process. For the three and nine months ended September 30, 2001, the Company incurred $155 million and $457 million, respectively, in interest costs, of which $14 million and $34 million were capitalized and included in construction work in progress. The remaining interest was expensed during the periods.

As part of Mirant's operational restructuring plan announced in March of 2002 (the "March 2002 Plan"), Mirant suspended construction on several projects and no longer capitalizes interest on these projects. The construction cost related to these projects is shown as "Investment in suspended construction" on the unaudited condensed consolidated balance sheet.

INVESTMENT IN SUSPENDED CONSTRUCTION. Mirant reviews suspended construction projects for impairment in accordance with SFAS No. 144, "Accounting for the

Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires long-lived assets that are held and used to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset might not be recoverable. If changes in circumstances or events suggest that an impairment may exist, an impairment loss is recognized if the sum of the estimated future undiscounted cash flows is less than the carrying value of the assets. During the nine months ended September 30, 2002, Mirant postponed construction on certain plants which it intends to resume construction on at a later date. Upon a determination that the plants will not be completed, the carrying value of the projects would be assessed for impairment.

B. GOODWILL AND OTHER INTANGIBLE ASSETS

During the nine months ended September 30, 2002, goodwill was increased by $58 million related to purchase accounting adjustments for JPSCo and reduced by $23 million related to tax adjustments in the International Group and Mirant Americas Energy Marketing. Management currently believes there is no impairment of goodwill and is in the process of completing its annual planning process for 2003, from which

the carrying value of goodwill can be assessed. This plan should be completed in early 2003. Mirant's announced asset sale program and the overall conditions impacting the energy sector may materially impact the book value of goodwill in future periods (Note H). As of September 30, 2002, the North America Group's goodwill was $2.01 billion and the International Group's goodwill was $1.41 billion.

Substantially all of Mirant's other intangible assets are subject to amortization and are being amortized on a straight-line basis over their estimated useful lives, up to 40 years. There were no material acquisitions of intangible assets during the third quarter of 2002. Effective January 1, 2002, trading rights related to business combinations were reclassified to goodwill. The reclassification decreased other intangible assets by $227 million, net of accumulated amortization of $18 million. These provisions of SFAS No. 141 do not apply to asset acquisitions, therefore trading rights resulting from asset acquisitions continue to be recognized apart from goodwill. The trading rights represent Mirant's ability to create additional cash flows by incorporating Mirant's trading organization activities with generation assets. In a deregulated marketing structure, trading rights are the ability to create value beyond that of the tangible assets through developing markets. During the three and nine months ended September 30, 2002, Mirant transferred $0 and $36 million, net of accumulated amortization of $4 million, in development rights to construction work in process. Development rights represent the ability to expand capacity at certain acquired generation facilities. The existing infrastructure, including storage facilities, transmission interconnections, and fuel delivery systems, and contractual rights acquired by Mirant provide the opportunity to expand or repower generation facilities. This ability to repower or expand is at significant cost savings compared to greenfield construction. Intangible asset amortization expense was approximately $6 million for the third quarter and $18 million for the nine months ended September 30, 2002. The components of other intangible assets as of September 30, 2002 and December 31, 2001 were as follows (in millions):

	SEPTEMBER 30, 2002		DECEMBER 31, 2001 (AS RESTATED)	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization

Trading rights	$ 207	$ (28)	$ 453	$ (45)
Development rights	252	(16)	292	(9)
Emissions allowances	131	(7)	131	(4)
Other intangibles	54	(12)	59	(12)
Total other intangible assets	$ 644	$ (63)	$ 935	$ (70)

Assuming no future acquisitions, dispositions or impairments of intangible assets, amortization expense is estimated to be $25 million for the year ending December 31, 2002 and for each of the following four years.

C. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) includes unrealized gains and losses on certain derivatives that qualify as cash flow hedges and hedges of net investments, as well as the translation effects of foreign net investments. The following table sets forth the comprehensive income (loss) for the three and nine months ended September 30, 2002 and 2001 (in millions):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001
Net (loss) income	$ (1)	$ 234	$(227)	$ 538
Other comprehensive loss	(48)	(61)	(11)	(11)
Comprehensive (loss) income	$ (49)	$ 173	$(238)	$ 527

Components of accumulated other comprehensive loss consisted of the following (in millions):

BALANCE, DECEMBER 31, 2001, AS RESTATED	$ (112)
Other comprehensive income (loss) for the period:	
Net change in fair value of derivative hedging instruments, net of tax effect of $25	18
Reclassification to earnings, net of tax effect of $41 (Note G)	(48)
Cumulative translation adjustment	32
Share of affiliates' OCI	(13)
Other comprehensive loss	(11)
BALANCE, SEPTEMBER 30, 2002	$ (123)

The $123 million balance of accumulated other comprehensive loss as of September 30, 2002 includes the impact of $43 million related to interest rate hedges, $78 million related to interest rate swap breakage costs, $87 million of foreign currency translation losses and $8 million representing Mirant's share of accumulated other comprehensive loss of unconsolidated affiliates, offset by $93 million of net gains on commodity price management hedges.

Mirant estimates that $25 million ($51 million of commodity hedging gains and $26 million of interest rate hedging losses) of net derivative after-tax gains included in OCI as of September 30, 2002 will be reclassified into earnings or otherwise settled within the next twelve months as certain transactions relating to commodity contracts, foreign denominated contracts and interest payments are realized. Mirant is exposed to currency risks with its investment in CEMIG in Brazil. These risks have not been hedged due to the high cost and the uncertain effectiveness of implementing such a hedge. In December 2002, management committed to a plan to divest its investment in CEMIG. As a result, currency translation losses of approximately $84 million included in OCI will be recognized in the statement of income when evaluating the investment for impairment in the fourth quarter of 2002.

D. WRITE-DOWN OF ASSETS

As part of its strategic restructuring, Mirant sold its 49% ownership interest in WPD in September 2002. Mirant had recorded a write-down of approximately $304 million, including $13 million of related income tax benefits, during the second quarter of 2002 to reflect the difference between the carrying value of its investment and its estimated fair value. In the third quarter, Mirant recorded an additional write-down of approximately $8 million offsetting the net income recognized from its equity investment in WPD for that quarter prior to closing the sale. In the second quarter of 2001, Mirant wrote off its remaining investment in EDELNOR of $88 million ($57 million after-tax). In September 2002, Mirant recorded a write down of $61 million ($37 million after-tax) reflecting the fair market value of Mirant Americas Production Company. In November 2002, Mirant entered into an agreement to sell the assets of Mirant Americas Production Company for $150 million and in December 2002, the sale of these assets was completed. Mirant Americas Production Company is an oil and gas exploration, development and production company reported in Mirant's North America Group operations. The table below represents the components of Mirant Americas Production Company's balance sheet accounts as of September 30, 2002 (in millions):

CURRENT ASSETS:	
Risk management assets	$ 2
PROPERTY, PLANT AND EQUIPMENT	149
Total assets	$ 151
CURRENT LIABILITIES:	
Risk management liabilities	$ 1
Total liabilities	$ 1

In the quarter ended September 30, 2002, the Company assessed for impairment certain costs associated with two power islands related to its proposed development project in Europe and one power island that the Company originally intended to use as part of a development project in Korea. Based on management's current estimate of recoverability of the costs of these power islands and the related projects, an impairment loss of $153 million ($98 million after-tax) was recorded in the quarter ended September 30, 2002 (which includes the $132 million impairment loss on turbines/power islands disclosed in Note I). Approximately $6

million of project cost remains on the Company's condensed consolidated balance sheet as of September 30, 2002, which reflects management's estimate of the fair market value of these projects.

E. EARNINGS (LOSS) PER SHARE

Mirant calculates basic earnings (loss) per share by dividing the income (loss) available to common stockholders by the weighted average number of common shares outstanding. The following table shows the computation of basic earnings (loss) per share for the three and nine months ended September 30, 2002 and 2001 (in millions, except per share data). Diluted earnings (loss) per share gives effect to stock options, as well as the assumed conversion of convertible trust preferred securities and related after-tax interest expense addback to net income of approximately $4 million for the three months ended September 30, 2001 and $11 million for the nine months ended September 30, 2001. Because of the net loss for the three and nine months ended September 30, 2002, the anti-dilution provisions of SFAS No. 128, "Earnings per Share," preclude stating diluted loss per share above basic loss per share.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001
(Loss) Income from continuing operations	$ (3)	$ 230	$ (238)	$ 5
Discontinued operations	2	4	11	
Net (loss) income	$ (1)	$ 234	$ (227)	$ 5
Basic				
Weighted average shares outstanding	402.3	340.4	401.8	339
(Loss) earnings per share from:				
Continuing operations	$ (0.01)	$ 0.68	$ (0.59)	$ 1.
Discontinued operations	0.01	0.01	0.03	0.
Net (loss) income	$ (0.00)	$ 0.69	$ (0.56)	$ 1.
Diluted				
Weighted average shares outstanding		340.4		339
Shares due to assumed exercise of stock options and equivalents		2.8		2
Shares due to assumed conversion of trust preferred securities		12.5		12
Adjusted shares		355.7		355
Earnings per share from:				
Continuing operations		$ 0.66		$ 1.
Discontinued operations		0.01		0.

Net income	$ 0.67	$ 1.

F. DEBT

The following table sets forth Mirant's short-term and long-term debt as of September 30, 2002 and December 31, 2001 (in millions):

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
SHORT-TERM DEBT		
Recourse short-term debt	$ 44	$ 26
Non-recourse short-term debt	65	29
Total short-term debt	109	55
CURRENT PORTION OF LONG-TERM DEBT		
Recourse current portion of long-term debt	1,312	21
Non-recourse current portion of long-term debt	234	2,583
Total current portion of long-term debt	1,546	2,604
NOTES PAYABLE		
Recourse notes payable	895	895
Non-recourse notes payable	4,171	2,856
Total notes payable	5,066	3,751
OTHER LONG-TERM DEBT		
Recourse other long-term debt	1,582	1,825
Non-recourse other long-term debt	266	243
Total other long-term debt	1,848	2,068
TOTAL DEBT	$8,569	$8,478
TOTAL RECOURSE DEBT	$3,833	$2,767
TOTAL NON-RECOURSE DEBT	4,736	5,711
TOTAL DEBT	$8,569	$8,478

CREDIT FACILITIES

At September 30, 2002, Mirant and its subsidiaries had revolving credit facilities, included in the table above, with various lending institutions totaling approximately $3.19 billion of commitments. At September 30, 2002, commitment amounts utilized under such facilities (including drawn amounts and letters of credit) totaled $3.09 billion and were comprised of the following: commitments of $1.17 billion drawn or utilized under facilities expiring in 2003 and commitments of $1.92 billion drawn or utilized under the facilities expiring in 2004 and beyond.

In July 2002, Mirant Corporation fully drew the commitments under its $1.125 billion 364-Day Credit Facility, and elected to convert all advances outstanding into a term loan maturing in July 2003. The outstanding balance was reclassified to short-term debt. The Company is evaluating various potential financing transactions to repay and/or refinance the Facility prior to its maturity. As a result of present market conditions and other factors, including the reaudit of its historical financial statements, Mirant cannot provide assurance that it will be successful in entering into a new credit facility. If Mirant is successful in entering into a new credit facility, it expects the facility will likely be smaller and will have higher pricing and more restrictive terms than the current facility.

Except for the credit facility of Mirant Canada Energy Marketing, an indirect, wholly owned subsidiary of Mirant Corporation and the $1.125 billion 364-Day Credit Facility, which was converted into a term loan maturing in July 2003, borrowings under these facilities are recorded as long-term debt in the accompanying unaudited condensed consolidated balance sheets. The credit facilities generally require payment of commitment fees based on the unused portion of the commitments. The schedule below summarizes the revolving credit facilities held by Mirant Corporation and its subsidiaries as of September 30, 2002 (in millions).

			UTILIZED AMOUNT	LETTERS OF
	FACILITY	EXCLUDING LETTERS	CREDIT	AMOUNT
COMPANY	AMOUNT	OF CREDIT	OUTSTANDING	AVAILABLE
Mirant Corporation	$ 2,700	$ 1,551(1)	$ 1,048	$ 101
Mirant Americas Generation	300	300	--	--
Mirant Canada Energy Marketing	44	44	--	--
Mirant Americas Energy Capital	150	150	--	--
Total	$ 3,194	$ 2,045	$ 1,048	$ 101

(1) Amount includes fully drawn commitments under Mirant's $1.125 billion 364-Day Credit Facility that was converted in July 2002 to a term loan maturing in July 2003.

Each of Mirant's credit facilities contain various covenants including, among other things, (i) limitations on (a) dividends, redemptions and repurchases of capital stock, (b) the incurrence of indebtedness and liens and (c) the sale of assets, and (ii) affirmative covenants to (a) provide annual audited and quarterly unaudited financial statements prepared in accordance with US and local GAAP and (b) comply with legal

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requirements in the conduct of its business. In addition to other covenants and terms, each of Mirant's credit facilities includes minimum debt service coverage and a maximum leverage covenant. As of September 30, 2002, there were no events of default under such credit facilities.

In connection with its review of the previously disclosed accounting issues, the Company identified various errors affecting the Company's historical financial statements. The Company believes that the errors it has identified do not constitute a breach of a covenant or an event of default under its credit facilities. If the Company were in default, or the type or amount of any adjustments arising from the announced reaudit of the Company's historical financial statements were to result in an event of default under its credit facilities, the lenders would have the right to accelerate the Company's obligations under its credit facilities. Any such acceleration would trigger cross-acceleration provisions in a substantial portion of the Company's other consolidated indebtedness. In such event, the Company would be required to seek waivers or other relief from its lenders and, absent such relief, approximately $4.5 billion of the Company's consolidated debt would be classified as short-term debt and could be accelerated. Further, in the event that its lenders accelerated such indebtedness, the Company can provide no assurances that it would be able to refinance such indebtedness in the existing credit markets and would likely have to seek bankruptcy court or other protection from its creditors.

Mirant Canada Energy Marketing has extended its credit facility to June 30, 2003. The revolving credit facility of approximately $44 million (denominated as 70 million Canadian dollars) had outstanding borrowings of $44 million, at an interest rate of 3.64% at September 30, 2002. The credit facility is guaranteed by Mirant Corporation and is secured by a letter of credit in the amount of $46 million and security interests in the real and personal property of Mirant Canada Energy Marketing.

In February 2002, Mirant, Mirant Americas Energy Marketing, Perryville and the lenders under its credit facility entered into the following transactions: (i) an indirect, wholly owned subsidiary of Mirant Corporation made a subordinated loan of $48 million to Perryville, (ii) Mirant Corporation agreed to guarantee the obligations of Mirant Americas Energy Marketing under the tolling agreement, (iii) Perryville (with the consent of its lenders) and Mirant Americas Energy Marketing lowered the ratings threshold in the tolling agreement with respect to Mirant Corporation, relating to the ratings below which Mirant Americas Energy Marketing agreed to post a letter of credit or other credit support, and (iv) the parties agreed to certain additional terms in support of the syndication of the credit facility. In June 2002, Mirant completed the sale of its 50% ownership interest in Perryville to Cleco, which holds the remaining 50% ownership interest in Perryville. Cleco assumed Mirant's $13 million future equity commitment to Perryville and paid approximately $55 million in cash to Mirant as repayment of its subordinated loan, invested capital to date and other miscellaneous costs. In connection with the existing project financing, Mirant agreed to make a $25 million subordinated loan to the project. In addition, Mirant retains certain obligations as a project sponsor, some of which are subject to indemnification by Cleco. Effective August 23, 2002, Mirant Americas Energy Marketing and Perryville, with the consent of the project lenders, restructured the tolling agreement between the parties to remove the requirement to post a letter of credit or other credit support in the event of a downgrade from S&P or Moody's. In connection with its operational restructuring, Mirant Americas made a $100 million subordinated loan to Perryville, the proceeds of which were used to repay the existing $25 million subordinated loan owed to a Mirant subsidiary and to repay $75 million of senior debt of the project. In addition, Mirant Americas guaranteed the obligations of Mirant Americas Energy Marketing under the tolling agreement up to the amount of the subordinated loan. The obligations of Mirant Americas Energy Marketing under the tolling agreement continue to be guaranteed by Mirant Corporation.

As discussed below in Note I "Commitments and Contingent Matters - Turbine Purchases and Other Construction-Related Commitments" Mirant negotiated deferrals of the shipment dates of certain turbines under both equipment procurement facilities as part of the March 2002 Plan, and additionally made unreimbursed direct payments to vendors related to certain turbines/power islands in the equipment procurement facilities. Consequently, Mirant has included a $225 million liability for these turbines (equal to the costs incurred to date in constructing these turbines) as of September 30, 2002, of which $40 million

is reported as "Other long-term debt" and $185 million is reported in "Current portion of long-term debt" on the accompanying unaudited condensed consolidated balance sheet at September 30, 2002.

In the fourth quarter of 2002, Mirant has negotiated deferrals of the shipment dates and made unreimbursed direct payments to vendors for certain other turbines, and will be recognizing approximately $79 million additional "Current portion of long-term debt" and approximately $31 million additional "Other long-term debt" on its balance sheet as of December 31, 2002.

On January 23, 2002, Mirant Asia-Pacific, an indirect, wholly owned subsidiary of Mirant Corporation, borrowed $192 million under a new credit facility to repay, in part, its prior $792 million credit facility. The repayment of the balance of the prior credit facility was funded by Mirant Corporation. In March 2002, Mirant Asia-Pacific secured a second tranche of $62 million which has been used to repay part of the funding from Mirant Corporation. The new credit facility contains various business and financial covenants including, among other things, (i) limitations on dividends and distributions, including a prohibition on dividends if Mirant ceases to be rated investment grade by at least two of Fitch, S&P and Moody's, (ii) mandatory prepayments upon the occurrence of certain events, including certain asset sales and certain breaches of the Sual and the Pagbilao energy conversion agreements, (iii) limitations on the ability to make investments and to sell assets, (iv) limitations on transactions with affiliates of Mirant and (v) maintenance of minimum debt service coverage ratios. As a result of the October 2002 downgrades by Fitch and Moody's, Mirant Asia-Pacific is prohibited under the terms of its credit facility from making distributions to Mirant Corporation. However, in connection with the sale of the Shajiao C power project discussed in Note H, the Company expects to repay the Mirant Asia-Pacific credit facility.

CONVERTIBLE SENIOR NOTES

In July 2002, Mirant Corporation completed the issuance of $370 million of convertible senior notes. The net proceeds from the offering, after deducting underwriting discounts and commissions payable by Mirant, were $361 million.

The notes mature on July 15, 2007 with an annual interest rate of 5.75%. Holders of the notes may convert their notes into 131.9888 shares of Mirant common stock for each $1,000 principal amount of the notes at any time prior to July 15, 2007. This conversion rate is equivalent to the initial conversion price of $7.58 per share based on the issue price of the notes. Mirant has the right to redeem for cash, some or all of the notes at any time on or after July 20, 2005, upon not less than 30 nor more than 60 days' notice by mail to holders of the notes, for a price equal to 100% of the principal amount of the notes to be redeemed plus any accrued and unpaid interest to the redemption date.

G. FINANCIAL INSTRUMENTS

ENERGY MARKETING AND RISK MANAGEMENT ACTIVITIES

Mirant provides energy marketing and risk management services to its customers in the North American markets. These services are provided through a variety of exchange-traded and OTC energy and energy-related contracts, such as forward contracts, futures contracts, option contracts and financial swap agreements.

These contractual commitments are presented as energy marketing and risk management assets and liabilities in the accompanying unaudited condensed consolidated balance sheets and are accounted for using the mark-to-market method of accounting in accordance with SFAS No. 133 and EITF Issue 98-10. Accordingly, they are reflected at fair value in the accompanying unaudited condensed consolidated balance sheets. The net changes in their market values are recognized in income in the period of change. Attention is drawn to "Accounting Changes" in Note A - Accounting and Reporting Policies, where the EITF reached consensus on certain issues related to EITF Issue 02-3, under EITF Issues 98-10 and 00-17, "Measuring the

Fair Value of Energy-Related Contracts in Applying Issue 98-10." EITF Issues 98-10 and 00-17 address various aspects of the accounting for contracts involved in energy trading and risk management activities.

The Company, through its energy marketing and risk management operations, engages in risk management activities with counterparties. All such transactions and related expenses are recorded on a trade-date basis. Financial instruments and contractual commitments related to these activities are accounted for using the mark-to-market method of accounting. Under the mark-to-market method of accounting, financial instruments and contractual commitments are recorded at fair value in the accompanying unaudited condensed consolidated balance sheets. The determination of fair value considers various factors, including closing exchange or over-the-counter market price quotations, time value and volatility factors underlying options and contractual commitments.

During the first quarter of 2002, Mirant substantially exited its European trading and marketing business. The volumetric weighted average maturity, or weighted average tenor of the North American portfolio, at September 30, 2002 was 2.9 years. The net notional amount, or net open position, of the energy marketing and risk management assets and liabilities at September 30, 2002 was approximately 3 million equivalent megawatt-hours. The notional amount is indicative only of the volume of activity and not of the amount exchanged by the parties to the financial instruments. Consequently, these amounts are not a measure of market risk.

Certain financial instruments that Mirant uses to manage risk exposure to energy prices for its North American generation portfolio do not meet the hedge criteria under SFAS No. 133 and therefore, the fair values of these instruments are included in energy marketing and risk management assets and liabilities in the accompanying unaudited condensed consolidated balance sheets.

The fair values and average values of Mirant's energy marketing and risk management assets and liabilities as of September 30, 2002, net of credit reserves, are included in the following table (in millions). The average values are based on a monthly average for 2002.

	ENERGY MARKETING AND RISK MANAGEMENT ASSETS		ENERGY MARKETING AND RISK MANAGEMENT LIABILITIES	
	AVERAGE	VALUE AT SEPTEMBER 30,	AVERAGE	VALUE AT SEPTEMBER 30,

	VALUE	2002	VALUE	2002
Energy commodity instruments:				
Electricity	$ 479	$ 345	$ 388	$ 285
Natural gas	1,121	1,559	1,235	1,519
Crude oil	20	32	15	30
Other	51	(3)	32	6
Total	$ 1,671	$ 1,933	$ 1,670	$ 1,840

In October 2001, the Company entered into a prepaid gas transaction with a counterparty and a simultaneous natural gas swap with a third-party independent to the prepaid gas transaction. The prepaid gas transaction resulted in the receipt of payments in 2001 in exchange for financial settlements to be made over a future three-year period. Approximately 10% of the contract notional quantity will settle in 2002, 10% in 2003 and the remaining 80% will settle in 2004 based on fixed notional quantities of gas defined in the agreement at the natural gas index prices on the date of each settlement. The natural gas swap served to fix the price of the gas to be settled under the prepaid gas agreement. At the date the transaction was consummated, the notional fixed future natural gas settlements totaled approximately $250 million and the fair value of such gas settlements was approximately $225 million.

DERIVATIVE HEDGING INSTRUMENTS

Mirant uses derivative instruments to manage exposures arising from changes in interest rates, commodity prices and foreign currency exchange rates. Mirant's objectives for holding derivatives are to

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minimize these risks using the most effective methods to eliminate or reduce the impacts of these exposures and to provide a measure of stability to the Company's cash flows in a time of volatile changes.

Derivative gains and losses arising from cash flow hedges that are included in OCI are reclassified into earnings in the same period as the settlement of the underlying transaction. After-tax derivative net gains of $18 million and $48 million during the three and nine months ended September 30, 2002, respectively, were reclassified as follows (in millions):

	THREE MONTHS ENDED SEPTEMBER 30, 2002	NINE MONTHS ENDED SEPTEMBER 30, 2002
Reclassified to operating income	$ 48	$ 119
Reclassified to interest expense	(9)	(30)
Tax provision	(21)	(41)
Net reclassification to earnings (Note C)	$ 18	$ 48

The derivative gains and losses reclassified to earnings were partly offset by realized gains and losses arising from the settlement of the underlying physical transactions being hedged. Under SFAS No. 133, transactions may meet the requirements for hedge treatment but may be less than 100% effective. For example, a derivative instrument specifying one commodity delivery location may be used to hedge a risk at a different commodity delivery location. The price differential between the two locations is considered the ineffective portion of the hedge. Any changes in the fair value of the ineffective portion must be recorded currently in earnings. During the three and nine months ended September 30, 2002, $1 million of pre-tax losses and $9 million of pre-tax losses, respectively, arising from hedge ineffectiveness were recognized in other expense. In addition, a $4 million pre-tax loss in both the three and nine months ended September 30, 2002 arising from hedge ineffectiveness was recognized in "Cost of fuel, electricity and other products, excluding depreciation." The maximum term over which Mirant is hedging exposures to the variability of cash flows is through 2012.

Interest Rate Hedging

Mirant's policy is to manage its exposure to interest rates by using a combination of fixed- and variable-rate debt. To manage this mix in a cost-efficient manner, Mirant enters into interest rate swaps in which it agrees to exchange, at specified intervals, the difference between fixed- and variable-interest amounts calculated by reference to agreed-upon notional principal amounts. Swaps that fix the interest rate exposure of variable-rate debt and qualify for hedge treatment are treated as cash flow hedges, where the changes in the fair value of gains and losses of the swaps are deferred in OCI, net of tax, and the interest rate differential is reclassified from OCI to interest expense over the life of the swaps. Gains and losses resulting from the termination of qualifying cash flow hedges prior to their stated maturities are recognized ratably over the original remaining life of the hedging instrument, provided the underlying hedged transactions are still probable. Otherwise, the gains and losses will be recorded currently in earnings. Swaps that hedge underlying fixed-rate debt and qualify for hedge treatment are treated as fair value hedges, where the changes in the fair value of gains and losses of the swaps are recognized currently in interest expense together with the changes in the fair value of the hedged debt. Mirant currently only utilizes cash flow hedges.

Commodity Price Hedging

Mirant enters into commodity financial instruments and other contracts in order to hedge its exposure to market prices for electricity expected to be produced by its generation assets. These contracts are primarily physical forward sales but may also include options and other financial instruments. Mirant also uses commodity financial instruments and other contracts to hedge its exposure to market prices for natural gas, coal and other fuels expected to be utilized by its generation assets. These contracts primarily include futures, options, and swaps. Where these contracts are derivatives and are designated as cash flow hedges,

the gains and losses are deferred in OCI and are then recognized in earnings in the same period as the settlement of the underlying physical transaction.

At September 30, 2002, Mirant had a net commodity derivative hedging asset of approximately $142 million. The fair value of its commodity derivative hedging instruments is determined using various factors, including closing exchange or over-the-counter market price quotations, time value and volatility factors underlying options and contractual commitments.

At September 30, 2002, these contracts relate to periods through 2010. The net notional amount, or net open position, of the derivative hedging instruments at September 30, 2002 was 3 million equivalent megawatt-hours. The notional amount is indicative only of the volume of activity and not of the amount exchanged by the parties to the financial instruments. Consequently, this amount is not a measure of market risk.

Power sales agreements and other contracts that are used to mitigate exposure to commodity prices but which either do not meet the definition of a derivative or are excluded under certain exceptions under SFAS No. 133 are not included in derivative hedging instruments in the accompanying unaudited condensed consolidated balance sheets.

Foreign Currency Hedging

From time to time, Mirant uses cross-currency swaps and currency forwards to hedge its net investments in certain foreign subsidiaries. Gains or losses on these derivatives designated as hedges of net investments are reflected in OCI, net of tax, and net of the translation effects.

Mirant also utilizes currency forwards intended to offset the effect of exchange rate fluctuations on forecasted transactions arising from contracts denominated in a foreign currency. From time to time, Mirant utilizes cross-currency swaps that not only offset the effect of exchange rate fluctuations on the hedged principal amount of the foreign currency denominated debt, but also fix the interest expense arising from that hedged debt. Mirant designates currency forwards as hedging instruments used to hedge the impact of the variability in exchange rates on accounts receivable denominated in certain foreign currencies. When these hedging strategies qualify as cash flow hedges, the gains and losses on the derivatives are deferred in OCI, net of tax, until the forecasted transaction affects earnings. The reclassification is then made from OCI to earnings to the same revenue or expense category as the hedged transaction.

Interest Rate and Currency Derivatives

The interest rates noted in the following table represent the range of fixed interest rates that Mirant pays on the related interest rate swaps. On all of these interest rate swaps, Mirant receives floating interest rate payments at LIBOR. The currency derivatives mitigate Mirant's exposure arising from certain foreign currency transactions, such as cross border sales.

TYPE	YEAR OF MATURITY OR TERMINATION	INTEREST RATES	NUMBER OF COUNTERPARTIES	NOTIONAL AMOUNT (IN
Interest rate swaps	2003-2012	3.85%-7.12%	3	$549
Currency swaps	2003	--	1	CAD$8

CAD - Denotes Canadian dollar

Canadian dollar contracts with a notional amount of CAD$266 million are included in fair value of energy marketing and risk management liabilities because hedge accounting criteria are not met. As of September 30, 2002, the unrealized loss was $3 million.

The unrealized gain/loss for interest rate swaps is determined based on the estimated amount that Mirant would receive or pay to terminate the swap agreement at the reporting date based on third-party quotations. The unrealized gain/loss for currency forwards is determined based on current foreign exchange rates.

H. BUSINESS DEVELOPMENTS

MODIFICATION OF BUSINESS STRATEGY

As a result of the ongoing downward trend in market conditions, the Company has modified its business strategy to focus on its North American, Caribbean and Philippines operations. As part of this new focus, the Company will continue to reduce the level of its trading and marketing activity, particularly with respect to physical natural gas, as well as continue its asset sales program. As a result of this contraction, the Company expects to record additional restructuring charges upon completion of the next phase of the restructuring plan.

Additionally, in 2002, the Company adopted SFAS No.'s 141, 142 and 144. These new pronouncements, among other things, change the accounting model for recognizing impairments of the carrying value of assets held for use and held for sale, as well as the carrying value of goodwill and other intangible assets. The Company's announced asset sale program, as well as overall conditions affecting the Company and its sector, may materially impact the fair values of its property plant and equipment, its construction work in progress, its investment in suspended construction, its goodwill and its other intangible assets. Management does not currently believe that this reduction in fair value will result in an impairment of its goodwill. The Company will complete the annual assessment of the carrying values of its goodwill in early 2003, after completing its annual planning process for 2003. This process provides management with the best information from which to analyze the goodwill for impairment. Currently, Mirant does not believe that its "Investment in suspended construction" is subject to an impairment loss under SFAS No. 144.

Asset Sales

In February 2002, Mirant completed the sale of its 44.8% interest in Bewag for approximately $1.63 billion. Mirant received approximately $1.06 billion in net proceeds after repayment of approximately $550 million in related debt. The gain on the sale of Mirant's investment in Bewag was $290 million ($167 million after-tax) and is included in "Other (expense) income, net -- Gain/(loss) on sales of assets, net" on Mirant's accompanying unaudited condensed consolidated statements of income. The net proceeds were used for general corporate purposes, capital expenditures and repayment of certain drawn balances on revolving credit facilities.

In May 2002, Mirant completed the sale of its 60% ownership interest in the Kogan Creek power project, located near Chinchilla in southeast Queensland, Australia, and associated coal deposits for approximately $29 million. The gain on the sale of Mirant's investment in Kogan Creek was approximately $26 million ($17 million after-tax) and is included in "Gain on sales of assets, net" on Mirant's accompanying unaudited condensed consolidated statements of income.

In May 2002, Mirant completed the sale of its 9.99% ownership interest in SIPD, located in the Shandong Province, China, for approximately $120 million. The loss on the sale of Mirant's investment in SIPD was approximately $10 million ($9 million after-tax) and is included in "Other (expense) income, net -- Gain/(loss) on sales of assets, net" on Mirant's accompanying unaudited condensed consolidated statements of income.

In June 2002, Mirant completed the sale of its State Line generating facility for approximately $181 million plus an adjustment for working capital. The asset was sold at approximately book value.

In June 2002, Mirant completed the sale of its 50% ownership interest in Perryville to Cleco, which holds the remaining 50% ownership interest in Perryville. Cleco assumed Mirant's $13 million future equity commitment to Perryville and paid approximately $55 million in cash to Mirant as repayment of its subordinated loan, invested capital to date and other miscellaneous costs. The investment was sold at approximately book value based on the value of the investment at the date of sale. At such time, in connection with the existing project financing, Mirant agreed to make a $25 million subordinated loan to the project. In addition, Mirant retains certain obligations as a project sponsor, some of which are subject to indemnification by Cleco. The obligations retained by Mirant and not subject to indemnity relate primarily to the existing 20-year tolling agreement with Mirant Americas Energy Marketing as described in Note I. Effective August 23, 2002, Mirant Americas Energy Marketing and Perryville, with the consent of the project lenders, restructured the tolling agreement between the parties to remove the requirement to post a letter of credit or other credit support in the event of a downgrade from S&P or Moody's. In connection with the restructuring, Mirant Americas made a $100 million subordinated loan to Perryville, the proceeds of which were used to repay the existing $25 million subordinated loan owed to a Mirant subsidiary and to repay $75 million of senior debt of the project. In addition, Mirant Americas guaranteed the obligations of Mirant Americas Energy Marketing under the tolling agreement up to the amount of the subordinated loan. The obligations of Mirant Americas Energy Marketing under the tolling agreement are guaranteed by Mirant Corporation.

In July 2002, Mirant announced that it had entered into an agreement to sell its Neenah generating facility to Alliant Energy Resources, Inc. for approximately $109 million. The sale of Mirant's investment in Neenah will approximate book value. The sale is expected to close in the first quarter of 2003.

In August 2002, Mirant completed the sale of its wholly owned subsidiary MAP Fuels Limited, which wholly owned AQC, in Queensland, Australia, for approximately $21 million. The asset was sold at approximately book value. The sale included both the Wilkie Creek Coal Mine and the Horse Creek coal deposits.

In September 2002, Mirant completed the sale of its 49% economic interest in Western Power Distribution Holdings Limited and WPD Investment Holdings (both identified jointly as WPD) for approximately $235 million. As a result of the announced sale in the second quarter of 2002, Mirant recorded a write-down of its investment in WPD by approximately $317 million ($304 million after-tax) which is included in "Impairment loss on minority owned affiliates" on Mirant's accompanying unaudited condensed consolidated statements of income. Upon completion of the sale, in the third quarter of 2002, Mirant recorded a loss of $4 million ($1 million after-tax) on the sale of this investment. The WPD assets include the electricity distribution networks for Southwest England and South Wales.

In November 2002, Mirant entered into an agreement to sell the assets of Mirant Americas Production Company for $150 million and in December 2002, the sale of these assets was completed. Mirant Americas Production Company is an oil and gas exploration, development and production company reported in Mirant's North America Group operations.

On December 20, 2002, certain subsidiaries of Mirant entered into a share sale agreement with China Resources Power Holdings Co. Ltd, to sell its indirect 33% interest in the 1,980 MW Shajiao C power project (Guangdong Province, China) for $300 million. Mirant expects to record a gain on the sale. The transaction is expected to close by the end of 2002. In connection with the sale, Mirant expects to repay the approximately $254 million balance under the credit facility for Mirant Asia-Pacific. Repayment of the credit facility will eliminate the existing prohibition on distributions included therein.

Suspended Construction

The table below presents the suspended construction projects included in "Investment in suspended construction" which is classified as property, plant and equipment on Mirant's condensed consolidated balance sheet at September 30, 2002 (in millions):

Mirant Wyandotte, LLC	$ 198
Mirant Bowline, LLC	200
Mint Farm Generation, LLC	162
Mirant Delta, LLC	170
Other	2
Total	$ 732

Restructuring Charges

As a result of changing market conditions including constrained access to capital markets attributable primarily to the Enron bankruptcy and Moody's December 2001 downgrade of Mirant's credit rating, in March 2002, Mirant adopted the March 2002 Plan to restructure its operations by exiting certain business operations (including its European trading and marketing business), canceling and suspending planned power plant developments, closing business development offices and severing employees. During the three and nine months ended September 30, 2002, Mirant recorded pre-tax restructuring charges of $8 million and $598 million, respectively.

During the three and nine months ended September 30, 2002, Mirant recorded the following components of the restructuring charges, respectively (in millions):

	THREE MONTHS ENDED SEPTEMBER 30, 2002*	NINE EN SEPTEM 20
Write-downs of work in progress and progress payments on Equipment	$ --	$2
Costs to cancel equipment orders and service agreements per contract terms	(6)	2
Severance of approximately 575 employees worldwide and other employee termination-related charges	10	
Costs incurred to suspend construction projects in progress	4	

Total	$ 8	$5

* Net of adjustments

Mirant anticipates that it will record additional restructuring charges related to the March 2002 Plan by the end of the first quarter of 2003. These costs are associated with additional employee severance and related costs to be incurred in the near future. As of September 30, 2002, Mirant has terminated approximately 525 employees as part of its restructuring. At September 30, 2002, Mirant's restructuring accrual balance was approximately $197 million. During the nine months ended September 30, 2002, Mirant adjusted the accrual as a result of revisions to restructuring estimates (primarily relating to European and domestic office closures and adjustments to equipment termination costs) and made payments against the accrual as summarized in the following table (in millions):

	INITIAL ACCRUAL	ADJUSTMENTS (P & L IMPACT) INCREASES	DECREASES	CASH PAYMENTS	OT ADJUS
Costs to cancel equipment and projects	$ 256	$ --	$ (6)	$ (37)	$
Costs to sever employees and other employee-termination related costs	24	18	(15)	(14)	
Total	$ 280	$ 18	$ (21)	$ (51)	$

As discussed above, continuing modifications of Mirant's business strategy during 2002 are likely to result in restructuring charges beyond those contemplated in the March 2002 Plan.

Commencement of Operation

In June 2002, the Ilijan facility located in the Philippines, in which Mirant has a 20% ownership interest, commenced commercial operations.

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In June 2002, the Ilijan facility located in the Philippines, in which Mirant has a 20% ownership interest, commenced commercial operations.

In July 2002, Mirant commenced operation of the second phase at its Zeeland, Michigan generating plant, operation at its Wrightsville, Arkansas generating plant and operation of the first phase at its Sugar Creek generating plant near Terre Haute, Indiana. Upon completion of the projects, $678 million in costs were transferred from "Construction work in progress" to "Property, plant and equipment."

In December 2002, the Company commenced operation of its expansion project at its Kendall facility located in Cambridge, Massachusetts.

Pagbilao Put Options

The Pagbilao project ("MPagC") shareholder agreement grants minority shareholders put option rights, such that they can require Mirant Asia-Pacific Limited and/or its subsidiaries to purchase their interests in the project. The put option can be exercised (i) between August 5, 2002 and August 5, 2008, the sixth and twelfth anniversaries of the completion of the project construction or, (ii) in the event of any change in control, a change in MPagC's charter documents or the transfer of sponsor in violation of the sponsor completion support agreement. The put option may be exercised on the earlier of the date of such changes/events or August 5, 2008, the twelfth anniversary of the completion of project construction. The price would be determined by a formula including the discounted future annual net cash flow less the total liabilities outstanding plus the current assets as of the date of the put notice. Discounted future annual net cash flow is comprised of capacity and energy fees less operating and maintenance costs less capital expenditures. If, at any time, MPagC proposes to transfer shares to any proposed transferee (other than in a public offering), MPagC shall afford each of the minority shareholders the opportunity to participate proportionately in such stock transfer. Two of the three Pagbilao project minority shareholders have served notice to exercise their respective put options, collectively representing an 8.52% ownership interest in the project. The current intent of Mirant is to fund the purchase of these interests during the first quarter of 2003 with amounts available at Mirant Asia-Pacific Limited and/or its subsidiaries.

I. COMMITMENTS AND CONTINGENT MATTERS

LITIGATION AND OTHER CONTINGENCIES

With respect to each of the following matters, the Company cannot currently determine the outcome of the proceedings or the amounts of any potential losses from such proceedings.

Western Power Markets Investigations: Several governmental entities have launched investigations into the western power markets, including activities by Mirant and several of its wholly owned subsidiaries. Those governmental entities include the FERC, the U.S. Department of Justice, the CPUC, the California Senate, the California State Auditor, California's Electricity Oversight Board, the General Accounting Office of the U.S. Congress, the San Joaquin District Attorney and the Attorney General's offices of Washington, Oregon and California. These investigations, some of which are civil and some cri