KGen Power Corporation

February 14, 2013

To the Stockholders of KGen Power Corporation,

On February 7, 2013, at our annual meeting of stockholders, our stockholders approved the proposed dissolution of the Company. As discussed in the proxy statement for the annual meeting, in order to maximize the amount of cash available for distributions to our stockholders, we will no longer prepare the full quarterly and annual reports we previously provided to our stockholders. Instead, we intend to post to our website (www.kgenpower.com) the following:

- within 45 days after each fiscal quarter ending before the effective date of the dissolution of the Company (other than the last fiscal quarter of our fiscal year), summary unaudited consolidated financial statements for that fiscal quarter; and

- within 90 days after the end of our June 30, 2013 fiscal year and within 90 days after the effective date of the dissolution of the Company, audited consolidated financial statements for that fiscal year (or the period from the end of the prior fiscal year until the effective date of the dissolution).

In that connection, attached please find unaudited financial statements for the Company as of December 31, 2012 and for the fiscal period than ended. We note that, although the attached financial statements contain footnotes, consistent with the discussion in the proxy statement, we intend to omit footnotes from unaudited financial information prepared for future fiscal periods, in order to limit the expenses we will incur in connection with the preparation of our financial statements.

We currently estimate that the Company or the liquidating trust expected to be established in connection with the dissolution, which is more fully described in our annual meeting proxy statement, will make future distributions to stockholders from the proceeds released from the escrows established pursuant to the transaction agreements we entered into in connection with our sale of our Hinds and Hot Spring facilities, as follows:

- $0.40 per share shortly after receipt of the first installment under the escrow, expected to be released in December 2013;

- $0.30 per share shortly after receipt of the second installment under the escrow, expected to be released in June 2014; and

- $0.45 per share shortly after receipt of the third installment under the escrow, expected to be released in May 2016.

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The foregoing is based on the current estimates of the management of the Company. The amount of cash ultimately distributed, and the timing of those distributions, will depend on the extent, if any, to which the Company becomes subject to claims for indemnification under the transaction agreements and the amount of escrowed funds ultimately released to the Company. In addition, the amount of cash ultimately distributed will be reduced by, and the timing of such distributions may be delayed on the account of, any liabilities, obligations and expenses and claims against the company or the liquidating trust, and contingency reserves that may be established by the board of directors of the Company or the trustees of the liquidating trust.

If you have any questions about the attached financial statements, the dissolution or the transaction agreements, you may contact the Company at (713) 979-1990.

The Board of KGen Power Corporation

Daniel T. Hudson (Chairman)
Thomas B. White

KGEN POWER CORPORATION

Report to Shareholders

for

Quarter Ended December 31, 2012

Four Oaks Place
1330 Post Oak Boulevard, Suite 1500
Houston, Texas 77056

Investor Relations
713-979-1990

KGen Power Corporation

Condensed Consolidated Balance Sheets

(in thousands, except per share amounts)

(unaudited)

	December 31, 2012	June 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	**$ 77,859**	$ 69,174
Restricted cash and cash equivalents	**—**	43,384
Restricted cash in escrow	**22,000**	79,694
Accounts receivable	**15**	12
Prepaid expenses and other current assets	**2,286**	237
Assets held for sale	**—**	260,292
Total current assets	**102,160**	452,793
Property, plant, and equipment	**3,488**	3,488
Less: accumulated depreciation	**3,028**	2,936
Net property, plant, and equipment	**460**	552
Restricted cash in escrow	**46,000**	—
Other noncurrent assets	**105**	—
Deferred tax assets	**—**	10,354
Total assets	**$ 148,725**	$ 463,699
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 65,568**	$ 1,494
Deferred tax liabilities	**1,838**	—
Liabilities associated with assets held for sale	**—**	19,163
Total current liabilities	**67,406**	20,657
Deferred tax liability	**4,727**	—
Other noncurrent liabilities	**2**	6
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Common stock (par value $.01; 150,000 shares authorized; 56,212 and 56,129 shares issued and outstanding at December 31, 2012 and June 30, 2012, respectively.)	**562**	561
Additional paid in capital	**—**	463,472
Retained earnings (accumulated deficit)	**76,028**	(20,997)
Total stockholders' equity	**76,590**	443,036
Total liabilities and stockholders' equity	**$ 148,725**	$ 463,699

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

KGen Power Corporation

Condensed Consolidated Statements of Operations

(in thousands, except per share amounts)

(unaudited)

	For the Three Months Ended December 31, 2012	For the Three Months Ended December 31, 2011	For the Six Months Ended December 31, 2012	For the Six Months Ended December 31, 2011
Revenues:				
Energy sales	**$ (8)**	$ 6,019	**$ 17,981**	$ 39,266
Capacity sales	**—**	248	**5,684**	6,837
Total revenues	**(8)**	6,267	**23,665**	46,103
Operating expenses:				
Cost of fuel	**(32)**	5,005	**14,982**	34,279
Operating and maintenance	**3,348**	4,251	**5,794**	7,494
Gas transportation	**1,606**	2,411	**4,675**	5,479
Selling, general, and administrative	**2,702**	2,193	**4,844**	4,724
Depreciation	**45**	152	**92**	306
Auxiliary power	**481**	637	**1,143**	1,591
Insurance	**348**	461	**842**	952
Total operating expenses	**8,498**	15,110	**32,372**	54,825
Operating loss	**(8,506)**	(8,843)	**(8,707)**	(8,722)
Other income (expenses):				
Net gain on sale of assets	**209,640**	—	**209,640**	—
Taxes, other than income taxes	**(893)**	(712)	**(2,364)**	(2,014)
Other	**40**	(63)	**(20)**	(103)
Total other income (expenses)	**208,787**	(775)	**207,256**	(2,117)
Net income (loss) before taxes	**200,281**	(9,618)	**198,549**	(10,839)
Income tax (expense) benefit	**(82,100)**	3,727	**(81,066)**	4,301
Net income (loss)	**$ 118,181**	$ (5,891)	**$ 117,483**	$ (6,538)
Net earnings (loss) per share – basic and diluted	**2.10**	(0.10)	**2.09**	(0.12)
Weighted average shares outstanding—basic	**56,153**	56,122	**56,141**	56,122
Weighted average shares outstanding—diluted	**56,156**	56,122	**56,141**	56,122

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

KGen Power Corporation

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	For the Six Months Ended December 31, 2012	For the Six Months Ended December 31, 2011
Cash flows from operating activities		
Net income (loss)	**$ 117,483**	$ (6,538)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net gain on sale of assets	**(209,640)**	—
Depreciation	**92**	306
Stock-based compensation	**(108)**	208
Income on investment in restricted cash in escrow	**—**	(1)
Deferred tax assets and liabilities	**17,197**	(4,237)
Changes in operating assets and liabilities:		
Accounts receivable	**2,469**	4,994
Spare parts inventories	**4**	(93)
Prepaid expenses and other current assets	**(2,049)**	5,664
Other noncurrent assets	**140**	—
Accounts payable and accrued liabilities	**56,584**	261
Other noncurrent liabilities	**(4)**	(3)
Net cash (used in) provided by operating activities	**(17,832)**	561
Cash flows from investing activities		
Purchases of property, plant, and equipment	**(78)**	(2,022)
Disposals of property, plant, and equipment	**97**	—
Sale of assets	**455,520**	—
Change in short-term investments	**—**	4,005
Use of restricted cash and cash equivalents	**43,384**	—
Investment in restricted cash in escrow	**11,694**	—
Net cash provided by investing activities	**510,617**	1,983
Cash flows from financing activity		
Distribution to stockholders	**(484,100)**	—
Net cash used in financing activity	**(484,100)**	—
Increase in cash and cash equivalents	**8,685**	2,544
Cash and cash equivalents at beginning of period	**69,174**	89,442
Cash and cash equivalents at end of period	**$ 77,859**	$ 91,986
Noncash transactions		
Accounts payable related to purchases of property, plant, and equipment	**$ 58**	$ 2,872

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

KGen Power Corporation

Notes to Unaudited Condensed Consolidated Financial Statements

1. Nature of Business and Significant Accounting Policies

Operations—KGen Power Corporation (the “Company”) was incorporated in Delaware on December 4, 2006, which is the date of its inception. The Company owned and operated electric power generation plants and sold electricity and electrical generation capacity in the United States to wholesale purchasers such as retail electric providers, power trading organizations, municipal utilities, electric power cooperatives, and other power generation companies. As of December 31, 2012, the Company no longer owned or operated any power generation plants. The last two operational and fully permitted combined-cycle power plants (Hot Spring and Hinds) were sold November 30, 2012 (See Note 8).

Interim Financial Statements—The accompanying condensed consolidated financial statements have been prepared in accordance with the regulations regarding interim financial reporting. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The balance sheet as of June 30, 2012 reflected herein is derived from the Consolidated Financial Statements and Notes included in the Company’s Annual Report for the year ended June 30, 2012. These condensed consolidated financial statements included herein should be read in conjunction with those Consolidated Financial Statements and Notes.

Use of Estimates—The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Such estimates include the utilization of deferred tax assets and share-based compensation. Actual results could differ from these estimates.

Principles of Consolidation—The condensed consolidated financial statements include the accounts of the Company and those of KGen Partners LLC, KGen Power Management Inc., KGen LLC, KGen Murray LLC, KGen Hot Spring LLC, KGen Hinds LLC, and KGen Acquisition I LLC, all direct or indirect 100% owned subsidiaries of the Company, as well as any variable interest entities for which the Company is the primary beneficiary during which those entities were owned. All significant intercompany balances and transactions have been eliminated in consolidation.

Effects of Seasonality—The electric power industry is highly seasonal. In the summer months, especially in the southeastern United States, demand for electricity is usually much higher as a result of increased use of air conditioning. The Company’s results of operations were subject to seasonal variations since demand for electricity and production varies with weather conditions. The Hinds and Hot Spring plants operated on a merchant basis without long-term purchase agreements, and therefore were exposed to significant volatility in prices and generation demand. The Company earned the majority of its annual revenues in the five summer months, May through September. The shoulder periods, months other than the peak summer months, historically were not profitable for the Company and are typically the months during which the Company seeked to perform scheduled maintenance-related activities.

Fair Value of Financial Instruments—The Company’s current financial instruments consisted primarily of cash and cash equivalents, restricted cash and cash equivalents, restricted cash in escrow, accounts receivable, and accounts payable and accrued liabilities. The carrying values are representative of their respective fair value due to the short-term nature of these instruments.

2. Property, Plant, and Equipment

Property, plant, and equipment consists of the following (in thousands of dollars):

	Estimated Useful Life	December 31, 2012	June 30, 2012
Systems and equipment	3-6 years	$ 3,488	$ 3,488
Less: accumulated depreciation		3,028	2,936
Net property, plant, and equipment		$ 460	$ 552

On November 30, 2012, the Company sold the assets of the Hinds and Hot Spring power generation facilities (See Note 8).

3. Restricted Cash and Cash Equivalents and Restricted Cash in Escrow

This footnote should be read in conjunction with Note 3—Restricted Cash and Cash Equivalents and Restricted Cash in Escrow of the Notes to the Consolidated Financial Statements contained in the Annual Report for the year ended June 30, 2012.

There were zero and $43.4 million of outstanding letters of credit issued under the Company's $75.0 million letter of credit facility, at December 31, 2012 and June 30, 2012, respectively. The balance was recorded in restricted cash and cash equivalents. The letters of credit issued under this facility supported obligations associated with the long-term gas transportation contracts at the Hinds and Hot Spring facilities. Due to the sale of the facilities on November 30, 2012, the Company terminated their cash collateralized letter of credit facilities. Fees related to this letter of credit facility were expensed as incurred and totaled $0.1 million and $0.2 million for the three and six months ended December 31, 2012 and $0.1 and $0.2 for the three and six months ended December 31, 2011.

There was $68.0 million and $79.7 million in restricted cash in escrow at December 31, 2012 and June 30, 2012, respectively. The $68.0 million balance was placed in escrow to secure any potential indemnity claims that may result from the Company's sale of the Hinds and Hot Spring facilities. The balance is comprised of $22.0 million, which will be released in one year and is classified in current assets on the balance sheet, and the remaining $46.0 million which will be released after one year and is classified in long-term assets on the balance sheet. The escrow balance of $79.7 million related to the Murray facility sale and was released on October 9, 2012.

4. Commitments and Contingencies

Litigation—The Company may be a party to various legal and regulatory actions arising in the normal course of business. Matters that are probable of unfavorable outcome to the Company and which can be reasonably estimated are accrued.

Commitments—The Company entered into long-term contractual arrangements for power purchases and capacity sales and to procure fuel and transportation services. Significant changes to these commitments related to the sale of the Hinds and Hot Spring facilities on November 30, 2012 are discussed in the Asset Sale and Assets Held for Sale Footnote (See Note 8).

5. Net Income (Loss) per Share

Basic income (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Due to the net income for the three and six months ended December 31, 2012, diluted earnings per share was calculated by adjusting the weighted average number of shares of common stock outstanding by the dilutive effect of incremental shares attributable to unexercised in-the-money stock options of 2,834 shares. Unexercised out-of the money stock options to purchase a weighted average of 507,300 shares of common stock for both the three and six months ended December 31, 2012 were not considered in the earnings per share calculation as the impact of such inclusion would have been anti-dilutive. Due the net loss for the three and six months ended December 31, 2011, diluted earnings per share was calculated on the same basis as basic loss per share as the inclusion of any other potential shares outstanding would be anti-dilutive. Unexercised out-of-the-money stock options to purchase a weighted average of 796,297 shares for the three and six months ended December 31, 2011 were not considered in the loss per share calculation as the impact of such inclusion would have been anti-dilutive. Amounts shown below are in thousands, except per share amounts.

	For the Three Months Ended December 31, 2012	For the Three Months Ended December 31, 2011	For the Six Months Ended December 31, 2012	For the Six Months Ended December 31, 2011
Numerator:				
Net income (loss)..	$ 118,181	$ (5,891)	$ 117,483	$ (6,538)
Denominator:				
Weighted average shares outstanding—basic	56,153	56,122	56,141	56,122
Weighted average shares outstanding—diluted............	56,156	56,122	56,141	56,122
Net income (loss) per share – basic and diluted	$ 2.10	$ (0.10)	$ 2.09	$ (0.12)

6. Share-Based Payments

This footnote should be read in conjunction with Note 7—Share-Based Payments of the Notes to the Consolidated Financial Statements contained in the Annual Report for the year ended June 30, 2012.

Upon the consummation of the sale of the Hinds and Hot Spring power generation facilities on November 30, 2012, the remaining 94,907 restricted stock unit (“RSU”) awards vested.

There was no compensation expense recorded for the three and six months ended December 31, 2012 as all expense related to the RSU awards was recognized in the fiscal year ended June 30, 2012. The Company recorded compensation expense of $0.1 million and $0.2 million for the three and six months ended December 31, 2011, respectively. There were no outstanding RSU awards at December 31, 2012.

On December 26, 2012, the Company paid a second cash liquidating distribution to the holders of common stock of the Company in an amount of $8.60 per share. As such, the exercise price applicable to each of the options outstanding under the Plan was reduced by the original $5.00 per share distribution on June 24, 2011 and the $8.60 per share per share distribution on December 26, 2012.

7. Income Taxes

The Company's provision for income taxes differed from that determined by applying the federal income tax rate (statutory rate) to income before income taxes, as follows (in thousands of dollars):

	For the Three Months Ended December 31, 2012	For the Three Months Ended December 31, 2011	For the Six Months Ended December 31, 2012	For the Six Months Ended December 31, 2011
Statutory rate	35%	35%	35%	35%
Tax at statutory rate	$ 70,098	$ (3,366)	$ 69,493	$ (3,794)
Increase (decrease) due to:				
Nondeductible meals and entertainment	1	4	2	5
State tax (benefit) expense	6,829	(364)	6,766	(408)
Reduction in deferred tax assets on RSUs	5,278	—	5,278	—
Return to provision	(106)	—	(106)	(74)
Adjustment to valuation allowance	—	(1)	(367)	(30)
Total provision	$ 82,100	$ (3,727)	$ 81,066	$ (4,301)

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities were as follows (in thousands of dollars):

	December 31, 2012	June 30, 2012
Deferred tax assets:		
Contract-based intangible assets	$ 28	$ 30
Nonqualified stock options expense	65	5,910
Accrued expenses	179	195
Net operating loss	—	17,241
Contribution carryforward	—	2
Net deferred tax assets	272	23,378
Deferred tax liabilities:		
Property, plant, and equipment	6,913	7,361
Prepaid expenses	(77)	(17)
Contract-based intangible liabilities	—	5,313
Net deferred tax liabilities	6,836	12,657
Valuation allowance	—	367
Deferred tax assets (liabilities), net	$ (6,564)	$ 10,354

7. Income Taxes (Continued)

As of June 30, 2012, the Company had a federal net operating loss carryforward of $44.8 million. On November 30, 2012, the Company sold its remaining plants, which were located in Arkansas and Mississippi. Under the installment sale method, the Company will recognize a $208.8 million tax gain for the year ended June 30, 2013. All future tax gains will be recognized as the amounts in escrow are released.

The Company will use its federal and state net operating loss carryforwards to offset such gains. Additionally, the Company will recognize $20.0 million of tax gain related to the sale of the Murray plant which occurred during a previous tax year, however a portion of the proceeds were required to be kept in escrow until October 2012. The release of the escrowed funds triggered an additional tax gain which had previously been recorded as a deferred tax liability. The additional gain from the Murray sale will allow the Company to utilize its remaining Georgia net operating loss carryforward, against which a valuation allowance had been recorded as of June 30, 2012.

The Company reduced its nonqualified stock options expense deferred tax asset by $5.2 million to reflect the expected compensation expense that will be deductible on future tax returns.

The Company recognizes interest and penalties related to unrecognized tax benefits within the provision for income taxes on continuing operations in the consolidated statements of operations. There are no unrecognized tax benefits. There are no unrecognized tax benefits that if recognized would affect the tax rate. There are no interest and penalties recognized as of December 31, 2012.

The Company filed income tax returns in the United States federal jurisdiction and in various U.S. states. In all material respects, the Company will not be subject to United States federal, state, and local income tax examination by tax authorities for fiscal years ended before 2005.

8. Asset Sales and Assets Held for Sale

This footnote should be read in conjunction with Note 9—Asset Sales and Assets Held for Sale of the Notes to the Consolidated Financial Statements contained in the Annual Report for the year ended June 30, 2012.

KGen Hinds LLC and KGen Hot Spring LLC Held for Sale

On April 28, 2011, it was determined that the assets held for sale criteria were met when the Company executed a definitive agreement for the sale of the Company's Hinds power generation facility to Entergy Mississippi, Inc. and for the sale of the Hot Spring power generation facility to Entergy Arkansas, Inc.

Assets held for sale and liabilities associated with the assets held for sale related to the Hinds and Hot Spring power generation facilities were valued at the lower of historical book value or fair value less cost of disposal and were recorded as current assets and current liabilities as of June 30, 2012. The Company suspended the related depreciation and amortization of these assets upon their classification of assets held for sale on April 28, 2011. Their combined total consisted of the following (in thousands of dollars):

8. Asset Sales and Assets Held for Sale (Continued)

	June 30, 2012
Accounts receivable	$ 2,472
Spare parts inventories	4,086
Property, plant, and equipment (net of 40,323 of accumulated depreciation)	253,489
Other assets	245
Assets held for sale	$ 260,292
Accounts payable and accrued liabilities	$ 5,463
Contract-based intangibles (net of $5,161 of accumulated amortization)	13,700
Liabilities associated with assets held for sale	$ 19,163

KGen Hinds LLC Sale

The transaction between the Company and Entergy Mississippi, Inc. to purchase the assets of KGen Hinds LLC closed on November 30, 2012. The Company received $172.6 million in cash proceeds and $30.0 million was placed in escrow (which represents a $206.0 million purchase price adjusted for estimated levels of closing date spare parts inventory and property taxes of $3.4 million). An escrow amount of $10.0 million is subject to release 12 months after closing, an additional $10.0 million is subject to release 18 months after closing, and the remaining balance will be subject to release 42 months after closing. The net gain on the sale was $108.0 million.

In connection with the sale of this facility, the restricted cash and cash equivalents were released (see Note 3) and 47,453 RSUs vested.

Additionally, all contractual commitments associated with the Hinds facility were terminated or transferred in connection with the sale. The energy management services agreement with Twin Eagle Resource Management, LLC ("Twin Eagle") was terminated and the Company paid termination fees of $30,000 subsequent to the sale. The long-term gas transportation contracts with Texas Eastern Transmission, LP ("TETCO") were effective though the sale of the facility, at which time the Company's obligations henceforth were terminated. The long-term service agreement with General Electric International ("GE") to provide maintenance services was assigned to Entergy in connection with the sale. Lastly, the operations and maintenance agreement with NAES Corporation ("NAES") was terminated upon the sale with no contract termination fee.

KGen Hot Spring LLC Sale

The transaction between the Company and Entergy Arkansas, Inc. to purchase the assets of KGen Hot Spring LLC closed on November 30, 2012. The Company received $215.0 million in cash proceeds and $38.0 million was placed in escrow. There were no purchase price adjustments necessary. An escrow amount of $12.0 million is subject to release 12 months after closing, an additional $13.8 million is subject to release 18 months after closing, and the remaining balance will be subject to release 42 months after closing. The net gain on the sale was $101.6 million.

In connection with the sale of this facility, the restricted cash and cash equivalents were released (see Note 3) and 47,454 RSUs vested. Also, in connection with the sale, the industrial revenue bond associated with the Hot Spring facility was cancelled.

8. Asset Sales and Assets Held for Sale (Continued)

Additionally, all contractual commitments associated with the Hot Spring facility were terminated or transferred in connection with the sale. The energy management services agreement with Twin Eagle was terminated and the Company paid termination fees of $30,000 subsequent to the sale. The long-term gas transportation contracts with a subsidiary of CenterPoint Energy, Inc. and with TETCO, a subsidiary of Spectra Energy Transmission Services, LLC, were effective through the sale of the facility, at which time the Company's obligations henceforth were terminated. The long-term service agreement with GE to provide maintenance services was assigned to Entergy in connection with the sale. Lastly, the operations and maintenance agreement with NAES was terminated upon the sale with no contract termination fee.

9. Subsequent Events

On January 31, 2013, the Company terminated 11 employees, in connection with the sale of the remaining facilities, and will pay approximately $2.1 million in severance, termination, and option cancellation payments during the third quarter of fiscal 2013. Also, on January 31, 2013, in connection with the separation of the Company's employees, the Company repurchased 229,106 shares of outstanding common stock from its employees for a total of $0.2 million.

On February 7, 2013, the stockholders approved the dissolution of company.

Subsequent events were analyzed and considered through February 14, 2013, the date this report was available for issuance.