

Transform

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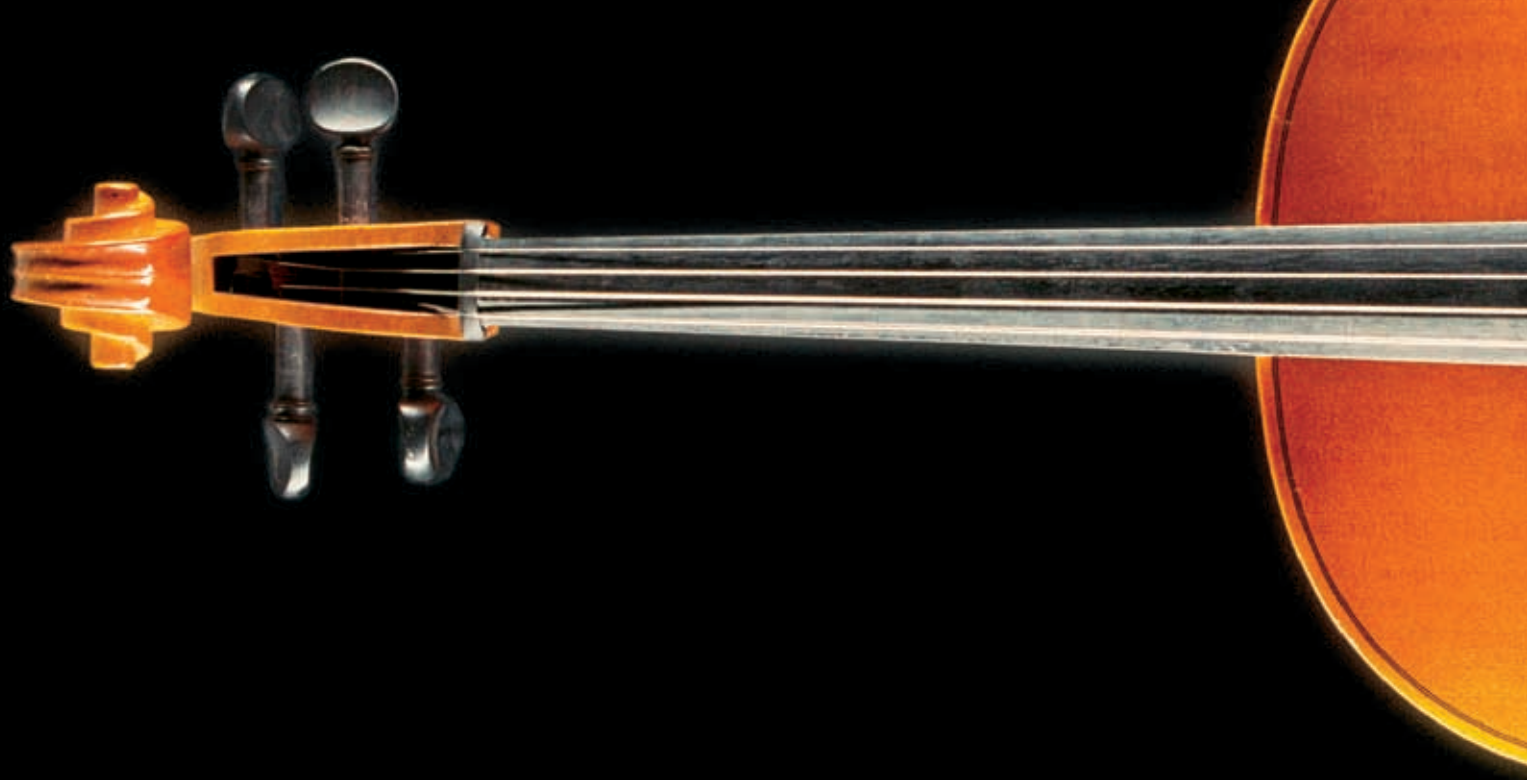
Take a look around. What do you see?

At MGM MIRAGE, we challenge you to look again.

It is a simple and indisputable fact of life: How you see the world depends on how closely you look at it. Scratch the surface, peek behind the curtain, and new vistas begin to emerge. Revealing not just what things are, but what they might become. And what's about to come is nothing short of astonishing. That's what makes change so exciting, so incredible to witness. Imagine — evolution unfolding before your very eyes. At moments like these, the impact is so profound, it has the power to change everything. Including you.

Natur





ture

From Nature's remarkable perfection to the



flawless Beauty of a handcrafted cello.

Beau





auty

The real Beauty of an unblemished flower



juxtaposed against the surreal Vision of an artist.

Vision



ion The Vision of our fathers' generation launches



a bold Exploration into the future.



Explora





ration

The Exploration of a young girl's spirit



leads to Infinite discoveries of the human soul.

Infini





nite Infinite grains of fine sand create shimmering



cityscapes of breathtaking scope.



J. Terrence Lanni Chairman & Chief Executive Officer

Looking at the world

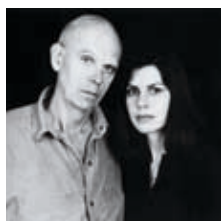
To Our Shareholders

2006 marked a turning point in the transformation of your company from one known the world over as a developer of fabulous casino resorts to one also widely recognized for increasing shareholder value through strategic development of its real estate assets and expansion of its collection of world-class brands.

MGM MIRAGE enjoyed another year of record-setting financial performance, but of greater significance, we are realizing the long-term benefits of the historic acquisitions of Mirage Resorts and Mandalay Resort Group in 2000 and 2005, respectively.

Each of these companies had wonderful brands as well as unmatched real estate holdings. We believed we could create far greater value by further developing both by adding value to underdeveloped land and by looking across the globe for opportunities to extend our world-famous brand names.

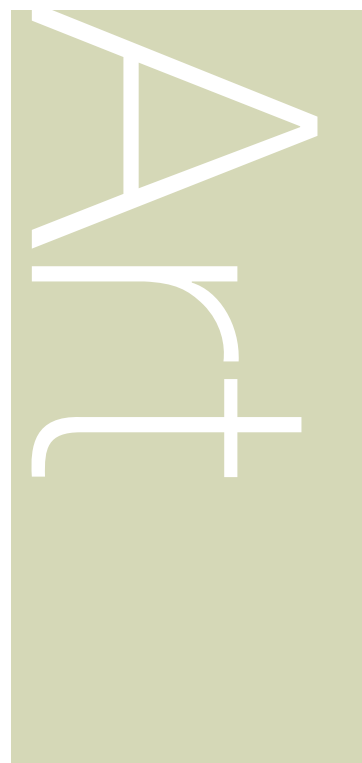
Great m



CLAES OLDENBURG and COOSJE VAN BRUGGEN

"I tend to choose as subjects things that deal with the hand and things that have a three-dimensional form. To grab reality by the hands and eyes, and transform it in some way is what artists have always done and will probably continue to do."

1986 © Copyright The Robert Mapplethorpe Foundation. Courtesy Art & Commerce.



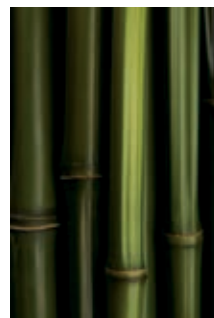
minds

Sustainability

M. ARTHUR GENSLE, JR., FAIA

Chairman & Owner, Gensler Associates

"In today's world I have found that design is having a transforming impact on society. And design with a strong sustainable component can have a major impact on our buildings, their uses, on both employees and customers, and on the community. Creative sustainable design solutions are also good business investments. It is a win win."



chitecture



CESAR PELLI *Senior Principal, Pelli Clarke Pelli*

"Architecture is a marvelous activity. One of its wonders lies in its ability to transform a place or an institution. The process, with its many challenges, is continuously rejuvenating for communities, clients, even the architects themselves. Around the world and, now in Las Vegas, we are involved in the splendid transformation of space into places of enchantment, excitement and enrichment."

don't

Entertainment



GUY LALIBERTÉ *Founder & CEO, Cirque du Soleil*

"All entertainment should aim at a transformation of its audience in some way, shape or form. When we imagine our shows, we hope to touch the audience, to transform their perspective, to achieve an emotional connection. I believe strongly that in some ways entertainment can contribute to changing the world, even if only for an instant. Entertainment has that extraordinary transformative power."



JOËL ROBUCHON

"Taking the finest ingredients and using them to create beautiful dishes that provide diners with a convivial yet sophisticated experience is very important to me. I wish for every diner who eats at Joel Robuchon or L'Atelier to have an enjoyable and unique experience; that they leave behind their daily world and for the few hours they spend in our restaurants are transported to a place that is magical. This is an important part of my philosophy."

Cuisine



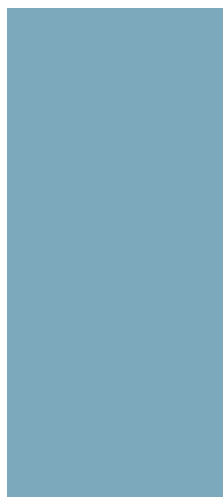
always think alike

Diversity



ALEXIS HERMAN *President & CEO New Ventures, Inc. 23rd Secretary of Labor*

"Global competition must engage human terminology that will allow us to foster environments where others can survive and thrive in the new economy. Going forward, diversity will be central to this discussion because it will permeate every aspect of business. Diversity, as one of the drivers of corporate transformation, may be the tipping point as we engage new languages and jurisdictions, experience different modes of operations and embrace value systems uncommon to us."



Values

LEWIS JOHNSON *Banquet Manager, Beau Rivage, Biloxi, Mississippi*

"When one individual responds to the pain and plight of another, it is of no small consequence of course. However, when a company has compassionate values at its core, significant change occurs. Though this value may be intangible, its impact can be witnessed by all who experience it, both directly and indirectly. At the end of the day, this value has a transformative effect, improving the quality of life of all within its reach."



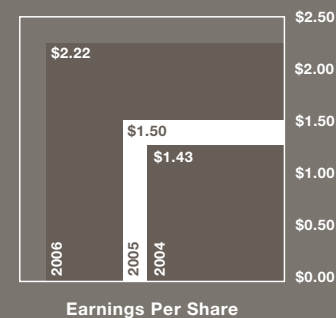
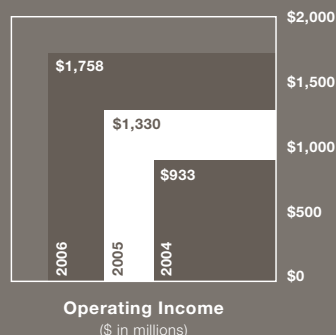
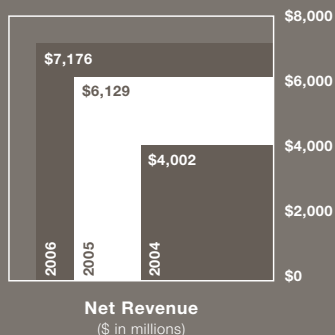
Financial Highlights

(in thousands except per share data)

For the Years Ended December 31	2006	2005	2004	2003	2002
Net revenues	\$ 7,175,956	\$ 6,128,843	\$ 4,001,804	\$ 3,657,662	\$ 3,552,404
Operating income	1,758,248	1,330,065	932,613	684,879	727,742
Income from continuing operations	635,996	435,366	345,209	226,719	283,484
Net income	648,264	443,256	412,332	243,697	292,435
Basic earnings per share					
Income from continuing operations	\$ 2.25	\$ 1.53	\$ 1.24	\$ 0.76	\$ 0.90
Net income per share	2.29	1.56	1.48	0.82	0.93
Weighted average number of shares	283,140	284,943	279,325	297,861	315,618
Diluted earning per share					
Income from continuing operations	\$ 2.18	\$ 1.47	\$ 1.19	\$ 0.75	\$ 0.89
Net income per share	2.22	1.50	1.43	0.80	0.91
Weighted average number of shares	291,747	296,334	289,333	303,184	319,880
At year-end					
Total assets	\$ 22,146,238	\$ 20,699,420	\$ 11,115,029	\$ 10,811,269	\$ 10,568,698
Total debt, including capital leases	12,997,927	12,358,829	5,463,619	5,533,462	5,222,195
Stockholders' equity	3,849,549	3,235,072	2,771,704	2,533,788	2,664,144
Stockholders' equity per share	\$ 13.56	\$ 11.35	\$ 9.87	\$ 8.85	\$ 8.62
Number of shares outstanding	283,909	285,070	280,740	286,192	309,148

In June 2003, we ceased operations of PLAYMGMMIRAGE.com, our online gaming website ("Online"). In January 2004, we sold the Golden Nugget Las Vegas and the Golden Nugget Laughlin including substantially all of the assets and liabilities of those resorts (the "Golden Nugget Subsidiaries"). In July 2004, we sold the subsidiaries that owned and operated MGM Grand Australia. In October 2006, we entered into agreements to sell the Primm Valley Resorts and the Colorado Belle and Edgewater resorts in Laughlin, Nevada (the "Laughlin Properties"). The results of the above operations are classified as discontinued operations for all periods presented.

The Mandalay acquisition closed on April 25, 2005. Beau Rivage was closed from August 2005 to August 2006 due to Hurricane Katrina. Beginning January 1, 2006, we began to recognize stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"). For the year ended December 31, 2006, incremental expense resulting from the adoption of SFAS 123(R) was \$70 million (pre-tax). During 2006, we began to recognize our share of profits from the sale of condominium units at The Signature at MGM Grand. For the year ended December 31, 2006, we recognized \$117 million (pre-tax) of such income. In the fourth quarter of 2006 we recognized \$86 million (pre-tax) of income for insurance recoveries related to Hurricane Katrina.



To Our Shareholders (continued)

In 2006, we signed initial agreements with three development partners each of whom provides your company with opportunities for strategic growth in the United States and around the world. We are exploring opportunities with The Mashantucket Pequot Tribal Nation of Connecticut, Diaoyutai State Guesthouse in China and Mubadala Development of Abu Dhabi.

With these partners, we will incorporate our expertise in developing and operating some of the most successful resorts anywhere in the world utilizing an existing MGM MIRAGE brand or by creating entirely new brands that can be applied in both gaming and non-gaming environments.

In the midst of this historic transformation, we are boldly moving to develop our significant real estate holdings. MGM MIRAGE is now the largest landowner in Las Vegas and Atlantic City. We also are well underway with developments in Macau and Detroit.





MGM Grand Macau 3D Rendering



MGM Grand Detroit 3D Rendering

To Our Shareholders (continued)

As we develop these projects, we do so with a vision for our future that formalizes long-held values into clearly defined corporate initiatives. Just as we formalized our Diversity Initiative into company-wide cultural transformation, so too in 2006 we initiated similar structure with sustainability and philanthropy.

Just as we have led the industry by introducing dynamic new concepts in dining and entertainment, we also have turned a significant page in development history for the gaming industry by applying some of the standards of art, architecture and design that are the hallmarks of great developments the world over.

Your company has historically utilized throughout its resorts the expertise of a diverse mix of renowned architects and designers. Our CityCenter development brings together the most outstanding group of internationally recognized architects and designers in an unprecedented collaboration.



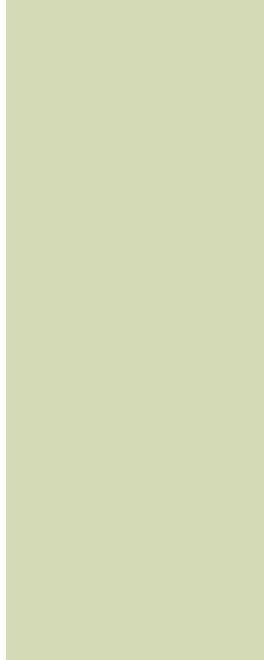
MGM MIRAGE is leading a major transformation in the field of design and architecture. Las Vegas is often viewed simplistically, as a place where visitors come seeking fun. We seek to maintain an atmosphere of energy and excitement, while setting in motion a process that helps Las Vegas locate its center thus identifying its urban identity.

CityCenter marks a point in Las Vegas history that will forever change the city as we know it. MGM MIRAGE identified world-renowned architects to collaborate as never before. The results are incomparable. These masters are being influenced by one another creating opportunities for each to express their individualized perspective in entirely new forms. MGM MIRAGE realized the potential in creating this singular environment in which collaboration transforms style.



Architecture

Art



Within MGM MIRAGE resorts, guests experience art in unique and unanticipated ways – walking beneath the work of the world's foremost glass artisan; dining amidst paintings and sculpture by the 20th century's most celebrated artist; navigating public spaces designed around museum-quality works. From the showcase lobby and renowned Bellagio Gallery of Fine Art to the modern works that give the public spaces of THEhotel its energy and contemporary feel, art plays a significant role in the environments MGM MIRAGE creates.

From that established base, MGM MIRAGE is undergoing a transformation, formalizing the company's dedication with the creation of the CityCenter Fine Arts Program. This \$60 million program will be one of the largest and most groundbreaking collections acquired through private corporate resources and made accessible in such a highly visible and public manner.





Management Committee

To Our Shareholders (continued)

With this new ethos in design and architecture comes a commitment to public art that is a first for this industry. As the urban landscape of Las Vegas evolves in ground-breaking new ways, MGM MIRAGE is committed to developing a world-class visual arts program at CityCenter that will act as a potent force in contemporary art and culture, elevating the cultural profile of each of the MGM MIRAGE properties.

Creating sustainable communities and the effective stewardship of our natural resources has always been a core value of MGM MIRAGE. We are committed to moving beyond traditional environmental initiatives by demonstrating decisive leadership in the areas of energy and water conservation, as well as green building design and construction.

James J. Murren
President, CFO & Treasurer,
MGM MIRAGE

John T. Redmond
President & CEO,
MGM Grand Resorts, LLC

Aldo Manzini
Executive Vice President
& Chief Administrative Officer,
MGM MIRAGE

J. Terrence Lanni
Chairman & CEO,
MGM MIRAGE

Robert H. Baldwin
President & CEO,
Mirage Resorts, Inc.
& President, CityCenter

Gary N. Jacobs
Executive Vice President,
General Counsel &
Secretary, MGM MIRAGE

**To Our Shareholders (continued)**

We are making no less of an impact on the communities we serve through our efforts in philanthropy.

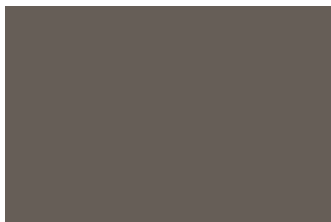
We provide the means for our employees to engage in community giving through our dynamic VOICE program. Last year we saw a record level of employee participation with contributions of more than \$5 million to charities of their choice.

In addition, in 2006 your company played a leading role in the community by making corporate contributions in excess of \$6 million to worthy local charities.

Sustainability

The actions which we are taking to transform MGM MIRAGE into a more sustainable company represent our commitment to all of our stakeholders: neighbors, employees, customers and shareholders. A sustainable community seeks to maintain and improve the economic, environmental and social characteristics of an area so its members – present and future – can lead healthy, productive, enjoyable lives.

Sustainability will be a central element in every new development we undertake. We've set a new and higher standard for our community and our industry by committing to build CityCenter to the strict guidelines of the U.S. Green Building Council's Leadership In Energy and Environmental Design (LEED) standards.



Entertainment



Beginning in the 1990s, the MGM MIRAGE relationship with Cirque du Soleil helped transform the Las Vegas entertainment scene and re-energize the city's reputation as the entertainment capital of the world. Entertainment continues to undergo enormous change as nightclubs and ultra lounges take their place in the spectrum of choice for guests. Not only has MGM MIRAGE remained a leader in providing dynamic entertainment options for our guests, we are now able to utilize this expertise for our new developments in Las Vegas, Atlantic City, Detroit and Macau.



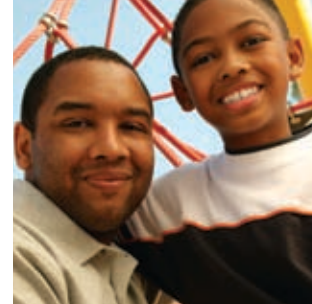


Culinspired

Few of the transformations in Las Vegas have been as dramatic as those that have taken place in the city's restaurants. With a sense of drama and style, the Las Vegas restaurant experience is unparalleled. In addition to attracting some of the world's finest chefs, MGM MIRAGE is building a team of food and beverage professionals second to none. Our future developments will continue to benefit from these relationships with restaurants from great cities opening new outlets as well as development of dining establishments unique to your company.



Shared Values



The heart of any company is its employees. At MGM MIRAGE, the most tangible example of this is reflected in employee giving, namely, through the VOICE Foundation—an independent, employee-funded entity that collects and distributes funds to hundreds of charities in the communities where the company maintains business operations.

Last year, the Voice Foundation achieved record-breaking totals in employee-giving and was the primary source of support for employees impacted by Hurricane Katrina. As a result, hundreds benefited from this generosity. Further, as testament of the value that giving and empowering communities holds within MGM MIRAGE, hundreds of employees volunteer annually to support a myriad of causes ranging from walks to support AIDS awareness to collecting shoes for school children in need.





To Our Shareholders (continued)

Our Diversity Initiative, first formalized in 2001, has already transformed the way the gaming industry addresses important issues in employment, procurement and construction relating to emerging markets.

We have taken this effort to entirely new levels in our corporate culture to include a broad understanding that diversity of viewpoint, background and experience are just as important as ethnicity or gender.

As a result of this unique perspective, our Diversity Initiative has been recognized far and wide as one of the finest in American business. While we are honored for the recognition, we are compelled to strive even higher and continue to support this critical imperative of our business strategy.

To Our Shareholders (continued)

Your company stands at the threshold of a major transformation, not only for the manner in which we are identified, but of greater importance, for our ability to transform people and communities through the work we do.



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From developing our people through training and industry-leading benefit programs to building communities with sustainable and culturally sensitive development, we are transforming the very nature of a gaming company into a more broadly defined and respected company.

We are reaching for ever higher goals, knowing that we have the expertise, creativity and financial foundation upon which to build an even more exciting future.

A handwritten signature in black ink that reads "J. Terrence Lanni".

J. Terrence Lanni
Chairman of the Board
& Chief Executive Officer,
MGM MIRAGE

Diversity



Diversity has powered a cultural change within MGM MIRAGE, and in so doing, has inspired awareness of and commitment to a common vision and shared values. With its interplay of human dynamics and practical applications, diversity has created an environment that fosters teamwork, yet promotes the individual contributions of every employee. The net result is enhanced productivity in all aspects of the company's business operations.

The momentum that diversity enjoys internally is complemented by the company's external reputation in this field. An industry leader in gaming and hospitality, MGM MIRAGE has expanded its position and is recognized among the leading companies in the U.S. for its best practices in diversity.



Counting on

Financial Overview

An Industry In Rapid Transformation

Since the days of Bugsy Siegel, the gaming industry has been viewed in a limited way by the investing public – a rather simplistic formula of developing and then operating resorts, generating good cash flows, then reinvesting for future growth. While this business model has been tremendously successful, evidenced by superior financial results and equity performance, industry growth has always been viewed as somewhat constrained by regulation, geography and occasionally by access to capital.

Now the industry's value proposition in the eyes of investors has changed. That rigid formula has given way to far more optionality. Gaming's reputation has moved from a resort-based "retail" business to what it really was all along, a real estate rich enterprise with superior returns. Interestingly, the casino franchises, especially market-leading MGM MIRAGE, have been far more successful at generating consistently high returns and steady cash flow than many other real estate oriented businesses; industries such as retail, hotels and office buildings. It is, therefore, ironic that our industry is routinely valued at lower multiples than its real estate brethren.

That value gap is narrowing because the composition of the investor community is in transition. In the 1980s, gaming investors were

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easy to spot - big mutual funds; later in the 1990s hedge funds jumped in. Both are still major investors today, but they have been joined by skyrocketing investments by private equity funds and other large financial buyers. Private equity (PE) funds are flush with capital to invest, and are looking for industries with strong brands, stable cash flows and significant real estate value. Many of America's largest companies are going private. Gaming valuations remain low and attractive relative to similar PE targets. On the debt side, commercial bank lending and public bonds have historically dominated the financing of resorts. Now there is a new and powerful entrant into our industry. The influx of CMBS (Commercial Mortgage Backed Securities) capital into the industry is being driven by the credit quality and deep real estate content of many industry participants coupled with the still historically low interest rate environment. This extraordinarily deep market offers flexible terms and low interest rates.

These converging forces were largely responsible for the recent transaction activity, including the historically large leveraged buyout (LBO) of Harrah's Entertainment, along with the pending LBO of Station Casinos. There can be no doubt that more deals are on the horizon; although with so few public companies left, and yours the largest, the premium due to scarcity value is likely to rise.

Financial Overview



**MGM MIRAGE Las Vegas Strip
Land Holdings - 831 Acres**

MGM MIRAGE Ideally Positioned

We are incredibly well positioned to take advantage of these dynamic changes to our industry. We already enjoy significant competitive advantages over our competition – superior assets, locations, brands, amenities, personnel and customer loyalty – and now some of our major competitors are distracted due to deal activity. We have enjoyed record financial performance and, even with our significant cash flow base, have tremendous growth opportunities ahead. Additionally, we are by far the largest land owner (by assessed value) in southern Nevada. More than any other gaming asset, Las Vegas land has captivated the imagination of investors from around the world eager to inject energy into our industry. Your company owns an astonishing 831 acres of prime Las Vegas Strip real estate – every acre worth dramatically more than its book value. This land has nearly endless development opportunities for us to exploit in the coming decades.

So we are re-thinking the way in which we view our most valuable assets – land, management expertise and brands. While engaging the world's top urban planners, we are developing a model which will allow us to monetize land assets with less capital at risk, deploy our assets in markets previously not considered by gaming companies, and be more nimble in reacting to development opportunities. The agreements we entered in 2006 and 2007 each achieve these goals. For example, our agreement with Mubadala will allow us to leverage our management expertise in the Middle East and other major global markets, while allowing us to partner with a premier developer with tremendous capital in real estate projects where we or they own significant land. Our agreement to partner with American Nevada Corporation and Diamond Resorts to create a new community in Jean, Nevada demonstrates our ability to transform existing assets – in this case older casinos with limited growth potential – into a progressive mixed-use community with potential for thousands of homes, commercial businesses and environmentally sophisticated development.

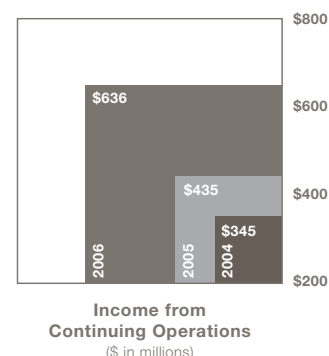
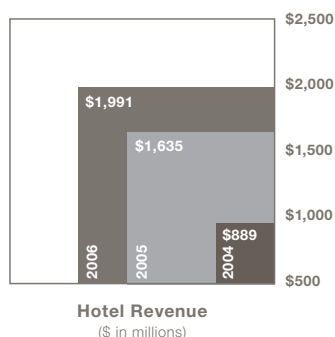
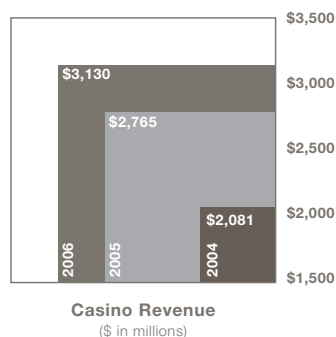
A Constant In This Sea Of Change

Even as we discover new ways to create value, the core philosophy of our business remains centered around key tenets: operating the best resorts; delivering the industry's highest margins; investing in high-return projects; and properly allocating capital to maximize stakeholder value.

Our results in 2006 once again demonstrated the power of our core strategies. Net revenues increased 17%, and we achieved success in all operating areas, and across all market segments. Our gaming operations were once again robust, with a 13% increase in casino revenues. Hotel revenues increased 22%, with a 7% increase in same-store revenue per available room (REVPAR). This performance continues a trend - we also experienced solid increases in same-store REVPAR in 2005 and 2004. Clearly the appeal of our resorts is a consistent factor in our financial success. Finally, Property-level EBITDA was an all-time record at \$2.6 billion, up from \$2.1 billion in 2005.

In regards to capital investments, we made significant progress on our Macau and Detroit developments in 2006 and those projects will be completed in late 2007. CityCenter began rapidly rising out of the ground, and construction is now underway on all elements of the project. We also completed the process of rebuilding Beau Rivage, once again the shining star of the Mississippi Gulf Coast. Investments in these projects totaled \$1.4 billion in 2006. We successfully managed four ongoing development projects, with three still in progress in 2007. All these projects remain on time and on budget. And we believe CityCenter will swing the pendulum of returns on new Strip resorts to the upside, after several years of declining returns on new properties built by our competitors.

Another \$500 million was spent on our existing resorts, consistent with our philosophy of ensuring that our resorts are the premier resorts in their respective market segments. Highlights of our investments include *Love*, the Beatles-themed hit show by Cirque du Soleil at The Mirage, new restaurants throughout our resorts and significant new amenities at the Mandalay resorts expected to open in 2007.



Transforming The Way We Operate

Just as important as the global issues of asset utilization and capital allocation are the organizational changes we continue to make to ensure we can operate as efficiently as possible.

At the senior management level, we have added a Chief Administrative Officer, Aldo Manzini. Aldo comes to us from the Disney organization, and has a wealth of experience in all areas of operations, within a company of significant size. We have tasked Aldo with synergizing many of the corporate functions of MGM MIRAGE, so that we may deliver world-class performance to our focused operators, who in turn will have the necessary tools to increase their competitive advantages. Areas like Information Technology, Human Resources, Marketing and Purchasing have gained important momentum and will make tremendous strides in the coming years, providing world-class internal service to those who must in turn do the same for our guests.

In the finance and accounting areas, we continue to maximize the benefits of our Mandalay merger. For instance, we are putting in systems to more effectively and efficiently analyze and report our results on a company-wide basis, so that we may identify trends affecting multiple resorts or business lines more quickly. We also continue to explore ways to maximize the synergies of a large corporation, such as consolidation of transaction processing areas like payroll, accounts receivable and accounts payable.

In operating departments, we are investing in technologies to more effectively yield our hotel rooms, as well as more efficiently deliver the highest levels of service to customers in all areas of the resort. For instance, ticket redemption kiosks are now prevalent on our casino floors. We have expanded our Players Club loyalty program to the major Mandalay resorts and continue to leverage the capabilities of the database which includes over 30 million names, to more effectively market to our best customers.

Transformation Requires Capital

Investments, whether in technology, people or new developments, require capital. Your company continues to enjoy excellent access to low-cost capital. In 2006, we entered into a new senior credit facility, with maturity extended to 2011 and improved pricing. At December 31, 2006, we had \$2.6 billion of available borrowings under the senior credit facility. We also issued \$1.5 billion in senior notes during the year, with interest rates below 7% on half of the borrowings and under 8% on the remainder.

Conclusion – Time To Act

There are powerful forces at work in our industry. Your management team is confident that it can rapidly assess the transforming environment and bring the right resources to bear in meeting the challenges and opportunities. We remain deeply focused on creating value from the spectacular assets we are fortunate to have – the tremendous employees and management at all levels of the organization; the abundant access to low-cost capital made possible by our superior operating performance; and our legacy of successful development of real estate assets. Sam Cooke sang, “A change is gonna come.” Actually the change is here, and MGM MIRAGE will continue to be the leader in this exciting period of transformation.

Sincerely,

James J. Murren

President,
Chief Financial Officer
& Treasurer,
MGM MIRAGE

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Management's Discussion and Analysis of Financial Condition and Results of Operations

MGM MIRAGE 2006 ANNUAL REPORT

EXECUTIVE OVERVIEW

Current Operations

At December 31, 2006, our operations consisted of 23 wholly-owned casino resorts and 50% investments in three other casino resorts, including:

Las Vegas, Nevada:

Bellagio, MGM Grand Las Vegas, Mandalay Bay, The Mirage, Luxor, TI, New York-New York, Excalibur, Monte Carlo, Circus Circus Las Vegas and Slots-A-Fun.

Other domestic:

The Primm Valley Resorts (Whiskey Pete's, Buffalo Bill's and Primm Valley Resort) in Primm, Nevada; Circus Circus Reno and Silver Legacy (50% owned) in Reno, Nevada; Colorado Belle and Edgewater in Laughlin, Nevada (the "Laughlin Properties"); Gold Strike and Nevada Landing in Jean, Nevada (the "Jean Properties"); Railroad Pass in Henderson, Nevada; MGM Grand Detroit; Beau Rivage in Biloxi, Mississippi and Gold Strike Tunica in Tunica, Mississippi; Borgata (50% owned) in Atlantic City, New Jersey; and Grand Victoria (50% owned) in Elgin, Illinois.

Other operations include the Shadow Creek golf course in North Las Vegas; two golf courses at Primm Valley; Fallen Oak golf course in Saucier, Mississippi; a 50% investment in The Signature at MGM Grand, a condominium-hotel development adjacent to MGM Grand Las Vegas; and a 50% investment in MGM Grand Paradise Limited, which is constructing a casino resort in Macau.

In October 2006, we agreed to sell the Primm Valley Resorts, not including the two golf courses, and the Laughlin Properties. In February 2007, we entered into an agreement to contribute the Jean Properties to a joint venture. See "Other Factors Affecting Liquidity."

Mandalay Acquisition

On April 25, 2005, we closed our merger with Mandalay Resort Group ("Mandalay") under which we acquired Mandalay for \$71 in cash for each share of common stock of Mandalay. The total acquisition cost of \$7.3 billion included equity value of approximately \$4.8 billion, the assumption or repayment of outstanding Mandalay debt with a fair value of approximately \$2.9 billion and \$0.1 billion of transaction costs, offset by the \$0.5 billion received by Mandalay from the sale of its interest in MotorCity Casino in Detroit, Michigan.

The Mandalay acquisition expanded our portfolio of resorts on the Las Vegas Strip, expanded our employee and customer bases significantly, and provided additional sites for future development. These factors resulted in the recognition of certain intangible assets and significant good will. We did not incur any significant employee termination costs or other exit costs in connection with the Mandalay acquisition.

Key Performance Indicators

We operate primarily in one segment, the operation of casino resorts, which includes offering gaming, hotel, dining, entertainment, retail and other resort amenities. Over half of our net revenue is now derived from non-gaming activities, a higher percentage than many of our competitors, as our operating philosophy is to provide a complete resort experience for our guests, including non-gaming amenities which command a premium price based on their quality. Our significant convention and meeting facilities allow us to maximize hotel occupancy and customer volumes during off-peak times such as mid-week or during traditionally slower leisure travel periods, which also leads to better labor utilization. We believe that we own several of the premier casino resorts in the world, and a main focus of our strategy is to continually reinvest in these resorts to maintain our competitive advantage.

As a resort-based company, our operating results are highly dependent on the volume of customers at our resorts, which in turn impacts the price we can charge for our hotel rooms and other amenities. We also generate a significant portion of our operating income from the high-end gaming customers, which can cause variability in our results. Key performance indicators related to revenue are:

- Gaming revenue indicators – table games drop and slots handle (volume indicators); "win" or "hold" percentage, which is not fully controllable by us. Our normal table games win percentage is in the range of 18% to 22% of table games drop and our normal slots win percentage is in the range of 6.5% to 7.5% of slots handle;
- Hotel revenue indicators – hotel occupancy (volume indicator); average daily rate ("ADR", price indicator); revenue per available room ("REVPAR"), a summary measure of hotel results, combining ADR and occupancy rate.

Most of our revenue is essentially cash-based, through customers wagering with cash or paying for non-gaming services with cash or credit cards. Our resorts, like many in the industry, generate significant operating cash flow. Our industry is capital intensive and we rely heavily on the

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ability of our resorts to generate operating cash flow to repay debt financing, fund maintenance capital expenditures and provide excess cash for future development.

We generate a majority of our net revenues and operating income from our resorts in Las Vegas, Nevada, which exposes us to certain risks outside of our control, such as competition from other recently opened or expanded Las Vegas resorts, and the impact from expansion of gaming in California. We are also exposed to risks related to tourism and the general economy, including national and global economic conditions and terrorist attacks or other global events.

Our results of operations do not tend to be seasonal in nature, though a variety of factors may affect the results of any interim period, including the timing of major Las Vegas conventions, the amount and timing of marketing and special events for our high-end customers, and the level of play during major holidays, including New Year and Chinese New Year. We market to different customer segments to manage our hotel occupancy, such as targeting large conventions to ensure mid-week occupancy. Our results do not depend on key individual customers, though our success in marketing to customer groups, such as convention customers, or the financial health of customer segments, such as business travelers or high-end gaming customers from a particular country or region, can impact our results.

Overall Outlook

We believe we will continue to benefit in 2007 from the strategic capital investments we have made in our resorts over the past several years. Our Las Vegas Strip resorts require ongoing capital investment to maintain their competitive advantages. We believe these investments in additional non-gaming amenities have enhanced our ability to generate increased visitor volume and allow us to charge premium prices for our amenities. We expect to continue to re-invest in our core assets on a targeted basis in 2007.

In 2006, we completed many capital improvements at a variety of resorts, including:

- New restaurants such as Stripsteak at Mandalay Bay, Social House at TI and Japonais at The Mirage.
- The Beatles-themed Cirque du Soleil show, *Love*, at The Mirage.
- Various other amenities such as re-designed restaurants and lounges, new Starbucks outlets at several resorts, and slot machine upgrades at Mandalay resorts.

In addition to entertainment offerings and several restaurants, we have invested heavily in our room product in the past few years. In 2007, we expect to complete a suite remodel at Bellagio, and standard room remodels at Mandalay Bay, MGM Grand Las Vegas and Excalibur. These improvements, along with other amenities and improvements projected to open in 2007, are expected to lead to continued increases in REVPAR and increased customer volumes in gaming areas, restaurants, shops, entertainment venues and our other resort amenities.

We began recognizing our share of profits from condominium sales at The Signature at MGM Grand in 2006 and will continue to do so in 2007. Sales of all units in Tower 1 and 87% of units in Tower 2 were sold and closed by the end of 2006. In 2007, we expect to close on the remaining units in Tower 2 and most or all the Tower 3 units. In addition to the income we will recognize in 2007 related to Towers 2 and 3, we have begun to rent out units in Towers 1 and 2 for owners who have elected to participate in the rental program. Rental of these units will provide additional revenues and also provide additional customer volumes at MGM Grand Las Vegas.

In addition to the activity at our Las Vegas Strip resorts, we expect the permanent MGM Grand Detroit casino resort to open in late 2007. The permanent facility will feature a significantly larger casino and a 400-room hotel, as well as additional restaurants and other amenities. Also, Beau Rivage re-opened in August 2006 and we believe its operations, as well as additional income from insurance recoveries, will benefit results in 2007. MGM Grand Macau is on target to open in the fourth quarter of 2007 and we are anticipating significant earnings from this venture once opened.

Financial Statement Impact of Hurricane Katrina

Beau Rivage closed in late August 2005 due to significant damage sustained as a result of Hurricane Katrina and re-opened in August 2006. The Company maintained insurance covering both property damage and business interruption as a result of the storm. The deductible under this coverage was approximately \$15 million, based on the amount of damage incurred. Business interruption coverage covered lost profits and other costs incurred during the period of closure and up to six months following the reopening of the facility.

As of December 31, 2006, we had received interim insurance recoveries in excess of the net book value of damaged assets and post-storm costs incurred. The costs incurred to date were less than the anticipated business interruption proceeds. Therefore, all post-storm costs and expected recoveries have been recorded net within "General and administrative" expenses in the accompanying consolidated statements of income, except for depreciation of non-damaged assets, which is clas-

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sified as "Depreciation and amortization." Insurance recoveries received in excess of the amount of damaged assets and post-storm costs incurred of \$86 million have been recognized as income related to property damage and included in "Property transactions, net" within the accompanying consolidated statements of income.

Cash received for insurance recoveries are treated in the statement of cash flows as cash flows from investing activities if the recoveries relate to property damage, and cash flows from operations if the recoveries relate to business interruption. During 2006, we received \$309 million in insurance recoveries. We classified \$200 million as investing cash flows related to property damage and \$109 million as operating cash flows.

RESULTS OF OPERATIONS

Summary Financial Results

The following table summarizes our financial results:

(In thousands, except per share data)

Year Ended December 31,	2006	%Change	2005	%Change	2004
Net revenues.....	\$7,175,956	17%	\$ 6,128,843	53%	\$ 4,001,804
Operating income	1,758,248	32%	1,330,065	43%	932,613
Income from					
continuing operations....	635,996	46%	435,366	26%	345,209
Net income	648,264	46%	443,256	7%	412,332
Diluted income from					
continuing operations					
per share	\$ 2.18	48%	\$ 1.47	24%	\$ 1.19
Diluted net income					
per share	2.22	48%	1.50	5%	1.43

References to "same-store" throughout Management's Discussion and Analysis exclude the Mandalay resorts, Monte Carlo and Beau Rivage, including income from insurance recoveries, for all periods. We owned 50% of Monte Carlo prior to the Mandalay acquisition and acquired the other 50% in the Mandalay acquisition.

On a consolidated basis, the most important factors and trends contributing to our performance over the last three years have been:

- The addition of Mandalay's resorts on April 25, 2005. For the year ended December 31, 2006, net revenue for these operations was \$2.7 billion and operating income was \$657 million. For the eight months we owned the Mandalay resorts in 2005, net revenue for these operations was \$1.8 billion and operating income was \$426 million.
- Our ongoing capital investments in our resorts, which we believe is allowing us to market more effectively to visitors, capture a greater share of our visitors' increased travel budgets, and generate premium pricing for our resorts' rooms and other amenities.
- The overall positive economic environment in the United States since 2004, particularly in the leisure and business travel segments, resulting in increases in room pricing and increased visitation, particularly at our Las Vegas Strip resorts.
- The labor contract covering employees at our Las Vegas Strip resorts since mid-2002, which provides for significant annual wage and benefits increases through mid-2007.
- The adoption of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). We recorded \$70 million of additional stock compensation expense in 2006 as a result of adopting SFAS 123(R). Prior to January 1, 2006, we did not recognize expense for employee stock options.
- The closure of Beau Rivage in August 2005 after Hurricane Katrina and subsequent reopening in August 2006. As a result, operating income at Beau Rivage was \$104 million, \$40 million, and \$60 million in 2006, 2005 and 2004, respectively. 2006 operating income includes income from insurance recoveries of \$86 million.
- Recognition of our share of profits from the closings of condominium units of Tower 1 and Tower 2 of The Signature at MGM Grand. The venture records revenue and cost of sales as units close. Tower 1 was completed in May 2006 and 100% of unit sales had been recognized through December 31, 2006. Tower 2 was completed in November 2006 and 87% of the unit sales for Tower 2 had been recognized through December 31, 2006. For the year, we recognized income of approximately \$102 million related to our share of the venture's profits and \$15 million of deferred profit on land contributed to the venture. These amounts are classified in "Income from unconsolidated affiliates" in the accompanying consolidated statements of income.

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As a result of the above factors, our net revenues increased 17% in 2006, and 53% in 2005. Operating margins were 25% in 2006 compared to 22% in 2005, and 23% in 2004. See further discussion of operating income and operating margins in "Operating Results" below. The increase in income from continuing operations generally resulted from the increased operating income, offset in part by increased interest expense, discussed below in "Non-operating Results."

Operating Results

The following table includes key information about our operating results:

(In thousands)

Year Ended December 31,	2006	%Change	2005	%Change	2004
Net revenues.....	\$ 7,175,956	17%	\$ 6,128,843	53%	\$ 4,001,804
Operating expenses:					
Casino & hotel.....	3,813,386	15%	3,316,870	55%	2,138,644
General & administrative ..	1,070,942	20%	889,806	57%	565,387
Corporate expense	161,507	24%	130,633	68%	77,910
Preopening, restructuring and property transactions, net..	(3,583)	(107)%	52,714	118%	24,135
Depreciation and amortization.....	629,627	12%	560,626	46%	382,773
	5,671,879	15%	4,950,649	55%	3,188,849
Income from unconsolidated affiliates..	254,171	67%	151,871	27%	119,658
Operating income	\$ 1,758,248	32%	\$ 1,330,065	43%	\$ 932,613

The 2006 and 2005 increase in net revenues resulted primarily from the addition of Mandalay. Net revenues for 2006 includes a full year of operations for Mandalay resorts and 2005 includes approximately 8 months of operations for Mandalay resorts. On a same-store basis, net revenues increased 5% in 2006 on top of a 12% increase in 2005. Additionally, net revenues increased significantly at many of our resorts in both 2006 and 2005 as a result of stronger year-over-year room pricing and increased volumes in gaming and across all non-gaming areas. These trends were particularly prominent at Bellagio, The Mirage and MGM Grand Las Vegas as a result of new and expanded amenities at those resorts.

Operating income for 2006 increased 32% over 2005; same store operating income increased 15%, partially due to the increases in revenues discussed above with continued strong operating margins. In addition, we recognized income of \$102 million from our share of profits from The Signature at MGM Grand along with a \$15 million gain on land contributed to the venture. Partially offsetting these items was the \$70 million of incremental stock-based compensation expense. Excluding these items, same store operating income increased 10%, with an operating margin of 22% in 2006 compared to 21% in 2005.

In 2005, operating income did not increase to the same extent as net revenues, largely due to already strong operating margins, a lower-than-normal bad debt provision in 2004, higher corporate expense and higher preopening, restructuring and property transactions, net. This resulted in an operating margin of 21% versus 24% in 2004. Corporate expense increased as a percentage of revenue due primarily to merger integration costs.

Operating margins in 2007 will be positively impacted by additional profits on the sale of the remaining condominium units at The Signature at MGM Grand and any income recognized for additional insurance recoveries related to Hurricane Katrina. Excluding these items from both 2007 and 2006, we expect margins will remain relatively consistent between periods.

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Operating Results – Detailed Revenue Information

The following table presents detail of our net revenues:

(In thousands)

Year Ended December 31,	2006	%Change	2005	%Change	2004
Casino revenue, net:					
Table games	\$1,251,304	13%	\$1,107,337	18%	\$ 938,281
Slots	1,770,176	13%	1,563,485	44%	1,083,979
Other	108,958	16%	93,724	60%	58,492
Casino revenue, net	<u>3,130,438</u>	13%	<u>2,764,546</u>	33%	<u>2,080,752</u>
Non-casino revenue:					
Rooms	1,991,477	22%	1,634,588	84%	889,443
Food and beverage	1,483,914	17%	1,271,650	57%	807,535
Entertainment, retail and other	1,190,904	17%	1,018,813	61%	634,412
Non-casino revenue	<u>4,666,295</u>	19%	<u>3,925,051</u>	68%	<u>2,331,390</u>
	7,796,733	17%	6,689,597	52%	4,412,142
Less:					
Promotional allowances	(620,777)	11%	(560,754)	37%	(410,338)
	<u>\$ 7,175,956</u>	17%	<u>\$ 6,128,843</u>	53%	<u>\$ 4,001,804</u>

On a same-store basis, table games revenue, including baccarat, increased 7% over 2005 with strong baccarat volume – up 4% – and a somewhat higher hold percentage. In 2005, table games revenue, including baccarat, was flat on a same-store basis. A 4% increase in table games volume was offset by a slightly lower hold percentage. Hold percentages were within our normal range for all three years presented.

On a same-store basis, slots revenue increased 3% in 2006 as a result of significant increases at MGM Grand Las Vegas and TI. In addition, Mandalay Bay, Luxor and Excalibur benefited from upgraded slot machines and the roll-out of our Players Club loyalty program. In 2005, slots revenue increased 11% on a same-store basis. Additional volume in 2005 was generated by the Spa Tower at Bellagio – Bellagio's slots revenue increased over 30% - and the traffic generated by *KÀ* and other amenities at MGM Grand Las Vegas, where slots revenue increased almost 10%.

Hotel revenue increased 22% in 2006 with a 3% increase in company-wide REVPAR. On a same-store basis, hotel revenue increased 4% in 2006 over 2005 due to strong room pricing. A 7% increase in same-store REVPAR was the result of ADR increasing from \$164 in 2005 to \$174 in 2006 and occupancy of 97% versus 96% in the prior year. In 2005, hotel revenue increased 20% on a same-store basis. We had more rooms available as a result of the Bellagio expansion and 2004 room remodel activity at MGM Grand Las Vegas, and our company-wide same-store REVPAR increased 12% to \$157. The increase in REVPAR in 2005 was mainly rate-driven, as same-store occupancy was consistent at 96%.

Other non-gaming revenue increased 17% over prior year. Same-store entertainment revenues increased 9% due to revenues generated from *Love*, the Beatles-themed Cirque du Soleil show at The Mirage. In 2005, other non-gaming revenue increased significantly, with *KÀ* leading to a 35% increase in same-store entertainment revenue and several new restaurants and bars at MGM Grand Las Vegas, Bellagio, TI and The Mirage leading to a 15% increase in same-store food and beverage revenue. We expect these increases to continue in 2007, as we continue to invest in new amenities at our resorts, particularly at Mandalay Bay, where among other new amenities we will complete a major pool area renovation in mid-2007.

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Operating Results – Details of Certain Charges

Stock compensation expense is recorded within the department of the recipient of the stock compensation award. In periods prior to January 1, 2006, such expense consisted only of restricted stock amortization and expense associated with stock options granted to non-employees. Beginning January 1, 2006, stock compensation expense includes the cost of all stock-based awards to employees under SFAS 123(R).

The following table shows the amount of incremental compensation related to employee stock-based awards included within each income statement expense caption:

(In thousands)

Year ended December 31,	2006
Casino	\$ 13,659
Other operating departments	5,319
General and administrative	19,722
Corporate expense and other	30,421
Income from discontinued operations	1,267
	<u>\$ 70,388</u>

Preopening and start-up expenses consisted of the following:

(In thousands)

Year Ended December 31,	2006	2005	2004
CityCenter	\$ 9,429	\$ 5,173	\$ —
MGM Grand Macau	5,057	1,914	—
MGM Grand Detroit	3,313	503	—
The Signature at MGM Grand	8,379	1,437	668
Love at The Mirage	3,832	—	—
Jet nightclub at The Mirage	—	1,891	—
Bellagio expansion	—	665	3,805
KÀ	—	1,871	3,655
Other	6,352	2,298	2,148
	<u>\$ 36,362</u>	<u>\$ 15,752</u>	<u>\$ 10,276</u>

Preopening and start-up expenses for CityCenter will continue to increase each year as the project nears its expected completion in late 2009. MGM Grand Macau preopening and start-up expenses relate to our share of that venture's preopening costs and will increase significantly in

2007 as the project is expected to open in late 2007. MGM Grand Detroit preopening and start-up expenses will also increase significantly in 2007 as the resort is expected to open in the fourth quarter of 2007. Preopening and start-up costs for The Signature at MGM Grand relate to our costs associated with preparing the towers for rental operations.

Restructuring costs (credit) consisted of the following:

(In thousands)

Year Ended December 31,	2006	2005	2004
Contract termination costs	\$ —	\$ —	\$ 3,693
Other	1,035	(59)	1,932
	<u>\$ 1,035</u>	<u>\$ (59)</u>	<u>\$ 5,625</u>

There were no material restructuring activities in 2006 and 2005. At December 31, 2006, there were no material restructuring accruals – all material restructuring costs have been fully paid or otherwise resolved. In 2004, restructuring costs include \$3 million for contract termination costs related to the Aqua restaurant at Bellagio and \$2 million of workforce reduction costs at MGM Grand Detroit as a result of our efforts to minimize the impact of a gaming tax increase in Michigan.

Property transactions, net consisted of the following:

(In thousands)

Year Ended December 31,	2006	2005	2004
Impairment of assets to be disposed of	\$ 40,865	\$ 22,651	\$ 473
Write-off of abandoned capital projects	—	5,971	—
Demolition costs	348	5,362	7,057
Insurance recoveries	(86,016)	—	—
Other net losses on asset sales or disposals ..	3,823	3,037	704
	<u>\$ (40,980)</u>	<u>\$ 37,021</u>	<u>\$ 8,234</u>

Impairments in 2006 included \$22 million related to the write-off of the tram connecting Bellagio and Monte Carlo, including the stations at both resorts, in preparation for construction of CityCenter. Other impairments related to assets being replaced in connection with several smaller capital

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projects, primarily at MGM Grand Las Vegas, Mandalay Bay and The Mirage, as well as the \$4 million write-off of Luxor's investment in the *Hairspray* show. Insurance recoveries in 2006 relate to the interim insurance recoveries received related to property damage from Hurricane Katrina in excess of the book value of the damaged assets and post-storm costs incurred as of December 31, 2006 – see "Financial Statement Impact of Hurricane Katrina."

In 2005, impairments related primarily to assets removed from service in connection with capital projects at several resorts, including Bellagio, TI, The Mirage and Mandalay Bay. The amounts recorded were based on the net book value of the disposed assets. Demolition costs related primarily to room remodel activity at MGM Grand Las Vegas and the new showroom at The Mirage.

Demolition costs in 2004 related primarily to preparation for the Bellagio standard room remodel, Bellagio expansion and KÀ theatre at MGM Grand Las Vegas.

Non-operating Results

The following table summarizes information related to interest on our long-term debt:

(In thousands)

Year Ended December 31,	2006	2005	2004
Interest cost.....	\$ 882,501	\$ 670,285	\$ 390,588
Less: Capitalized interest.....	(122,140)	(29,527)	(23,005)
Interest expense, net.....	\$ 760,361	\$ 640,758	\$ 367,583
Cash paid for interest, net of amounts capitalized.....	\$ 778,590	\$ 588,587	\$ 321,008
Weighted average total debt balance.....	\$ 12.7 billion	\$ 10.1 billion	\$ 5.5 billion
End-of-year ratio of fixed-to-floating debt....	66/34	61/39	99/1
Weighted average interest rate.....	7.1%	6.8%	7.3%

Interest costs increased in 2006 over 2005 due to higher average outstanding debt due to a full year of debt outstanding related to the Mandalay acquisition, incremental borrowings in 2006 to fund capital investments, and a slightly higher average interest rate. Capitalized interest increased in 2006 as we continued to capitalize interest on the CityCenter construction and our investment in MGM Grand Macau. The increase in our weighted average interest rate was due to slightly higher market rates, which affects our variable rate debt.

Interest cost was higher in 2005 due to the funding of the cash consideration in the Mandalay acquisition through senior credit

facility borrowings, and the assumption of debt in the Mandalay acquisition. While variable market interest rates continued to increase in 2005, our effective interest rate decreased due to a more normalized ratio of variable rate debt in 2005; our variable interest rate under our senior credit facility has been lower than the interest rates on our fixed-rate borrowings. Capitalized interest increased in 2005 as we began capitalizing interest on CityCenter and our investment in MGM Grand Macau.

The following table summarizes information related to our income taxes:

(In thousands)

Year Ended December 31,	2006	2005	2004
Income from continuing operations			
before income tax.....	\$ 977,926	\$ 667,085	\$ 548,810
Income tax provision.....	341,930	231,719	203,601
Effective income tax rate.....	35.0%	34.7%	37.1%
Cash paid for income taxes.....	\$ 369,450	\$ 75,776	\$ 128,393

The effective income tax rate in 2006 was slightly higher than 2005. Tax reserves that were no longer required, primarily due to guidance issued by the Internal Revenue Service related to the deductibility of certain complimentary, were reversed during 2006, but such reversal was less than the one-time tax benefit recognized in 2005 due to the repatriation of foreign earnings from Australia – see below.

The effective income tax rate in 2005 was lower than in 2004 due primarily to a tax benefit realized from the repatriation of foreign earnings from Australia as a result of the provisions of the American Jobs Creation Act of 2004 that provided for a special one-time deduction of 85 percent on certain repatriated earnings of foreign subsidiaries. Additionally, in 2004 the Company accrued additional state deferred taxes related to capital investments in New Jersey and incurred non-deductible costs related to a Michigan ballot initiative; neither of these items recurred in 2005.

Cash paid for income taxes increased significantly in 2006 due primarily to the payment of taxes on the gain on Mandalay's sale of MotorCity Casino, taxable income associated with the sales of units at the Signature at MGM Grand, and an increase in pre-tax income resulting from the Mandalay merger and continued improvements in operating results.

In 2005, taxes paid were lower than 2004 in part due to increased tax benefits from stock option exercises and one-time benefit plan deductions, partially offset by decreased accelerated tax depreciation deductions and increased pre-tax income. In addition, a federal tax overpayment from 2004 was applied to 2005, reducing the 2005 tax payments.

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LIQUIDITY AND CAPITAL RESOURCES

Cash Flows – Summary

Our cash flows consisted of the following:

(In thousands)

Year Ended December 31,	2006	2005	2004
Net cash provided by operations.....	\$ 1,241,952	\$ 1,182,796	\$ 829,247
Investing cash flows:			
Capital expenditures.....	(1,884,053)	(759,949)	(702,862)
Acquisition of Mandalay Resort Group, net	—	(4,420,990)	—
Proceeds from the sale of subsidiaries, net	—	—	345,730
Hurricane Katrina insurance proceeds	199,963	46,250	—
Investments in unconsolidated affiliates	(86,000)	(183,000)	(11,602)
Other	117,663	14,872	20,981
Net cash used in investing activities.....	(1,652,427)	(5,302,817)	(347,753)
Financing cash flows:			
Net borrowing (repayment)			
under bank credit facilities	(393,150)	4,725,000	(1,574,489)
Issuance of long-term debt.....	1,500,000	880,156	1,528,957
Repayment of long-term debt.....	(444,500)	(1,408,992)	(52,149)
Issuance of common stock.....	89,113	145,761	135,910
Purchase of treasury stock	(246,892)	(217,316)	(348,895)
Other	5,453	(61,783)	(15,306)
Net cash provided by (used in)			
financing activities.....	510,024	4,062,826	(325,972)
Net increase (decrease) in cash and			
cash equivalents.....	\$ 99,549	\$ (57,195)	\$ 155,522

Cash Flows – Operating Activities

Trends in our operating cash flows tend to follow trends in our operating income, excluding non-cash charges, since our business is primarily cash-based. Cash flow from operations has increased in each of the last two years as a result of higher operating income offset by higher interest and tax payments – tax payments in particular increased to \$369 million in 2006 versus \$76 million in 2005. In addition, \$109 million of insurance recoveries has been reflected as operating cash inflows in 2006 and \$90 million of spending on CityCenter residential projects has been reflected as operating cash outflows in 2006. In 2006, the \$48 million excess tax benefit from stock-based compensation is included as cash flows from financing activities; in prior years, this amount was included in operating cash flows.

At December 31, 2006 and 2005, we held cash and cash equivalents of \$453 million and \$378 million, respectively. We require a certain amount of cash on hand to operate our resorts. The amount required on hand increased in 2006 due to the reopening of Beau Rivage and the implementation of ticket and ATM kiosks on our gaming floors, which increase efficiency for customer transactions but require more cash on hand. Beyond our cash on hand, we utilize a company-wide cash management system to minimize the amount of cash held in banks. Funds are swept from accounts at our resorts daily into central bank accounts, and excess funds are invested overnight or are used to repay borrowings under our bank credit facilities.

Cash Flows – Investing Activities

In 2006, we spent \$1.4 billion, excluding capitalized interest on development projects, including the non-residential components of CityCenter, the permanent MGM Grand Detroit resort and the rebuilding of Beau Rivage. Remaining capital expenditures of \$500 million consisted of capital expenditures at existing resorts, including spending on the new theatre and new restaurants at The Mirage, and capitalized interest. Investments in unconsolidated affiliates of \$86 million in the 2006 period represent partial funding of a required loan, in an amount up to \$100 million (including accrued interest), to MGM Grand Macau. We are accounting for the loan as additional capital investment due to the subordinated nature of our repayment rights under the loan. Also, construction payables increased due to an increase in construction activity at CityCenter, which is included in “Other” in the above table. Offsetting these expenditures was \$200 million in insurance proceeds related to Hurricane Katrina.

In 2005, capital expenditures were \$760 million, and included room enhancements and other projects at MGM Grand Las Vegas, expenditures for The Mirage theatre, and preliminary expenditures for CityCenter and the permanent casino in Detroit. Also in the 2005 period, we completed the acquisition of Mandalay, with net cash paid of \$4.4 billion, and invested \$183 million in MGM Grand Macau.

Capital expenditures in 2004 consisted of capital projects, such as the Bellagio expansion and the KÁ theatre at MGM Grand Las Vegas, and maintenance capital activities, such as room remodel projects at New York – New York and MGM Grand Las Vegas and new restaurant and entertainment amenities at several resorts. The sale of the Golden Nugget Subsidiaries closed in January 2004 with net proceeds to the Company of \$210 million. The sale of MGM Grand Australia closed in July 2004 with net proceeds to the Company of \$136 million.

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Cash Flows – Financing Activities

We borrowed net debt of \$662 million in 2006. The increase in net debt was due primarily to the level of capital expenditures, investments in unconsolidated affiliates and share repurchases. At December 31, 2006 our senior credit facility had a balance of \$4.4 billion, with available liquidity of \$2.6 billion. We had the following issuances of senior notes in 2006:

- In April 2006, we issued \$500 million of 6.75% senior notes due 2013 and \$250 million of 6.875% senior notes due 2016.
- In December 2006, we issued \$750 million of 7.625% senior notes due 2017.

In 2006, we repaid at their scheduled maturity our \$200 million 6.45% senior notes and our \$245 million 7.25% senior notes.

Our primary financing activities in 2005 related to the Mandalay acquisition. The cash purchase price of Mandalay was funded from borrowings under our senior credit facility. We also issued \$875 million of fixed rate debt in various issuances:

- In June 2005, we issued \$500 million of 6.625% senior notes due 2015.
- In September 2005, we issued \$375 million of 6.625% senior notes due 2015.

In the first quarter of 2005, we repaid at their scheduled maturity two issues of senior notes at their maturity – \$176.4 million of 6.625% senior notes and \$300 million of 6.95% senior notes – and redeemed one issue of senior notes due in 2008 – \$200 million of 6.875% senior notes. The redemption of the 2008 senior notes resulted in a loss on early retirement of debt of \$20 million, which is classified as “Other, net” in the accompanying consolidated statements of income. In addition, in the second quarter of 2005 we initiated a tender offer for several issuances of Mandalay's senior notes and senior subordinated notes totaling \$1.5 billion. Holders of \$155 million of Mandalay's senior notes and senior subordinated notes redeemed their holdings. Holders of Mandalay's floating rate convertible senior debentures with a principal amount of \$394 million had the right to redeem the debentures for \$566 million through June 30, 2005. \$388 million of principal of the convertible debentures were tendered for redemption and redeemed for \$558 million.

In 2004, we issued \$1.5 billion of fixed rate debt in various issuances:

- In February and March 2004, we issued \$525 million of 5.875% senior notes due 2014;
- In August 2004, we issued \$550 million of 6.75% senior notes due 2012.
- In September 2004, we issued \$450 million of 6% senior notes due 2009 at a premium to yield 5.65%.

In 2004, we repaid a net \$1.6 billion on our bank credit facilities with the proceeds from the above offerings.

Our share repurchases are only conducted under repurchase programs approved by our Board of Directors and publicly announced. At December 31, 2006, we had 8 million shares available for repurchase under the July 2004 authorization. Our share repurchase activity was as follows:

(In thousands)

Year Ended December 31,	2006	2005	2004
November 2003 authorization (16 million shares purchased).....	\$ —	\$ —	\$ 348,895
July 2004 authorization (6.5 million and 5.5 million shares purchased)	246,892	217,316	—
	<u>\$ 246,892</u>	<u>\$ 217,316</u>	<u>\$ 348,895</u>
Average price of shares repurchased	\$ 37.98	\$ 39.51	\$ 21.80

We received \$89 million, \$146 million and \$136 million in proceeds from the exercise of employee stock options in the years ended December 31, 2006, 2005 and 2004, respectively.

Principal Debt Arrangements

Our long-term debt consists of publicly held senior and subordinated notes and our senior credit facility. We pay fixed rates of interest ranging from 5.875% to 10.25% on the senior and subordinated notes. We pay variable interest based on LIBOR on our senior credit facility. Our current senior credit facility is a \$7.0 billion, five-year credit facility with a syndicate of banks led by Bank of America, N.A., and consists of a \$4.5 billion revolving credit facility and a \$2.5 billion term loan facility. As of December 31, 2006, we had approximately \$2.6 billion of available liquidity under our senior credit facility.

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All of our principal debt arrangements are guaranteed by each of our material subsidiaries, excluding MGM Grand Detroit, LLC and our foreign subsidiaries. MGM Grand Detroit is a guarantor under the senior credit facility, but only to the extent that MGM Grand Detroit, LLC borrows under such facilities. None of our assets serve as collateral for our principal debt arrangements.

Other Factors Affecting Liquidity

Long-term Debt Payable in 2007. We have a total of \$1.4 billion in senior notes and senior subordinated notes that we expect to repay at maturity in the second and third quarters of 2007.

Distributions from The Signature at MGM Grand. Tower 1 of The Signature at MGM Grand was completed in the second quarter of 2006. We received distributions totaling \$51 million related to Tower 1. Distributions for Tower 2 began in 2006 and as of December 31, 2006, we had received \$43 million of such distributions. We expect to receive additional distributions on Tower 2, as well as Tower 3, in 2007. Tower 3 is expected to be completed in April 2007 and closings will begin shortly thereafter.

Sale of Primm Valley Resorts and Laughlin Properties. In October 2006, we entered into an agreement to sell Colorado Belle and Edgewater for \$200 million and an agreement to sell the Primm Valley Resorts for \$400 million. We will use the net proceeds from the sales to repay borrowings under our senior credit facility. Both agreements are subject to regulatory approval and other customary closing conditions, and we expect both sales to be completed by the second quarter of 2007, at which time we expect to record substantial gains on both sales.

CityCenter. In November 2004 we announced a plan to develop a multi-billion dollar urban metropolis, CityCenter, on the Las Vegas Strip between Bellagio and Monte Carlo. CityCenter will feature a 4,000-room casino resort designed by world-famous architect Cesar Pelli; two 400-room boutique hotels, one of which will be managed by luxury hotelier Mandarin Oriental; approximately 470,000 square feet of retail shops, dining and entertainment venues; and approximately 2.3 million square feet of residential space in approximately 2,700 luxury condominium and condominium-hotel units in multiple towers.

We believe CityCenter will cost approximately \$7 billion, excluding land costs. After estimated proceeds of \$2.5 billion from the sale of residential units, we believe the net project cost will be approximately \$4.5 billion. CityCenter is located on a 67-acre site with a carrying value of approximately \$1 billion. We expect the project to open in late 2009.

Detroit Permanent Casino. The permanent casino at MGM Grand Detroit is expected to open in late 2007 at a cost of approximately \$750 million, excluding license and land costs, and will feature a 400-room hotel, 100,000-square foot casino, numerous restaurant and entertainment amenities, and spa and convention facilities. The permanent casino is located on a 25-acre site with a carrying value of approximately \$50 million. In addition, we recorded license rights with a carrying value of \$100 million as a result of MGM Grand Detroit's obligations to the City of Detroit in connection with the permanent casino development agreement.

Macau. We own 50% of MGM Grand Paradise Limited, an entity which is developing, and will operate, MGM Grand Macau, a hotel-casino resort in Macau S.A.R. Pansy Ho Chiu-king owns the other 50% of MGM Grand Paradise Limited. MGM Grand Macau will be located on a prime site and will feature at least 345 table games and 1,035 slots with room for significant expansion. Other features will include approximately 600 rooms, suites and villas, a luxurious spa, convention space, a variety of dining destinations, and other attractions. MGM Grand Macau is estimated to cost approximately \$850 million, excluding license and land rights costs. The subconcession agreement, which allows MGM Grand Paradise Limited to operate a casino in Macau, cost \$200 million and the land rights agreement with the government of Macau is estimated to cost \$60 million. Construction of MGM Grand Macau began in the second quarter of 2005 and the resort is anticipated to open in late 2007. We have invested \$266 million in the venture and are committed to loaning the venture up to an additional \$9 million. The venture has obtained a \$700 million bank credit facility which, along with equity contributions and shareholder loans, is expected to be sufficient to fund the construction of MGM Grand Macau.

MGM Grand Paradise Limited recently announced that it has been engaged in discussions with the Government of Macau S.A.R concerning the development of its second major resort project in Macau to be located in Cotai. The site, scope and financing related to this project are still being evaluated.

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Beau Rivage Rebuilding. Beau Rivage reopened in August 2006. The resort's guest rooms, casino floor and most public areas opened in August, and three restaurants and the showroom opened in December. In addition, Fallen Oak, a Tom Fazio-designed golf course, opened in November 2006.

We believe that a large portion of the costs to rebuild Beau Rivage will be covered under our insurance policies. However, we cannot determine the exact amount of reimbursement until we submit our claims and receive notice of approval from our insurers. It is also uncertain as to the timing of such reimbursements, and we have been funding the rebuilding costs in advance of receiving reimbursements from our insurers.

New York Racing Association. We have entered into a definitive agreement with the New York Racing Association ("NYRA") to manage video lottery terminals ("VLTs") at NYRA's Aqueduct horseracing facility in metropolitan New York. Subject to receipt of requisite New York State approvals, we will assist in the development of the facility, including providing project financing up to \$190 million, and will manage the facility for a term of five years (extended automatically if the financing provided by us is not fully repaid) for a fee. We believe, based on recent legislative changes, that our agreement with respect to installation of VLTs at Aqueduct would extend past the expiration of NYRA's current racing franchise and would be binding on any successor to NYRA in the event NYRA is not granted a new racing franchise. NYRA's recent filing for reorganization under Chapter 11 has introduced additional uncertainties, but we remain committed to the development once these uncertainties are resolved.

Mashantucket Pequot Tribal Nation. We have agreed to enter a strategic alliance, subject to definitive agreements, with the Mashantucket Pequot Tribal Nation ("MPTN"). The strategic alliance has several elements, one of which calls for the creation of a 50/50 joint venture to seek future development opportunities. We have agreed to provide a development subsidiary of MPTN with a loan of up to \$200 million intended to fund a portion of that subsidiary's matching investment in any future joint development projects.

Jean Properties. We have entered into an operating agreement to form a 50/50 joint venture with Jeanco Realty Development, LLC. The venture will master plan and develop a mixed-use community in Jean, Nevada. We will donate the Jean Properties and surrounding land to the joint venture. The value of this contribution per the operating agreement will be \$150 million. We expect to receive a distribution of \$55 million upon transfer of the Jean Properties and surrounding land to the venture, which is subject to the venture obtaining necessary regulatory and other approvals, and \$20 million no later than August 2008. Nevada Landing is expected to close in April 2007.

Off Balance Sheet Arrangements

Our off balance sheet arrangements consist primarily of investments in unconsolidated affiliates, which currently consist primarily of our investments in Borgata, Grand Victoria, Silver Legacy, MGM Grand Macau and The Signature at MGM Grand. We have not entered into any transactions with special purpose entities, nor have we engaged in any derivative transactions other than straightforward interest rate swaps. Our joint venture and unconsolidated affiliate investments allow us to realize the benefits of owning a full-scale resort in a manner that minimizes our initial investment. We provided a guaranty for up to 50% of the interest and principal payment obligations on the construction financing for The Signature at MGM Grand. Otherwise, we have not guaranteed financing obtained by our investees, nor are there any other provisions of the venture agreements which are unusual or subject us to risks to which we would not be subjected if we had full ownership of the resort.

At December 31, 2006, we had outstanding letters of credit totaling \$59 million, of which \$50 million support bonds issued by the Economic Development Corporation of the City of Detroit. These bonds are recorded as a liability in our consolidated balance sheets. This obligation was undertaken to secure our right to develop a permanent casino in Detroit.

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Commitments and Contractual Obligations

The following table summarizes our scheduled contractual commitments as of December 31, 2006:

(In millions)

	2007	2008	2009	2010	2011	Thereafter
Long-term debt.....	\$ 1,402	\$ 377	\$ 1,276	\$ 1,123	\$ 4,914	\$ 3,860
Estimated interest payments on long-term debt ⁽¹⁾	865	772	733	630	548	1,013
Capital leases.....	2	1	—	—	—	—
Operating leases ⁽²⁾	16	14	12	11	11	355
Long-term liabilities ⁽³⁾	116	5	54	5	2	17
Other purchase obligations:						
Construction commitments ⁽⁴⁾	1,012	249	30	3	—	100
Employment agreements.....	134	74	40	4	—	—
Entertainment agreements ⁽⁵⁾	128	30	15	—	—	—
Other ⁽⁶⁾	190	49	3	1	—	4
	<u>\$ 3,865</u>	<u>\$ 1,571</u>	<u>\$ 2,163</u>	<u>\$ 1,777</u>	<u>\$ 5,475</u>	<u>\$ 5,349</u>

- (1) Estimated interest payments on long-term debt are based on principal amounts outstanding at December 31, 2006 and forecasted LIBOR rates for our bank credit facility.
- (2) The majority of these amounts relate to ground leases for land in Primm, Nevada. These lease obligations are included in the pending sale of the Primm Valley Resorts.
- (3) Includes our obligation to support \$50 million of bonds issued by the Economic Development Corporation of the City of Detroit as part of our development agreement with the City. The bonds mature in 2009. Also includes the estimated payments of obligations under our deferred compensation and supplemental executive retirement plans, based on balances as of December 31, 2006 and assumptions of retirement based on plan provisions.
- (4) Included in construction commitments is \$1 billion related to CityCenter. While we have entered into a contract with a general contractor for the construction of most of CityCenter, we are not committed to any component of the project until we request and approve a guaranteed maximum price ("GMP") for the component with the general contractor. We expect to approve GMPs for most or all of the components of CityCenter in 2007.
- (5) Our largest entertainment commitments consist of minimum contractual payments to Cirque du Soleil, which performs shows at several of our resorts. We are generally contractually committed for a period of 12 months based on our ability to exercise certain termination rights; however, we expect these shows to continue for longer periods.
- (6) The amount for 2007 includes approximately \$88 million of open purchase orders. Other commitments are for various contracts, including corporate aircraft purchases, maintenance and other service agreements and advertising commitments.

Summary of Expected Sources and Uses of Funds

In addition to the contractual obligations disclosed above, other significant operating uses of cash in 2007 include tax payments and uncommitted capital spending on CityCenter residential projects. Other significant investing uses of cash flow in 2007 include uncommitted capital expenditures, expected to be approximately \$1.5 billion, excluding capitalized interest and the residential components of CityCenter.

We plan to fund our contractual obligations and other estimated spending through a combination of operating cash flow, available borrowings under our senior credit facility and potential issuances of fixed rate long-term debt. We generated almost \$1.2 billion in operating cash flow in 2006, which included deductions for interest payments, tax payments and certain contractually committed payments reflected in the above table, including operating leases, employment agreements and entertainment agreements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis of our results of operations and liquidity and capital resources are based on our consolidated financial statements. To prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, we must make estimates and assumptions that affect the amounts reported in the consolidated financial statements. We regularly evaluate these estimates and assumptions, particularly in areas we consider to be critical accounting estimates, where changes in the estimates and assumptions could have a material impact on our results of operations, financial position or cash flows. Senior management and the Audit Committee of the Board of Directors have reviewed the disclosures included herein about our critical accounting estimates, and have reviewed the processes to determine those estimates.

Allowance for Doubtful Casino Accounts Receivable

Marker play represents a significant portion of the table games volume at Bellagio, MGM Grand Las Vegas, Mandalay Bay and The Mirage. Our other facilities do not emphasize marker play to the same extent, although we offer markers to customers at those casinos as well.

We maintain strict controls over the issuance of markers and aggressively pursue collection from those customers who fail to pay their marker balances timely. These collection efforts are similar to those used by most large corporations when dealing with overdue customer accounts, including the mailing of statements and delinquency notices, personal contacts, the use of outside collection agencies and civil litigation. Markers are generally

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legally enforceable instruments in the United States. At December 31, 2006 and 2005, approximately 48% and 44%, respectively, of our casino accounts receivable was owed by customers from the United States. Markers are not legally enforceable instruments in some foreign countries, but the United States assets of foreign customers may be reached to satisfy judgments entered in the United States. At December 31, 2006 and 2005, approximately 37% and 42%, respectively, of our casino accounts receivable was owed by customers from the Far East.

We maintain an allowance, or reserve, for doubtful casino accounts at all of our operating casino resorts. The provision for doubtful accounts, an operating expense, increases the allowance for doubtful accounts. We regularly evaluate the allowance for doubtful casino accounts. At resorts where marker play is not significant, the allowance is generally established by applying standard reserve percentages to aged account balances. At resorts where marker play is significant, we apply standard reserve percentages to aged account balances under a specified dollar amount and specifically analyze the collectibility of each account with a balance over the specified dollar amount, based on the age of the account, the customer's financial condition, collection history and any other known information. We also monitor regional and global economic conditions and forecasts to determine if reserve levels are adequate.

The collectibility of unpaid markers is affected by a number of factors, including changes in currency exchange rates and economic conditions in the customers' home countries. Because individual customer account balances can be significant, the allowance and the provision can change significantly between periods, as information about a certain customer becomes known or as changes in a region's economy occur.

The following table shows key statistics related to our casino receivables:

(In thousands)

At December 31,	2006	2005	2004
Casino accounts receivable.....	\$ 248,044	\$ 221,873	\$ 174,713
Allowance for doubtful casino accounts receivable.....	83,327	68,768	57,111
Allowance as a percentage of casino accounts receivable.....	34%	31%	33%
Median age of casino accounts receivable..	46 days	39 days	33 days
Percentage of casino accounts outstanding over 180 days	21%	19%	15%

The allowance for doubtful accounts as a percentage of casino accounts receivable has increased slightly in the current year due to aging of accounts. At December 31, 2006, a 100 basis-point change in the allowance for doubtful accounts as a percentage of casino accounts receivable would change net income by \$1.6 million, or less than \$0.01 per share.

Fixed asset capitalization and depreciation policies

Property and equipment are stated at cost. For the majority of our property and equipment, cost has been determined based on estimated fair values in connection with the Mandalay acquisition and the May 2000 Mirage Resorts acquisition. Maintenance and repairs that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets. We account for construction projects in accordance with Statement of Financial Accounting Standards No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects." When we construct assets, we capitalize direct costs of the project, including fees paid to architects and contractors, property taxes, and certain costs of our design and construction subsidiaries.

We must make estimates and assumptions when accounting for capital expenditures. Whether an expenditure is considered a maintenance expense or a capital asset is a matter of judgment. When constructing or purchasing assets, we must determine whether existing assets are being replaced or otherwise impaired, which also may be a matter of judgment. Our depreciation expense is highly dependent on the assumptions we make about our assets' estimated useful lives. We determine the estimated useful lives based on our experience with similar assets, engineering studies, and our estimate of the usage of the asset. Whenever events or circumstances occur which change the estimated useful life of an asset, we account for the change prospectively.

In accordance with Statement of Financial Accounting Standards No. 34, "Capitalization of Interest Cost" ("SFAS 34"), interest cost associated with major development and construction projects is capitalized as part of the cost of the project. Interest is typically capitalized on amounts expended on the project using the weighted-average cost of our outstanding borrowings, since we typically do not borrow funds directly related to a development project. Capitalization of interest starts when construction activities, as defined in SFAS 34, begin and ceases when construction is substantially complete or development activity is suspended for more than a brief period.

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Impairment of Long-lived Assets

We evaluate our property and equipment and other long-lived assets for impairment in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." For assets to be disposed of, we recognize the asset at the lower of carrying value or fair market value less costs of disposal, as estimated based on comparable asset sales, offers received, or a discounted cash flow model. For assets to be held and used, we review for impairment whenever indicators of impairment exist. We then compare the estimated future cash flows of the asset, on an undiscounted basis, to the carrying value of the asset. If the undiscounted cash flows exceed the carrying value, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying value, then an impairment is recorded based on the fair value of the asset, typically measured using a discounted cash flow model. If an asset is still under development, future cash flows include remaining construction costs. All recognized impairment losses, whether for assets to be disposed of or assets to be held and used, are recorded as operating expenses.

There are several estimates, assumptions and decisions in measuring impairments of long-lived assets. First, management must determine the usage of the asset. To the extent management decides that an asset will be sold, it is more likely that an impairment may be recognized. Assets must be tested at the lowest level for which identifiable cash flows exist. This means that some assets must be grouped, and management has some discretion in the grouping of assets. Future cash flow estimates are, by their nature, subjective and actual results may differ materially from our estimates.

On a quarterly basis, we review our major long-lived assets to determine if events have occurred or circumstances exist that indicate a potential impairment. We estimate future cash flows using our internal budgets. When appropriate, we discount future cash flows using our weighted-average cost of capital, developed using a standard capital asset pricing model.

See "Results of Operations" for discussion of write-downs and impairments recorded in 2006, 2005 and 2004. In October 2006, we entered into agreements to sell Primm Valley Resorts and Laughlin Properties. The fair value less costs to sell exceeds the carrying value, therefore no impairment was indicated. In February 2004, we entered into an

agreement to sell MGM Grand Australia. The fair value less costs to sell exceeded the carrying value, therefore no impairment was indicated. Other than the above items, we are not aware of events or circumstances through December 31, 2006 that would cause us to review any material long-lived assets for impairment.

Income taxes

We are subject to income taxes in the United States, and in several states and foreign jurisdictions in which we operate. We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires the recognition of deferred tax assets, net of applicable reserves, related to net operating loss carryforwards and certain temporary differences. The standard requires recognition of a future tax benefit to the extent that realization of such benefit is more likely than not. Otherwise, a valuation allowance is applied.

At December 31, 2006, we had \$144 million of deferred tax assets and \$3.5 billion of deferred tax liabilities. Except for certain New Jersey state net operating losses, certain other New Jersey state deferred tax assets, a foreign tax credit carryforward and certain foreign deferred tax assets, we believe that it is more likely than not that our deferred tax assets are fully realizable because of the future reversal of existing taxable temporary differences and future projected taxable income. The valuation allowance at December 31, 2006 related to the New Jersey deferred tax assets, the foreign tax credit carryforward and foreign deferred tax assets were \$6 million, \$2 million and \$2 million, respectively.

Our income tax returns are subject to examination by the Internal Revenue Service ("IRS") and other tax authorities. While positions taken in tax returns are sometimes subject to uncertainty in the tax laws, we do not take such positions unless we have "substantial authority" to do so under the Internal Revenue Code and applicable regulations. We may take positions on our tax returns based on substantial authority that are not ultimately accepted by the IRS.

We assess such potential unfavorable outcomes based on the criteria of Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" ("SFAS 5"). We establish a tax reserve if an unfavorable outcome is probable and the amount of the unfavorable outcome can be reasonably estimated. We assess the potential outcomes of

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tax uncertainties on a quarterly basis. In determining whether the probable criterion of SFAS 5 is met, we presume that the taxing authority will focus on the exposure and we assess the probable outcome of a particular issue based upon the relevant legal and technical merits. We also apply our judgment regarding the potential actions by the tax authorities and resolution through the settlement process.

We maintain required tax reserves until such time as the underlying issue is resolved. When actual results differ from reserve estimates, we adjust the income tax provision and our tax reserves in the period resolved. For tax years that are examined by taxing authorities, we adjust tax reserves in the year the tax examinations are settled. For tax years that are not examined by taxing authorities, we adjust tax reserves in the year that the statute of limitations expires. In addition, resolution of uncertainties may occur upon the issuance of specific IRS guidance on the issue. Our estimate of the potential outcome for any uncertain tax issue is highly judgmental, and we believe we have adequately provided for any reasonable and foreseeable outcomes related to uncertain tax matters. See also "Recently Issued Accounting Standards — Uncertain Tax Positions."

In the third quarter of 2006, we reversed tax reserves of \$6 million that were no longer required based upon guidance issued by the IRS during the quarter related to the deductibility of certain complimentary, resulting in a reduction in our provision for income taxes. In the third quarter of 2004, the statute of limitations expired for our 2000 tax return, resulting in a reduction of our tax reserves of \$6 million and a corresponding reduction in our provision for income taxes.

The IRS is in the final stages of auditing our 2001 and 2002 tax returns and has initiated an audit of the 2003 and 2004 tax returns. The tax returns for subsequent years are also subject to possible future examination. The statutes of limitation for assessing tax have expired on all years prior to 2001.

We classify reserves for tax uncertainties within "Other accrued liabilities" in the accompanying consolidated balance sheets, separate from any related income tax payable or deferred income taxes. Reserve amounts may relate to the deductibility of an item, as well as potential interest associated with those items.

A portion of our tax reserves was assumed in the Mirage Resorts and Mandalay acquisitions. Any future adjustments to the acquired Mirage Resorts and Mandalay tax reserves will be recorded as an adjustment to goodwill.

Stock-based Compensation

We account for stock-based compensation in accordance with SFAS 123(R). We measure fair value of share-based awards using the Black-Scholes model. There are several management assumptions required to determine the inputs into the Black-Scholes model. We have determined that our volatility and expected term assumptions can significantly impact the fair value of stock-based awards. The extent of the impact will depend, in part, on the extent of stock-based awards in any given year. In 2006, we granted 1.9 million stock appreciation rights with a total fair value of \$28 million. In 2005, we granted 14.6 million stock options and stock appreciation rights with a total fair value of \$186 million.

For 2006 awards, a 10% change in the volatility assumption (33% for 2006; for sensitivity analysis, volatility was assumed to be 30% and 36%) would have resulted in a \$1.8 million, or 6%, change in fair value. A 10% change in the expected term assumption (4.1 years for 2006; for sensitivity analysis, expected term was assumed to be 3.7 years and 4.5 years) would have resulted in a \$1.5 million, or 5%, change in fair value. These changes in fair value would have been recognized over the five-year vesting period of such awards. It should be noted that a change in the expected term would cause other changes, since the risk-free rate and volatility assumptions are specific to the term; we did not attempt to adjust those assumptions in performing the sensitivity analysis above.

Business Combinations

We account for business combinations in accordance with Statement of Financial Accounting Standards No. 141, "Accounting for Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets" ("SFAS 142"), and related interpretations. SFAS 141 requires that we record the net assets of acquired businesses at fair value, and we must make estimates and assumptions to determine the fair value of these acquired assets and assumed liabilities.

The determination of the fair value of acquired assets and assumed liabilities in the Mandalay acquisition required us to make certain fair value estimates, primarily related to land, property and equipment and intangible assets. These estimates require significant judgment and include a variety of assumptions in determining the fair value of acquired assets and assumed liabilities, including market data, estimated future cash flows, growth rates, current replacement cost for similar capacity for certain fixed assets, market rate assumptions for contractual obligations and settlement plans for contingencies and liabilities.

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RECENTLY ISSUED ACCOUNTING STANDARDS

Uncertain Tax Positions

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109," ("FIN 48"). FIN 48 requires that tax positions be assessed using a two-step process. A tax position is recognized if it meets a "more likely than not" threshold and is measured at the largest amount of benefit that is greater than 50 percent likely of being realized. Uncertain tax positions must be reviewed at each balance sheet date. Liabilities recorded as a result of this analysis must generally be recorded separately from any current or deferred income tax accounts, and are classified based on the time until expected payment.

FIN 48 also requires additional disclosures related to uncertain tax positions, including a reconciliation of changes in the beginning and ending aggregate amounts of liability recorded for uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006.

Upon adoption of FIN 48 in the first quarter of 2007, we expect to record an adjustment to stockholders' equity as a cumulative effect of change in accounting principle and a reclassification between deferred income taxes and other accrued liabilities. We have completed an initial evaluation of the impact of the adoption of FIN 48 and determined that adoption will not have a material impact on our financial position or results of operations.

Materiality of Financial Statement Misstatements

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108 ("SAB 108"), which documents the SEC staff's views regarding the process of quantifying financial statement misstatements. Under SAB 108, we must evaluate the materiality of an identified unadjusted error by considering the impact of both the current year error and the cumulative error, if applicable. This also means that both the impact on the current period income statement and the period-end balance sheet must be considered.

SAB 108 is effective for fiscal years ending after November 15, 2006. Any past adjustments required to be recorded as a result of adopting SAB 108 are recorded as a cumulative effect adjustment to the opening balance of retained earnings. The adoption of SAB 108 had no impact on our financial position or results of operations.

Planned Major Maintenance Activities

In September 2006, the Financial Accounting Standards Board issued FASB Staff Position No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities," ("FSP AUG AIR-1"). FSP AUG AIR-1 prohibits the use of the "accrue-in-advance" method of accounting for planned major maintenance activities, previously one of four acceptable methods included in the AICPA Industry Audit Guide for Airlines. FSP AUG AIR-1 is effective for fiscal years beginning after December 15, 2006.

We do not believe the adoption of FSP AUG AIR-1 will have any impact on our financial position or results of operations. We expense planned major maintenance activities at our operating resorts as incurred. For our corporate aircraft, we apply the "deferral" method of accounting to planned engine overhauls; the deferral method is one of the three remaining acceptable methods included in the Industry Audit Guide for Airlines. Under the deferral method, the cost of each engine overhaul is capitalized and amortized over the estimated period to the next required overhaul.

MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. Our primary exposure to market risk is interest rate risk associated with our long-term debt. We attempt to limit our exposure to interest rate risk by managing the mix of our long-term fixed rate borrowings and short-term borrowings under our bank credit facilities.

As of December 31, 2006, long-term fixed rate borrowings represented approximately 66% of our total borrowings. Based on December 31, 2006 debt levels, an assumed 100 basis-point change in LIBOR would cause our annual interest cost to change by approximately \$44 million.

Management's Annual Report on Internal Control Over Financial Reporting

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Management's Responsibilities

Management is responsible for establishing and maintaining adequate internal control over financial reporting for MGM MIRAGE and subsidiaries (the "Company").

Objective of Internal Control Over Financial Reporting

In establishing adequate internal control over financial reporting, management has developed and maintained a system of internal control, policies and procedures designed to provide reasonable assurance that information contained in the accompanying consolidated financial statements and other information presented in this annual report is reliable, does not contain any untrue statement of a material fact or omit to state a material fact, and fairly presents in all material respects the financial condition, results of operations and cash flows of the Company as of and for the periods presented in this annual report. Significant elements of the Company's internal control over financial reporting include, for example:

- Hiring skilled accounting personnel and training them appropriately;
- Written accounting policies;
- Written documentation of accounting systems and procedures;
- Segregation of incompatible duties;
- Internal audit function to monitor the effectiveness of the system of internal control;
- Oversight by an independent Audit Committee of the Board of Directors.

Management's Evaluation

Management has evaluated the Company's internal control over financial reporting using the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation as of December 31, 2006, management believes that the Company's internal control over financial reporting is effective in achieving the objectives described above.

Report of Independent Registered Public Accounting Firm

Deloitte & Touche LLP audited the Company's consolidated financial statements as of and for the period ended December 31, 2006 and issued their report thereon, which is included in this annual report. Deloitte & Touche LLP has also issued an attestation report on management's assessment and on the effectiveness of the Company's internal control over financial reporting and such report is also included in this annual report.

Reports of Independent Registered Public Accounting Firm

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF MGM MIRAGE

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that MGM MIRAGE and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2006 of the Company and our report dated February 28, 2007 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the adoption of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

Deloitte & Touche LLP

Las Vegas, Nevada
February 28, 2007

Reports of Independent Registered Public Accounting Firm

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF MGM MIRAGE

We have audited the accompanying consolidated balance sheets of MGM MIRAGE and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of MGM MIRAGE and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the consolidated financial statements, on January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP

Las Vegas, Nevada
February 28, 2007

Consolidated Balance Sheets

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

At December 31,	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents.....	\$ 452,944	\$ 377,933
Accounts receivable, net.....	362,921	352,673
Inventories.....	118,459	111,825
Income tax receivable.....	18,619	—
Deferred income taxes.....	68,046	65,518
Prepaid expenses and other.....	124,414	110,634
Assets held for sale	369,348	—
Total current assets.....	<u>1,514,751</u>	<u>1,018,583</u>
Real estate under development	188,433	—
Property and equipment, net	17,241,860	16,541,651
Other assets		
Investments in unconsolidated affiliates	1,092,257	931,154
Goodwill	1,300,747	1,314,561
Other intangible assets, net	367,200	377,479
Deposits and other assets, net	440,990	515,992
Total other assets.....	<u>3,201,194</u>	<u>3,139,186</u>
	<u>\$ 22,146,238</u>	<u>\$ 20,699,420</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable.....	\$ 182,154	\$ 156,373
Construction payable.....	234,486	109,228
Income taxes payable.....	—	125,503
Current portion of long-term debt	—	14
Accrued interest on long-term debt	232,957	229,930
Other accrued liabilities.....	958,244	913,520
Liabilities related to assets held for sale	40,259	—
Total current liabilities	<u>1,648,100</u>	<u>1,534,568</u>
Deferred income taxes	3,441,157	3,378,371
Long-term debt	12,994,869	12,355,433
Other long-term obligations	212,563	195,976
Commitments and contingencies (Note 12)		
Stockholders' equity		
Common stock, \$.01 par value: authorized 600,000,000 shares, issued 362,886,027 and 357,262,405 shares; outstanding 283,909,000 and 285,069,516 shares.....	3,629	3,573
Capital in excess of par value	2,806,636	2,586,587
Deferred compensation	—	(3,618)
Treasury stock, at cost (78,977,027 and 72,192,889 shares).....	(1,597,120)	(1,338,394)
Retained earnings.....	2,635,989	1,987,725
Accumulated other comprehensive income (loss)	415	(801)
Total stockholders' equity.....	<u>3,849,549</u>	<u>3,235,072</u>
	<u>\$ 22,146,238</u>	<u>\$ 20,699,420</u>

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

Consolidated Statements of Income

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Year Ended December 31,	2006	2005	2004
Revenues			
Casino	\$ 3,130,438	\$ 2,764,546	\$ 2,080,752
Rooms	1,991,477	1,634,588	889,443
Food and beverage	1,483,914	1,271,650	807,535
Entertainment	459,540	426,175	268,595
Retail	278,695	253,214	181,630
Other	452,669	339,424	184,187
	<u>7,796,733</u>	<u>6,689,597</u>	<u>4,412,142</u>
Less: Promotional allowances	(620,777)	(560,754)	(410,338)
	<u>7,175,956</u>	<u>6,128,843</u>	<u>4,001,804</u>
Expenses			
Casino	1,612,992	1,422,472	1,028,351
Rooms	539,442	454,082	237,837
Food and beverage	902,278	782,372	462,864
Entertainment	333,619	305,799	191,256
Retail	179,929	164,189	116,556
Other	245,126	187,956	101,780
General and administrative	1,070,942	889,806	565,387
Corporate expense	161,507	130,633	77,910
Preopening and start-up expenses	36,362	15,752	10,276
Restructuring costs (credit)	1,035	(59)	5,625
Property transactions, net	(40,980)	37,021	8,234
Depreciation and amortization	629,627	560,626	382,773
	<u>5,671,879</u>	<u>4,950,649</u>	<u>3,188,849</u>
Income from unconsolidated affiliates	<u>254,171</u>	<u>151,871</u>	<u>119,658</u>
Operating income	<u>1,758,248</u>	<u>1,330,065</u>	<u>932,613</u>
Non-operating income (expense)			
Interest income	11,192	12,037	5,663
Interest expense, net	(760,361)	(640,758)	(367,583)
Non-operating items from unconsolidated affiliates	(16,063)	(15,825)	(12,298)
Other, net	(15,090)	(18,434)	(9,585)
	<u>(780,322)</u>	<u>(662,980)</u>	<u>(383,803)</u>
Income from continuing operations before income taxes	<u>977,926</u>	<u>667,085</u>	<u>548,810</u>
Provision for income taxes	(341,930)	(231,719)	(203,601)
Income from continuing operations	<u>635,996</u>	<u>435,366</u>	<u>345,209</u>
Discontinued operations			
Income from discontinued operations, including a gain on disposal of \$82,538 in 2004	18,473	11,815	101,212
Provision for income taxes	(6,205)	(3,925)	(34,089)
	<u>12,268</u>	<u>7,890</u>	<u>67,123</u>
Net income	<u>\$ 648,264</u>	<u>\$ 443,256</u>	<u>\$ 412,332</u>
Basic income per share of common stock			
Income from continuing operations	\$ 2.25	\$ 1.53	\$ 1.24
Discontinued operations	0.04	0.03	0.24
Net income per share	<u>\$ 2.29</u>	<u>\$ 1.56</u>	<u>\$ 1.48</u>
Diluted income per share of common stock			
Income from continuing operations	\$ 2.18	\$ 1.47	\$ 1.19
Discontinued operations	0.04	0.03	0.24
Net income per share	<u>\$ 2.22</u>	<u>\$ 1.50</u>	<u>\$ 1.43</u>

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

Consolidated Statements of Cash Flows

(IN THOUSANDS)

Year Ended December 31,	2006	2005	2004
Cash flows from operating activities			
Net income	\$ 648,264	\$ 443,256	\$ 412,332
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	653,919	588,102	403,039
Amortization of debt discounts, premiums and issuance costs	(3,096)	5,791	31,217
Provision for doubtful accounts	47,950	25,846	(3,522)
Stock-based compensation	73,626	7,323	7,170
Property transactions, net	(41,135)	36,880	8,661
Loss on early retirements of debt	—	18,139	5,527
(Gain) loss on disposal of discontinued operations	—	—	(82,538)
Income from unconsolidated affiliates	(229,295)	(134,132)	(107,360)
Distributions from unconsolidated affiliates	212,477	89,857	51,500
Deferred income taxes	59,764	51,759	55,647
Tax benefit from stock option exercises	—	94,083	38,911
Changes in current assets and liabilities:			
Accounts receivable	(65,467)	(68,159)	(48,533)
Inventories	(10,431)	(7,017)	(8,557)
Income taxes receivable and payable	(129,929)	8,058	14,891
Prepaid expenses and other	(21,921)	10,830	1,109
Accounts payable and accrued liabilities	111,559	75,404	72,392
Increase in real estate under development	(89,724)	—	—
Hurricane Katrina insurance recoveries	108,786	—	—
Change in Hurricane Katrina insurance receivable	(46,581)	(46,275)	—
Other	(36,814)	(16,949)	(22,639)
Net cash provided by operating activities	<u>1,241,952</u>	<u>1,182,796</u>	<u>829,247</u>
Cash flows from investing activities			
Capital expenditures	(1,884,053)	(759,949)	(702,862)
Acquisition of Mandalay Resort Group, net of cash acquired	—	(4,420,990)	—
Proceeds from the sale of the Golden Nugget Subsidiaries and MGM Grand Australia, net	—	—	345,730
Hurricane Katrina insurance recoveries	199,963	46,250	—
Dispositions of property and equipment	11,375	7,828	32,978
Investments in unconsolidated affiliates	(86,000)	(183,000)	(11,602)
Change in construction payable	125,258	40,803	17,329
Other	(18,970)	(33,759)	(29,326)
Net cash used in investing activities	<u>(1,652,427)</u>	<u>(5,302,817)</u>	<u>(347,753)</u>
Cash flows from financing activities			
Net borrowings (repayments) under bank credit facilities — maturities of 90 days or less	756,850	325,000	(1,574,489)
Borrowings under bank credit facilities — maturities longer than 90 days	7,000,000	4,400,000	—
Repayments under bank credit facilities — maturities longer than 90 days	(8,150,000)	—	—
Issuance of long-term debt	1,500,000	880,156	1,528,957
Repayment of long-term debt	(444,500)	(1,408,992)	(52,149)
Debt issuance costs	(28,383)	(50,331)	(13,349)
Issuance of common stock	89,113	145,761	135,910
Purchases of treasury stock	(246,892)	(217,316)	(348,895)
Excess tax benefits from stock-based compensation	47,330	—	—
Other	(13,494)	(11,452)	(1,957)
Net cash provided by (used in) financing activities	<u>510,024</u>	<u>4,062,826</u>	<u>(325,972)</u>
Cash and cash equivalents			
Net increase (decrease) for the year	99,549	(57,195)	155,522
Cash related to discontinued operations	(24,538)	—	—
Balance, beginning of year	377,933	435,128	279,606
Balance, end of year	<u>\$ 452,944</u>	<u>\$ 377,933</u>	<u>\$ 435,128</u>
Supplemental cash flow disclosures			
Interest paid, net of amounts capitalized	\$ 778,590	\$ 588,587	\$ 321,008
State, federal and foreign income taxes paid, net of refunds	369,450	75,776	128,393

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

Consolidated Statements of Stockholders' Equity

(IN THOUSANDS)

	Common Stock		Capital in Excess of Par Value	Deferred Compensation	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares Outstanding	Par Value						
For the Years Ended December 31, 2006, 2005 and 2004								
Balances, January 1, 2004	286,192	\$ 3,366	\$ 2,171,625	\$ (19,174)	\$ (760,594)	\$ 1,132,220	\$ 6,345	\$ 2,533,788
Net income	—	—	—	—	—	412,332	—	412,332
Currency translation adjustment	—	—	—	—	—	—	(10,336)	(10,336)
Derivative income from unconsolidated affiliate, net	—	—	—	—	—	—	2,824	2,824
Total comprehensive income								404,820
Stock-based compensation	—	—	—	7,170	—	—	—	7,170
Tax benefit from stock-based compensation	—	—	38,911	—	—	—	—	38,911
Cancellation of restricted stock	(64)	—	(64)	1,126	(1,062)	—	—	—
Issuance of common stock upon exercise of stock options	10,612	106	135,857	—	—	(53)	—	135,910
Purchases of treasury stock	(16,000)	—	—	—	(348,895)	—	—	(348,895)
Balances, December 31, 2004	280,740	3,472	2,346,329	(10,878)	(1,110,551)	1,544,499	(1,167)	2,771,704
Net income	—	—	—	—	—	443,256	—	443,256
Currency translation adjustment	—	—	—	—	—	—	(1,631)	(1,631)
Derivative income from unconsolidated affiliate, net	—	—	—	—	—	—	1,997	1,997
Total comprehensive income								443,622
Stock-based compensation	—	—	—	7,323	—	—	—	7,323
Tax benefit from stock-based compensation	—	—	94,083	—	—	—	—	94,083
Cancellation of restricted stock	(24)	—	—	422	(422)	—	—	—
Issuance of common stock upon exercise of stock options	10,115	101	145,690	—	—	(30)	—	145,761
Purchases of treasury stock	(5,500)	—	—	—	(217,316)	—	—	(217,316)
Restricted shares turned in for tax withholding	(261)	—	—	—	(10,105)	—	—	(10,105)
Other	—	—	485	(485)	—	—	—	—
Balances, December 31, 2005	285,070	3,573	2,586,587	(3,618)	(1,338,394)	1,987,725	(801)	3,235,072
Net income	—	—	—	—	—	648,264	—	648,264
Currency translation adjustment	—	—	—	—	—	—	1,213	1,213
Derivative income from unconsolidated affiliate, net	—	—	—	—	—	—	3	3
Total comprehensive income								649,480
Stock-based compensation	—	—	71,186	3,238	—	—	—	74,424
Tax benefit from stock-based compensation	—	—	60,209	—	—	—	—	60,209
Cancellation of restricted stock	(4)	—	—	70	(70)	—	—	—
Issuance of common stock upon exercise of stock options	5,623	56	89,057	—	—	—	—	89,113
Purchases of treasury stock	(6,500)	—	—	—	(246,892)	—	—	(246,892)
Restricted shares turned in for tax withholding	(280)	—	—	—	(11,764)	—	—	(11,764)
Other	—	—	(403)	310	—	—	—	(93)
Balances, December 31, 2006	283,909	\$ 3,629	\$ 2,806,636	\$ —	\$ (1,597,120)	\$ 2,635,989	\$ 415	\$ 3,849,549

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

Notes to Consolidated Financial Statements

MGM MIRAGE 2006 ANNUAL REPORT

NOTE 1 — ORGANIZATION

MGM MIRAGE (the “Company”) is a Delaware corporation, incorporated on January 29, 1986. As of December 31, 2006, approximately 56% of the outstanding shares of the Company’s common stock were owned by Tracinda Corporation, a Nevada corporation wholly owned by Kirk Kerkorian. MGM MIRAGE acts largely as a holding company and, through wholly-owned subsidiaries, owns and/or operates casino resorts. On April 25, 2005, the Company completed its merger with Mandalay Resort Group (“Mandalay”) – see Note 3.

The Company owns and operates the following casino resorts in Las Vegas, Nevada: Bellagio, MGM Grand Las Vegas, Mandalay Bay, The Mirage, Luxor, Treasure Island (“TI”), New York-New York, Excalibur, Monte Carlo, Circus Circus Las Vegas and Slots-A-Fun. The Company owns three resorts in Primm, Nevada, at the California/Nevada state line – Whiskey Pete’s, Buffalo Bill’s and the Primm Valley Resort (the “Primm Valley Resorts”) – as well as two championship golf courses located near the resorts. Other Nevada operations include Circus Circus Reno, Colorado Belle and Edgewater in Laughlin, Gold Strike and Nevada Landing in Jean (the “Jean Properties”), and Railroad Pass in Henderson. The Company has a 50% investment in Silver Legacy in Reno, which is adjacent to Circus Circus Reno. In addition, the Company owns a 50% interest in the entity developing The Signature at MGM Grand, which is adjacent to MGM Grand Las Vegas. The Signature is a condominium-hotel development, with one tower open, one tower completed and in the closing process, and a final tower currently under construction. The Company also owns Shadow Creek, an exclusive world-class golf course located approximately ten miles north of its Las Vegas Strip resorts.

In October 2006, the Company entered into an agreement to sell Colorado Belle and Edgewater (the “Laughlin Properties”) for \$200 million, and an agreement to sell the Primm Valley Resorts, not including the two golf courses, for \$400 million. The Company expects to complete the sale of the Laughlin Properties and Primm Valley Resorts by the second quarter of 2007. Both agreements are subject to regulatory approval and other customary closing conditions. See Note 4 for further information regarding these discontinued operations.

In February 2007, the Company entered into an agreement to form a 50/50 joint venture whose purpose is to develop a mixed-use community in Jean, Nevada. The Company will contribute the Jean Properties and surrounding land to the venture. Nevada Landing is expected to close in April 2007. See Note 21 for further discussion.

The Company and its local partners own MGM Grand Detroit, LLC, which operates a casino in an interim facility located in downtown Detroit, Michigan. MGM Grand Detroit, LLC is currently developing a permanent casino facility, expected to open in late 2007 at a cost of approximately \$750 million, excluding license and land costs. The permanent casino is located on a 25-acre site with a carrying value of approximately \$50 million. In addition, the Company recorded license rights with a carrying value of \$100 million as a result of MGM Grand Detroit’s obligations to the City of Detroit in connection with the permanent casino development agreement. The Company also owns and operates two resorts in Mississippi – Beau Rivage in Biloxi and Gold Strike-Tunica. Beau Rivage reopened in August 2006, after having been closed due to damage sustained as a result of Hurricane Katrina in 2005. The Company has 50% interests in two resorts outside of Nevada – Borgata and Grand Victoria. Borgata is a casino resort located on Renaissance Point in the Marina area of Atlantic City, New Jersey. Boyd Gaming Corporation owns the other 50% of Borgata and also operates the resort. Grand Victoria is a riverboat in Elgin, Illinois – an affiliate of Hyatt Gaming owns the other 50% of Grand Victoria and also operates the resort.

The Company owns 50% of MGM Grand Paradise Limited, a joint venture with Pansy Ho Chiu-king that is constructing and will operate a hotel-casino resort, MGM Grand Macau, in Macau S.A.R. MGM Grand Macau is estimated to cost approximately \$850 million, excluding license and land rights costs. The subconcession agreement, which allows MGM Grand Paradise Limited to operate a casino in Macau, cost \$200 million and the land rights agreement with the government of Macau is estimated to cost \$60 million. The resort is anticipated to open in late 2007.

The Company is developing CityCenter on the Las Vegas Strip, between Bellagio and Monte Carlo. CityCenter will feature a 4,000-room casino resort designed by world-famous architect Cesar Pelli; two 400-room non-gaming boutique hotels, one of which will be managed by luxury hotelier Mandarin Oriental; approximately 470,000 square feet of retail shops, dining and entertainment venues; and approximately 2.3 million square feet of residential space in approximately 2,700 luxury condominium and condominium-hotel units in multiple towers. The overall cost of CityCenter is estimated at approximately \$7 billion, excluding land costs. After estimated proceeds of \$2.5 billion from the sale of residential units, net project cost is estimated at approximately \$4.5 billion. CityCenter is located on a 67-acre site with a carrying value of approximately \$1 billion. CityCenter is expected to open in late 2009.

Notes to Consolidated Financial Statements

MGM MIRAGE 2006 ANNUAL REPORT

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Principles of consolidation. The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in unconsolidated affiliates which are 50% or less owned and do not meet the consolidation criteria of Financial Accounting Standards Board Interpretation No. 46(R) (as amended), "Consolidation of Various Interest Entities – an Interpretation of ARB No. 51" ("FIN 46(R)"), are accounted for under the equity method. All significant intercompany balances and transactions have been eliminated in consolidation. The Company's operations are primarily in one segment – operation of casino resorts. Other operations, and foreign operations, are not material.

Management's use of estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Those principles require the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial statement impact of Hurricane Katrina. The Company maintained insurance covering both property damage and business interruption as a result of wind and flood damage sustained at Beau Rivage. The deductible under this coverage was \$15 million, based on the amount of damage incurred. The net book value of damaged assets was \$126 million and the Company incurred \$34 million in clean-up and demolition costs.

Business interruption coverage covered lost profits and other costs incurred during the construction period and up to six months following the re-opening of the facility. Costs during the interruption period were less than the anticipated business interruption proceeds. As of December 31, 2006, the Company had received insurance recoveries of \$355 million. This amount is in excess of the net book value of damaged assets, clean-up and demolition costs, and post-storm costs of \$99 million incurred through December 31, 2006. Post-storm costs and expected recoveries are recorded net within "General and administrative" expenses in the accompanying consolidated statements of income, except for depreciation of non-damaged assets, which is classified as "Depreciation and amortization." The excess non-refundable insurance recoveries have been recognized as income related to property

damage and have therefore been classified as "Property transactions, net" in the accompanying consolidated statements of income. The Company has treated these amounts as related to property damage based on its current estimate of the total claim for property damage and business interruption compared to the recoveries received to date. Insurance recoveries of \$10 million were submitted to the Company under reservation of rights and have therefore been deferred and included in "Other accrued liabilities" in the accompanying consolidated balance sheet as of December 31, 2006.

Insurance proceeds are classified in the statement of cash flows based on the coverage the proceeds relate to; however, the Company's insurance policy includes undifferentiated coverage for both property damage and business interruption. The Company treated insurance recoveries as being related to property damage, and therefore classified the proceeds as an investing cash flow, until the full \$160 million of damaged assets and demolition costs were recovered. The Company treated additional recoveries up to the amount of the post-storm costs incurred as being related to business interruption, and therefore classified these proceeds as an operating cash flow. As explained above, the insurance recoveries in excess of the damaged assets, demolition costs, and post-storm costs have been treated as related to property damage and are therefore classified as investing cash flows in the accompanying consolidated statement of cash flows.

Cash and cash equivalents. Cash and cash equivalents include investments and interest bearing instruments with maturities of three months or less at the date of acquisition. Such investments are carried at cost which approximates market value. Book overdraft balances resulting from the Company's cash management program are recorded as accounts payable.

Accounts receivable and credit risk. Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of casino accounts receivable. The Company issues markers to approved casino customers following background checks and investigations of creditworthiness. At December 31, 2006, a substantial portion of the Company's receivables were due from customers residing in foreign countries. Business or economic conditions or other significant events in these countries could affect the collectibility of such receivables.

Trade receivables, including casino and hotel receivables, are typically non-interest bearing and are initially recorded at cost. Accounts are written off when management deems the account to be uncollectible. Recoveries of accounts previously written off are recorded when received. An estimated allowance for doubtful accounts is maintained to reduce the

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Company's receivables to their carrying amount, which approximates fair value. The allowance is estimated based on specific review of customer accounts as well as historical collection experience and current economic and business conditions. Management believes that as of December 31, 2006, no significant concentrations of credit risk existed for which an allowance had not already been recorded.

Inventories. Inventories consist of food and beverage, retail merchandise and operating supplies, and are stated at the lower of cost or market. Cost is determined primarily by the average cost method for food and beverage and supplies and the retail inventory or specific identification methods for retail merchandise.

Real estate under development. Real estate under development represents capitalized costs of wholly-owned real estate projects to be sold, which consist entirely of condominium and condominium-hotel developments. Real estate under development includes land, direct construction and development costs, and capitalized property taxes and interest.

Property and equipment. Property and equipment are stated at cost. Gains or losses on dispositions of property and equipment are included in the determination of income. Maintenance costs are expensed as incurred. Property and equipment are generally depreciated over the following estimated useful lives on a straight-line basis:

Buildings and improvements	30 to 45 years
Land improvements	10 to 20 years
Furniture and fixtures.....	3 to 10 years
Equipment	3 to 20 years

We evaluate our property and equipment and other long-lived assets for impairment in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." For assets to be disposed of, we recognize the asset to be sold at the lower of carrying value or fair value less costs of disposal. Fair value for assets to be disposed of is estimated based on comparable asset sales, offers received, or a discounted cash flow model.

For assets to be held and used, we review fixed assets for impairment whenever indicators of impairment exist. If an indicator of impairment exists, we compare the estimated future cash flows of the asset, on an undiscounted basis, to the carrying value of the asset. If the undiscounted

cash flows exceed the carrying value, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying value, then an impairment is measured based on fair value compared to carrying value, with fair value typically based on a discounted cash flow model. If an asset is still under development, future cash flows include remaining construction costs. For a discussion of recognized impairment losses, see Note 17.

Capitalized interest. The interest cost associated with major development and construction projects is capitalized and included in the cost of the project. When no debt is incurred specifically for a project, interest is capitalized on amounts expended on the project using the weighted-average cost of the Company's outstanding borrowings. Capitalization of interest ceases when the project is substantially complete or development activity is suspended for more than a brief period.

Goodwill and other intangible assets. Goodwill represents the excess of purchase price over fair market value of net assets acquired in business combinations. Goodwill and indefinite-lived intangible assets must be reviewed for impairment at least annually and between annual test dates in certain circumstances. The Company performs its annual impairment test for goodwill and indefinite-lived intangible assets in the fourth quarter of each fiscal year. No impairments were indicated as a result of the annual impairment reviews for goodwill and indefinite-lived intangible assets in 2006, 2005 or 2004.

Revenue recognition and promotional allowances. Casino revenue is the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs ("casino front money") and for chips in the customers' possession ("outstanding chip liability"). Hotel, food and beverage, entertainment and other operating revenues are recognized as services are performed. Advance deposits on rooms and advance ticket sales are recorded as accrued liabilities until services are provided to the customer.

Gaming revenues are recognized net of certain sales incentives, including discounts and points earned in point-loyalty programs. The retail value of accommodations, food and beverage, and other services furnished to guests without charge is included in gross revenue and then deducted as promotional allowances.

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The estimated cost of providing such promotional allowances is primarily included in casino expenses as follows:

(In thousands)

Year Ended December 31,	2006	2005	2004
Rooms.....	\$ 91,799	\$ 74,022	\$ 57,091
Food and beverage.....	296,866	229,892	176,092
Other	34,439	31,733	22,826
	<u>\$ 423,104</u>	<u>\$ 335,647</u>	<u>\$ 256,009</u>

Revenue for residential sales is deferred until closing occurs, which is when title, possession and other attributes of ownership have been transferred to the buyer and the Company is not obligated to perform activities after the sale. Prior to closing, customer deposits are treated as liabilities. Costs associated with residential sales are also deferred, except for indirect selling costs and general and administrative expense, which are expensed as incurred. For the year ended December 31, 2006, the Company expensed \$6 million of such costs; no such costs were incurred in 2005 or 2004. Capitalized costs will be charged to cost of sales upon closing based on relative sales value to the project as a whole.

Point-loyalty programs. The Company operates various point-loyalty programs. The Company's primary point-loyalty program, in operation at its major resorts, is Players Club. In Players Club, customers earn points based on their slots play, which can be redeemed for cash or free play at any of the Company's participating resorts. The Company records a liability based on the points earned times the redemption value and records a corresponding reduction in casino revenue. The expiration of unused points results in a reduction of the liability. Customers' overall level of table games and slots play is also tracked and used by management in awarding discretionary complimentarys – free rooms, food and beverage and other services – for which no accrual is recorded. Other loyalty programs at the Company's resorts generally operate in a similar manner, though they generally are available only to customers at the individual resorts. At December 31, 2006 and 2005, the total company-wide liability for point-loyalty programs was \$47 million and \$43 million, respectively, including amounts classified as liabilities related to assets held for sale.

Mandalay operated its own loyalty program, One Club, which was largely phased out through 2006 and early 2007. In One Club, customers earned points based on both their slots and table games play through July 2006, with slots play contributing to a points balance which could be redeemed for cash and both table games and slots play contributing to a points balance which could be redeemed for complimentarys. After July 2006, customers stopped earning points which could be redeemed for complimentarys. The Company recorded a liability based on the points earned times the redemption value. For cash points, the redemption value

was the cash value, and the offsetting entry was a reduction in casino revenue. For complimentarys points, the redemption value was based on the average departmental cost of the free rooms, food and beverage and other services and estimated redemption patterns, and the offsetting entry was a casino operating expense.

Advertising. The Company expenses advertising costs the first time the advertising takes place. Advertising expense of continuing operations, which is generally included in general and administrative expenses, was \$119 million, \$98 million and \$52 million for 2006, 2005 and 2004, respectively.

Corporate expense. Corporate expense represents unallocated payroll and aircraft costs, professional fees and various other expenses not directly related to the Company's casino resort operations. In addition, corporate expense includes the costs associated with the Company's evaluation and pursuit of new business opportunities, which are expensed as incurred until development of a specific project has become probable.

Preopening and start-up expenses. The Company accounts for costs incurred during the preopening and start-up phases of operations in accordance with Statement of Position 98-5, "Reporting on the Costs of Start-up Activities." Preopening and start-up costs, including organizational costs, are expensed as incurred. Costs classified as preopening and start-up expenses include payroll, outside services, advertising, and other expenses related to new or start-up operations and new customer initiatives.

Property transactions, net. The Company classifies transactions related to long-lived assets – such as write-downs and impairments, demolition costs, and normal gains and losses on the sale of fixed assets – as "Property transactions, net" in the accompanying consolidated statements of income. See Note 17 for a detailed discussion of these amounts.

Income per share of common stock. The weighted-average number of common and common equivalent shares used in the calculation of basic and diluted earnings per share consisted of the following:

(In thousands)

Year Ended December 31,	2006	2005	2004
Weighted-average common shares outstanding used in the calculation of basic earnings per share	283,140	284,943	279,325
Potential dilution from stock options and restricted stock.....	8,607	11,391	10,008
Weighted-average common and common equivalent shares used in the calculation of diluted earnings per share	<u>291,747</u>	<u>296,334</u>	<u>289,333</u>

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Currency translation. The Company accounts for currency translation in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation." Balance sheet accounts are translated at the exchange rate in effect at each balance sheet date. Income statement accounts are translated at the average rate of exchange prevailing during the period. Translation adjustments resulting from this process are charged or credited to other comprehensive loss.

Comprehensive income. Comprehensive income includes net income and all other non-stockholder changes in equity, or other comprehensive income. Elements of the Company's other comprehensive income are reported in the accompanying consolidated statement of stockholders' equity, and the cumulative balance of these elements consisted of the following:

(In thousands)

At December 31,	2006	2005
Derivative loss from unconsolidated affiliate, net	\$ 137	\$ 134
Foreign currency translation adjustments	278	(935)
	<u>\$ 415</u>	<u>\$ (801)</u>

Reclassifications. The consolidated financial statements for prior years reflect certain reclassifications, which have no effect on previously reported net income, to conform to the current year presentation.

NOTE 3 — ACQUISITION

On April 25, 2005, the Company closed its merger with Mandalay under which the Company acquired 100% of the outstanding common stock of Mandalay for \$71 in cash for each share of Mandalay's common stock. The acquisition expanded the Company's portfolio of resorts on the Las Vegas Strip, provided additional sites for future development and expanded the Company's employee and customer bases significantly. These factors resulted in the recognition of certain intangible assets, discussed below, and significant goodwill. The total acquisition cost included:

(in thousands)

Cash consideration for Mandalay's outstanding shares and stock options	\$ 4,831,944
Estimated fair value of Mandalay's long-term debt.....	2,849,225
Transaction costs and expenses and other	111,944
	<u>7,793,113</u>
Less: Net proceeds from the sale of MotorCity Casino	<u>(526,597)</u>
	<u>\$ 7,266,516</u>

Cash paid, net of cash acquired, was \$4.4 billion. The transaction was accounted for as a purchase and, accordingly, the purchase price was allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values.

The following table sets forth the allocation of purchase price:

(in thousands)

Current assets (including cash of \$134,245).....	\$ 413,502
Property and equipment.....	7,130,376
Goodwill.....	1,221,990
Other intangible assets.....	245,940
Other assets	340,930
Assumed liabilities, excluding long-term debt	(591,113)
Deferred taxes	(1,495,109)
	<u>\$ 7,266,516</u>

The amount allocated to intangible assets includes the recognition of customer lists with an estimated value of \$12 million and an estimated useful life of five years and trade names and trademarks with an estimated value of \$234 million and an indefinite life. Goodwill and indefinite-lived intangible assets are not amortized.

The operating results for Mandalay are included in the accompanying consolidated statements of income from the date of the acquisition. The following unaudited pro forma consolidated financial information for the Company has been prepared assuming the Mandalay acquisition had occurred on January 1, 2004.

(In thousands, except per share amounts)

Year Ended December 31,	2005	2004
Net revenues.....	\$ 6,977,609	\$ 6,509,886
Operating income	1,488,013	1,399,092
Income from continuing operations	454,365	407,176
Net income	465,539	479,455
Basic earnings per share:		
Income from continuing operations.....	\$ 1.59	\$ 1.46
Net income.....	1.63	1.72
Diluted earnings per share:		
Income from continuing operations.....	\$ 1.53	\$ 1.41
Net income.....	1.57	1.66

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NOTE 4 — DISCONTINUED OPERATIONS

In January 2004, the Company completed the sale of the Golden Nugget Las Vegas in downtown Las Vegas and the Golden Nugget Laughlin in Laughlin, Nevada (the “Golden Nugget Subsidiaries”), with net proceeds to the Company of \$210 million. In July 2004, the Company completed the sale of the subsidiaries that owned and operated MGM Grand Australia with net proceeds to the Company of \$136 million. Included in discontinued operations for the year ended December 31, 2004 is a gain on the sale of the Golden Nugget Subsidiaries of \$8 million and a gain on sale of MGM Grand Australia of \$74 million. In October 2006, the Company entered into an agreement to sell the Laughlin Properties for \$200 million, and an agreement to sell the Primm Valley Resorts, not including the two golf courses, for \$400 million. Both agreements are subject to regulatory approval and other customary closing conditions. These resorts had a combined carrying value of approximately \$329 million, including assigned goodwill, at December 31, 2006.

The results of the Laughlin Properties, Primm Valley Resorts, the Golden Nugget Subsidiaries, and MGM Grand Australia are classified as discontinued operations in the accompanying consolidated statements of income for all periods presented, as applicable. Net revenues of discontinued operations were \$412 million, \$353 million, and \$281 million, respectively, for the years ended December 31, 2006, 2005 and 2004. Included in income from discontinued operations is an allocation of interest expense based on the ratio of the net assets of the discontinued operations to the total consolidated net assets and debt of the Company. Interest allocated to discontinued operations was \$18 million, \$15 million and \$13 million for the years ended December 31, 2006, 2005 and 2004, respectively. The cash flows of discontinued operations are included with the cash flows of continuing operations in the accompanying consolidated statements of cash flows.

The following table summarizes the assets and liabilities of discontinued operations (the Laughlin Properties and Primm Valley Resorts) as of December 31, 2006, included as assets held for sale and liabilities related to assets held for sale in the accompanying consolidated balance sheet:

(In thousands)

At December 31,	2006
Cash	\$ 24,538
Accounts receivable, net	3,203
Inventories	3,196
Prepaid expenses and other	8,141
Total current assets	39,078
Property and equipment, net.....	316,332
Goodwill.....	5,000
Other assets, net	8,938
Total assets	369,348
Accounts payable	6,622
Other current liabilities.....	29,142
Total current liabilities.....	35,764
Other long-term obligations.....	4,495
Total liabilities.....	40,259
Net assets.....	\$ 329,089

NOTE 5 — ACCOUNTS RECEIVABLE, NET

Accounts receivable consisted of the following:

(In thousands)

At December 31,	2006	2005
Casino	\$ 248,044	\$ 221,873
Hotel	175,770	173,049
Other	29,131	35,021
	452,945	429,943
Less: Allowance for doubtful accounts	(90,024)	(77,270)
	\$ 362,921	\$ 352,673

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NOTE 6 — PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

(In thousands)

At December 31,	2006	2005
Land	\$ 7,905,430	\$ 8,018,301
Buildings, building improvements and land improvements	7,869,972	7,595,257
Furniture, fixtures and equipment	2,954,921	2,695,746
Construction in progress	1,306,770	607,447
	20,037,093	18,916,751
Less: Accumulated depreciation and amortization	(2,795,233)	(2,375,100)
	<u>\$ 17,241,860</u>	<u>\$ 16,541,651</u>

NOTE 7 — INVESTMENTS IN UNCONSOLIDATED AFFILIATES

The Company has investments in unconsolidated affiliates accounted for under the equity method. Under the equity method, carrying value is adjusted for the Company's share of the investees' earnings and losses, as well as capital contributions to and distributions from these companies. Investments in unconsolidated affiliates consisted of the following:

(In thousands)

At December 31,	2006	2005
Marina District Development Company		
– Borgata (50%)	\$ 454,354	\$ 461,211
Elgin Riverboat Resort-Riverboat Casino		
– Grand Victoria (50%)	300,151	241,279
MGM Grand Paradise Limited – Macau (50%)	285,038	187,568
Circus and Eldorado Joint Venture		
– Silver Legacy (50%)	31,258	26,492
Other	9,795	14,604
	1,080,596	931,154
Turnberry/MGM Grand Towers – The Signature at		
MGM Grand (50%)	11,661	(7,400)
	<u>\$ 1,092,257</u>	<u>\$ 923,754</u>

The Company's investment in MGM Grand Paradise Limited consists of equity and subordinated debt. The Company is committed to loaning the venture up to an additional \$9 million, which will be treated as an additional investment in the venture.

As of December 31, 2006, The Signature at MGM Grand had closed sales on all the units of Tower 1 and a portion of the units in Tower 2. The Company's share of the profits from these transactions totaled \$102 million for the year ended December 31, 2006. The Company also recognized a \$15 million gain in 2006 on land contributed to the venture for Towers 1 and 2. As of December 31, 2006 and 2005, the Company had deferred income related to its land contributions of \$9 million and \$16 million, respectively, which is classified as "Other long-term obligations" in the accompanying consolidated balance sheets. As of December 31, 2005 the Company had a negative investment balance due to cumulative distributions exceeding the book value of land contributed. Therefore, the investment balance in 2005 was classified in "Other long-term obligations."

Differences between the Company's venture-level equity and investment balances are as follows:

(In thousands)

At December 31,	2006	2005
Venture-level equity	\$ 698,587	\$ 603,015
Fair value adjustments	321,814	264,814
Capitalized interest	68,806	52,689
Other adjustments	3,050	3,236
	<u>\$ 1,092,257</u>	<u>\$ 923,754</u>

The fair value adjustments at December 31, 2006 include a \$90 million increase for Borgata, related to land, a \$267 million increase for Grand Victoria, related to indefinite-lived gaming license rights, and a \$35 million reduction for Silver Legacy related to long-term assets and long-term debt. The adjustments for Borgata and Grand Victoria are not being amortized; the adjustments for Silver Legacy are being amortized based on the useful lives of the related assets and liabilities.

The Company recorded its share of the results of operations of the unconsolidated affiliates as follows:

(In thousands)

Year Ended December 31,	2006	2005	2004
Income from unconsolidated affiliates	\$ 254,171	\$ 151,871	\$ 119,658
Preopening and start-up expenses	(8,813)	(1,914)	—
Non-operating items from			
unconsolidated affiliates	(16,063)	(15,825)	(12,298)
	<u>\$ 229,295</u>	<u>\$ 134,132</u>	<u>\$ 107,360</u>

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Summarized balance sheet information of the unconsolidated affiliates is as follows:

(In thousands)

At December 31,	2006	2005
Current assets	\$ 281,766	\$ 220,708
Property and other assets, net	2,227,570	2,008,912
Current liabilities	248,931	213,135
Long-term debt and other liabilities	1,009,565	871,173
Equity	1,250,840	1,145,312

Summarized results of operations of the unconsolidated affiliates are as follows:

(In thousands)

Year Ended December 31,	2006	2005	2004
Net revenues	\$ 2,020,523	\$ 1,243,465	\$ 966,642
Operating expenses, except preopening expenses	(1,536,253)	(938,972)	(721,998)
Preopening and start-up expenses	(12,285)	(1,352)	—
Operating income	471,985	303,141	244,644
Interest expense	(37,898)	(35,034)	(34,698)
Other non-operating income (expense)	2,462	1,435	9,789
Net income	\$ 436,549	\$ 269,542	\$ 219,735

NOTE 8 — GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets consisted of the following:

(In thousands)

At December 31,	2006	2005
Goodwill:		
Mandalay acquisition (2005)	\$ 1,216,990	\$ 1,230,804
Mirage Resorts acquisition (2000)	76,342	76,342
Other	7,415	7,415
	\$ 1,300,747	\$ 1,314,561
Indefinite-lived intangible assets:		
Detroit development rights	\$ 100,056	\$ 100,056
Trademarks, license rights and other	247,346	251,754
	347,402	351,810
Other intangible assets, net	19,798	25,669
	\$ 367,200	\$ 377,479

Goodwill related to the Mandalay acquisition was primarily assigned to Mandalay Bay, Luxor, Excalibur and Gold Strike Tunica. Goodwill related to the Mirage Resorts acquisition was assigned to Bellagio, The Mirage and TI. Other goodwill relates to the Company's 2003 acquisition of majority interests in the entities that operate the nightclubs Light and Caramel, located in Bellagio, and Mist, located in TI. Changes in the recorded balances of goodwill are as follows:

(In thousands)

Year Ended December 31,	2006	2005
Balance, beginning of period	\$ 1,314,561	\$ 83,757
Goodwill acquired during the period	—	1,230,804
Finalization of the Mandalay purchase price allocation	(8,814)	—
Goodwill assigned to discontinued operations	(5,000)	—
Balance, end of the period	\$ 1,300,747	\$1,314,561

The Company's indefinite-lived intangible assets consist primarily of development rights in Detroit and trademarks. The Company's finite-lived intangible assets consist primarily of customer lists amortized over five years, lease acquisition costs amortized over the life of the related leases, and certain license rights amortized over their contractual life.

NOTE 9 — OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following:

(In thousands)

At December 31,	2006	2005
Payroll and related	\$ 304,924	\$ 297,946
Advance deposits and ticket sales	163,121	120,830
Casino outstanding chip liability	89,574	100,621
Casino front money deposits	71,918	71,768
Other gaming related accruals	76,739	78,921
Taxes, other than income taxes	66,827	68,632
Other	185,141	174,802
	\$ 958,244	\$ 913,520

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NOTE 10 — LONG-TERM DEBT

Long-term debt consisted of the following:

(In thousands)

At December 31,	2006	2005
Senior credit facility	\$ 4,381,850	\$ 4,775,000
\$200 million 6.45% senior notes, repaid at maturity in 2006	—	200,223
\$244.5 million 7.25% senior notes, repaid at maturity in 2006	—	240,353
\$710 million 9.75% senior subordinated notes, due 2007, net	709,477	708,223
\$200 million 6.75% senior notes, due 2007, net	197,279	192,977
\$492.2 million 10.25% senior subordinated notes, due 2007, net	505,704	527,879
\$180.4 million 6.75% senior notes, due 2008, net	175,951	172,238
\$196.2 million 9.5% senior notes, due 2008, net	206,733	212,895
\$226.3 million 6.5% senior notes, due 2009, net	227,955	228,518
\$1.05 billion 6% senior notes, due 2009, net	1,053,942	1,055,232
\$297.6 million 9.375% senior subordinated notes, due 2010, net	319,277	325,332
\$825 million 8.5% senior notes, due 2010, net	823,197	822,705
\$400 million 8.375% senior subordinated notes, due 2011 ..	400,000	400,000
\$132.4 million 6.375% senior notes, due 2011, net	133,529	133,725
\$550 million 6.75% senior notes, due 2012	550,000	550,000
\$150 million 7.625% senior subordinated debentures, due 2013, net	155,351	155,978
\$500 million 6.75% senior notes due 2013	500,000	—
\$525 million 5.875% senior notes, due 2014, net	522,839	522,604
\$875 million 6.625% senior notes, due 2015, net	879,592	879,989
\$250 million 6.875% senior notes due 2016	250,000	—
\$100 million 7.25% senior debentures, due 2017, net	83,556	82,699
\$750 million 7.625% senior notes due 2017	750,000	—
Floating rate convertible senior debentures due 2033	8,472	8,472
\$150 million 7% debentures due 2036, net	155,900	155,961
\$4.3 million 6.7% debentures, due 2096	4,265	4,265
Other notes	—	179
	12,994,869	12,355,447
Less: Current portion	—	(14)
	\$ 12,994,869	\$ 12,355,433

Amounts due within one year of the balance sheet date are classified as long-term in the accompanying consolidated balance sheets because the Company has both the intent and ability to repay these amounts with available borrowings under the senior credit facility.

Total interest incurred during 2006, 2005 and 2004 was \$900 million, \$686 million and \$404 million, respectively, of which \$122 million, \$30 million and \$23 million, respectively, was capitalized and \$18 million, \$15 million, and \$13 million, respectively, was allocated to discontinued operations.

In October 2006, the Company entered into an amended and restated senior credit facility. The initial total capacity of the senior credit facility remains at \$7 billion, with the maturity extended to 2011. The Company has the ability to solicit additional lender commitments to increase the capacity to \$8 billion. The components of the senior credit facility also changed, with the term loan facility increasing to \$2.5 billion and the revolving credit facility decreasing to \$4.5 billion. Interest on the senior credit facility is based on the bank reference rate or Eurodollar rate. The Company's borrowing rate on the senior credit facility was approximately 6.5% at December 31, 2006 and 5.3% at December 31, 2005. Stand-by letters of credit totaling \$59 million were outstanding as of December 31, 2006, thereby reducing the availability under the senior credit facility. At December 31, 2006, the Company had approximately \$2.6 billion of available borrowings under the senior credit facility.

In February 2006, the Company repaid the \$200 million 6.45% senior notes at their maturity. In October 2006, the Company repaid the \$244.5 million 7.25% senior notes at their maturity. The Company repaid both issuances of senior notes with borrowings under the senior credit facility.

In April 2006, the Company issued \$500 million of 6.75% senior notes due 2013 and \$250 million of 6.875% senior notes due 2016. In December 2006, the Company issued \$750 million of 7.625% senior notes due 2017. The proceeds of the April 2006 and December 2006 issuances were used to repay outstanding borrowings under the senior credit facility.

In June 2005, the Company issued \$500 million of 6.625% senior notes due 2015 and in September 2005, the Company issued an additional \$375 million of 6.625% senior notes due 2015. In 2004, the Company issued \$525 million of 5.875% senior notes due 2014, \$550 million of 6.75% senior notes due 2012, and \$450 million of 6% senior notes due 2009.

In May 2005, the Company initiated a tender offer for several issuances of Mandalay's senior notes and senior subordinated notes totaling \$1.5 billion, as required by the change of control provisions contained in the respective indentures. Holders of \$155 million of Mandalay's senior notes and senior subordinated notes redeemed their holdings, resulting in a gain on early retirement of debt of \$1 million, classified as "Other, net" in the

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accompanying consolidated statements of income. Holders of Mandalay's floating rate convertible senior debentures with a principal amount of \$394 million had the right to redeem the debentures for \$566 million through June 30, 2005. \$388 million of principal of the convertible senior debentures were tendered for redemption and redeemed for \$558 million.

In February 2005, the Company redeemed all of its outstanding 6.875% senior notes due February 2008 at the present value of future interest payments plus accrued interest at the date of redemption. The Company recorded a loss on retirement of debt of \$20 million in the first quarter of 2005, classified as "Other, net" in the accompanying consolidated statements of income.

In August 2003, the Company's Board of Directors authorized the repurchase of up to \$100 million of the Company's public debt securities. In 2004, the Company repurchased \$49 million of its senior notes for \$52 million. This resulted in a loss on early retirement of debt of \$6 million related to repurchase premiums and unamortized debt issuance costs. The loss is classified as "Other, net" in the accompanying consolidated statements of income. In December 2004, the Company's Board of Directors renewed its authorization for up to \$100 million of additional debt securities.

The Company attempts to limit its exposure to interest rate risk by managing the mix of its long-term fixed rate borrowings and short-term borrowings under its bank credit facilities. In the past, the Company has also utilized interest rate swap agreements to manage this risk. At December 31, 2006, the Company had no outstanding interest rate swaps. All of the Company's interest rate swaps have met the criteria for using the "shortcut method" allowed under Statement of Financial Accounting Standards No. 133. The amounts received for the termination of past interest rate swaps, including the last \$100 million swap terminated in May 2005, have been added to the carrying value of the related debt obligations and are being amortized and recorded as a reduction of interest expense over the remaining life of that debt.

The Company and each of its material subsidiaries, excluding MGM Grand Detroit, LLC and the Company's foreign subsidiaries, are directly liable for or unconditionally guarantee the senior credit facility, senior notes, senior debentures, and senior subordinated notes. MGM Grand Detroit, LLC is a guarantor under the senior credit facility, but only to the extent that MGM Grand Detroit, LLC borrows under such facilities. See Note 19 for consolidating condensed financial information of the subsidiary guarantors and non-guarantors. None of the Company's assets serve as collateral for its senior credit facility, senior notes, or other long-term debt.

The Company's long-term debt obligations contain customary covenants requiring the Company to maintain certain financial ratios. At December 31, 2006, the Company was required to maintain a maximum leverage ratio (debt to EBITDA, as defined) of 6.5:1 and a minimum coverage ratio (EBITDA to interest charges, as defined) of 2.0:1. As of December 31, 2006, the Company's leverage and interest coverage ratios were 5.0:1 and 2.8:1, respectively.

Maturities of the Company's long-term debt as of December 31, 2006 are as follows:

(In thousands)

Years ending December 31,	
2007	\$ 1,402,233
2008	376,663
2009	1,276,330
2010	1,122,556
2011	4,914,210
Thereafter	3,860,169
	<u>12,952,161</u>
Debt premiums	41,705
Swap deferred gain	1,003
	<u>\$ 12,994,869</u>

The estimated fair value of the Company's long-term debt at December 31, 2006 was approximately \$13 billion, consistent with its book value. At December 31, 2005, the estimated fair value of the Company's long-term debt was approximately \$12.5 billion, versus its book value of \$12.4 billion. The estimated fair value of the Company's public debt securities was based on quoted market prices on or about December 31, 2006 and 2005. The estimated fair value of the Company's senior credit facility was assumed to approximate book value due to the short-term nature of the borrowings.

NOTE 11 — INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires the recognition of deferred income tax assets, net of applicable reserves, related to net operating loss carryforwards and certain temporary differences. The standard requires recognition of a future tax benefit to the extent that realization of such benefit is more likely than not. Otherwise, a valuation allowance is applied.

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The income tax provision attributable to continuing operations and discontinued operations is as follows:

(In thousands)

Year Ended December 31,	2006	2005	2004
Continuing operations.....	\$ 341,930	\$ 231,719	\$ 203,601
Discontinued operations.....	6,205	3,925	34,089
	<u>\$ 348,135</u>	<u>\$ 235,644</u>	<u>\$ 237,690</u>

The income tax provision attributable to income from continuing operations before income taxes is as follows:

(In thousands)

Year Ended December 31,	2006	2005	2004
Current—federal	\$ 328,068	\$ 218,901	\$ 197,954
Deferred—federal.....	8,152	4,164	(9,048)
Provision for federal income taxes	<u>336,220</u>	<u>223,065</u>	<u>188,906</u>
Current—state	3,920	5,252	2,851
Deferred—state.....	1,432	6,811	11,420
Provision for state income taxes	<u>5,352</u>	<u>12,063</u>	<u>14,271</u>
Current—foreign	(72)	(2,979)	424
Deferred—foreign.....	430	(430)	—
Provision for foreign income taxes	<u>358</u>	<u>(3,409)</u>	<u>424</u>
	<u>\$ 341,930</u>	<u>\$ 231,719</u>	<u>\$ 203,601</u>

A reconciliation of the federal income tax statutory rate and the Company's effective tax rate is as follows:

Year Ended December 31,	2006	2005	2004
Federal income tax statutory rate	35.0%	35.0%	35.0%
State income tax (net of federal benefit).....	0.4	1.2	1.7
Reversal of reserves for prior tax years.....	(0.8)	—	(1.0)
Foreign earnings repatriation – benefit of American Job Creation Act of 2004.....	—	(1.5)	—
Tax credits	(0.6)	(1.3)	(0.6)
Permanent and other items.....	1.0	1.3	2.0
	<u>35.0%</u>	<u>34.7%</u>	<u>37.1%</u>

The major tax-effected components of the Company's net deferred tax liability are as follows:

(In thousands)

At December 31,	2006	2005
Deferred tax assets—federal and state		
Bad debt reserve.....	\$ 35,454	\$ 32,490
Deferred compensation	39,039	31,230
Net operating loss carryforward.....	5,705	7,253
Preopening and start-up costs	5,006	3,801
Accruals, reserves and other	34,316	33,413
Investments in unconsolidated affiliates	—	265
Long-term debt	6,338	20,902
Stock-based compensation.....	23,662	2,262
Tax credits	2,491	—
	<u>152,011</u>	<u>131,616</u>
Less: Valuation allowance.....	(8,308)	(5,734)
	<u>143,703</u>	<u>125,882</u>
Deferred tax liabilities—federal and state		
Property and equipment.....	(3,385,984)	(3,350,365)
Investments in unconsolidated affiliates	(31,839)	—
Intangibles.....	(98,991)	(88,800)
	<u>(3,516,814)</u>	<u>(3,439,165)</u>
Deferred taxes—foreign	2,144	2,027
Less: Valuation allowance.....	(2,144)	(1,597)
	<u>—</u>	<u>430</u>
Net deferred tax liability	<u>\$ (3,373,111)</u>	<u>\$ (3,312,853)</u>

For federal income tax purposes, the Company has a foreign tax credit carryforward of \$2 million that will expire in 2015 if not utilized.

For state income tax purposes, the Company has a New Jersey net operating loss carryforward of \$98 million, which equates to a deferred tax asset of \$6 million, after federal tax effect, and before valuation allowance. The New Jersey net operating loss carryforwards began to expire in 2005.

At December 31, 2006, there is a \$6 million valuation allowance provided on certain New Jersey state net operating loss carryforwards and other New Jersey state deferred tax assets, a valuation allowance of \$2 million on the foreign tax credit, and a \$2 million valuation allowance related to certain foreign deferred tax assets because management believes these assets do not meet the “more likely than not” criteria for recognition under SFAS 109. Management believes all other deferred tax

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assets are more likely than not to be realized because of the future reversal of existing taxable temporary differences and expected future taxable income. Accordingly, there are no other valuation allowances provided at December 31, 2006.

The United States Treasury issued guidance during 2005 that clarified provisions of the American Job Creation Act of 2004 (the "Act") that provide for a special one-time deduction of 85 percent on certain repatriated earnings of foreign subsidiaries. This guidance clarified for the Company that the planned repatriation of the net proceeds of its Australia operations would qualify for the one-time deduction. Consequently, the Company repatriated the net proceeds during 2005 and secured the benefits of the deduction. Since the Company provided deferred taxes in 2004 on the basis that the net proceeds would be repatriated without the benefit of the one-time deduction, a tax benefit of \$10 million was recorded in 2005 to reflect the benefit of the Act. The Company considered the earnings of its Australia operations permanently reinvested prior to the sale of such operations in 2004.

NOTE 12 — COMMITMENTS AND CONTINGENCIES

Leases. The Company leases real estate and various equipment under operating and, to a lesser extent, capital lease arrangements. Certain real estate leases provide for escalation of rent based upon a specified price index and/or based upon periodic appraisals.

At December 31, 2006, the Company was obligated under non-cancelable operating leases and capital leases to make future minimum lease payments as follows:

(In thousands)

	Operating Leases	Capital Leases
Years ending December 31,		
2007	\$ 16,367	\$ 1,800
2008	13,796	808
2009	11,792	296
2010	10,928	300
2011	10,706	92
Thereafter	354,956	—
Total minimum lease payments	\$ 418,545	3,296
Less: Amounts representing interest		(238)
Total obligations under capital leases		3,058
Less: Amounts due within one year		(1,610)
Amounts due after one year		\$ 1,448

The majority of the operating lease amounts relate to ground leases for land in Primm, Nevada. These lease obligations are included in the pending sale of the Primm Valley Resorts. The current and long-term obligations under capital leases are included in "Other accrued liabilities" and "Other long-term obligations," respectively, in the accompanying consolidated balance sheets. Rental expense for operating leases, including rental expense of discontinued operations, was \$29 million, \$28 million and \$13 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Detroit Development Agreement. Under the August 2002 revised development agreement with the City of Detroit, MGM Grand Detroit, LLC and the Company are subject to certain obligations in exchange for the ability to develop a permanent casino complex. The Company recorded an intangible asset (development rights, deemed to have an indefinite life) in connection with its obligations under the revised development agreement. Outstanding obligations include continued letter of credit support for \$50 million of bonds issued by the Economic Development Corporation of the City of Detroit, which mature in 2009. In addition, the City required an indemnification of up to \$20 million for certain litigation related to the permanent casino process, of which \$2.5 million had been paid as of December 31, 2006. In April 2005, the Sixth Court of Appeals ruled on all outstanding aspects of the Lac Vieux-related litigation, including approving the settlement agreement among Lac Vieux, MotorCity Casino and Greektown Casino, dismissing Lac Vieux's request for a reselection process for the subsidiary's MGM Grand Detroit's casino franchise and lifting the injunction prohibiting the City and the casino developers from commencing construction of the permanent hotel-casino complexes. At December 31, 2006 the Company has an accrual of \$2.5 million for the remaining litigation subject to the indemnification. In addition to the above obligations, the Company began paying the City of Detroit 2% of gaming revenues beginning January 1, 2006.

New York Racing Association. The Company has entered into a definitive agreement with the New York Racing Association ("NYRA") to manage video lottery terminals ("VLTs") at NYRA's Aqueduct horseracing facility in metropolitan New York. Subject to receipt of requisite New York State approvals, the Company will assist in the development of the facility, including providing project financing up to \$190 million, and will manage the facility for a term of five years (extended automatically if the financing provided by the Company is not fully repaid) for a fee. The Company believes that its agreement with respect to installation of VLTs at Aqueduct would extend past the expiration of NYRA's current racing franchise and would be binding on any successor to NYRA in the event NYRA is not granted a new

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racing franchise. NYRA's recent filing for reorganization under Chapter 11 has introduced additional uncertainties, but the Company remains committed to the development once these uncertainties are resolved.

The Signature at MGM Grand. The Company provided guarantees for the debt financing on Towers 1, 2 and 3 of The Signature at MGM Grand. The loan amounts for Towers 1 and 2 have been completely repaid as of December 31, 2006, relieving the Company's guaranty obligation for Towers 1 and 2. The Company's obligation on Tower 3 generally provides for a guaranty of 50% of the principal and interest, with the guaranty decreasing by 50% relative to the principal when construction is 50% complete. The remaining 50% of interest and principal obligations is guaranteed by affiliates of the venture's other investor. The Company and the affiliates have also jointly and severally provided a completion guaranty.

The maximum borrowings allowed for Tower 3 is \$186 million. At December 31, 2006, the Company had recorded a guaranty obligation liability of \$1 million for Tower 3, classified in "Other long-term obligations" in the accompanying consolidated balance sheets.

Other guarantees. The Company is party to various guarantee contracts in the normal course of business, which are generally supported by letters of credit issued by financial institutions. The Company's senior credit facility limits the amount of letters of credit that can be issued to \$250 million, and the amount of available borrowings under the senior credit facility is reduced by any outstanding letters of credit. At December 31, 2006, the Company had provided a \$50 million letter of credit to support the Economic Development Corporation of the City of Detroit bonds referred to above, which are a liability of the Company.

Mashantucket Pequot Tribal Nation. The Company has agreed to enter a strategic alliance, subject to definitive agreements, with the Mashantucket Pequot Tribal Nation ("MPTN"). The strategic alliance has several elements, one of which calls for the creation of a 50/50 joint venture to seek future development opportunities. The Company has agreed to provide a development subsidiary of MPTN with a loan of up to \$200 million intended to fund a portion of that subsidiary's matching investment in any future joint development projects.

Litigation. The Company is a party to various legal proceedings, most of which relate to routine matters incidental to its business. Management does not believe that the outcome of such proceedings will have a material adverse effect on the Company's financial position or results of operations.

NOTE 13 — STOCKHOLDERS' EQUITY

Stock split. In May 2005, the Company completed a 2-for-1 stock split effected in the form of a 100% stock dividend. All share and per share data in the accompanying financial statements and notes thereto have been restated for all periods presented to reflect the 100% stock dividend.

Stock repurchases. Share repurchases are only conducted under repurchase programs approved by the Board of Directors and publicly announced. Share repurchase activity was as follows:

(In thousands)

Year Ended December 31,	2006	2005	2004
November 2003 authorization (16 million shares purchased).....	\$ —	\$ —	\$ 348,895
July 2004 authorization (6.5 million and 5.5 million shares purchased)	246,892	217,316	—
	<u>\$ 246,892</u>	<u>\$ 217,316</u>	<u>\$ 348,895</u>
Average price of shares repurchased	\$ 37.98	\$ 39.51	\$ 21.80

At December 31, 2006, the Company had 8 million shares available for repurchase under the July 2004 authorization.

NOTE 14 — STOCK-BASED COMPENSATION

Adoption of SFAS 123(R). Effective January 1, 2006, the Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"). The Company previously accounted for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and the Financial Accounting Standards Board's Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25," and disclosed supplemental information in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Under these standards, the Company did not incur compensation expense for employee stock options when the exercise price was at least 100% of the market value of the Company's common stock on the date of grant. SFAS 123(R) requires that all stock-based compensation, including shares and share-based awards to employees, be valued at fair value. The Company measures fair value of share-based awards using the Black-Scholes model.

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Under SFAS 123(R), compensation is attributed to the periods of associated service. For awards granted prior to January 1, 2006, such expense is being recognized on an accelerated basis since that is the method the Company previously applied in its supplemental disclosures. Beginning with awards granted on January 1, 2006, such expense is being recognized on a straight-line basis over the vesting period of the awards. Forfeitures are estimated at the time of grant, with such estimate updated periodically and with actual forfeitures recognized currently to the extent they differ from the estimate.

The Company adopted SFAS 123(R) by applying the modified-prospective transition method. Under this method, the Company began applying the valuation and other criteria of SFAS 123(R) on January 1, 2006, and began recognizing expense for the unvested portion of previously issued grants at the same time, based on the valuation and attribution methods originally used to calculate the disclosures.

The impact of adopting SFAS 123(R) was as follows, due to the incremental compensation cost recognized for employee stock options and stock appreciation rights:

(In thousands, except per share amounts)

Year Ended December 31,	2006
Incremental stock-based compensation under SFAS123(R)	\$ 71,186
Less: Amounts capitalized.....	(798)
Total stock-based compensation recognized as expense.....	\$ 70,388
Recorded in continuing operations	\$ 69,121
Recorded in discontinued operations.....	\$ 1,267
Reduction of income from continuing operations.....	\$ 45,090
Reduction in net income	\$ 45,914
Reduction in basic earnings per share.....	\$ 0.16
Reduction in diluted earnings per share.....	\$ 0.16

In addition, SFAS 123(R) requires the excess tax benefits from stock option exercises – tax deductions in excess of compensation cost recognized – to be classified as a financing activity. Previously, all tax benefits from stock option exercises were classified as operating activities. Had the Company not adopted SFAS 123(R), the \$48 million of excess tax benefits classified as a financing cash inflow would have been classified as an operating cash inflow.

Information about the Company's share-based awards.

The Company adopted an omnibus incentive plan in 2005 which allows for the granting of stock options, stock appreciation rights, restricted stock, and other stock-based awards to eligible directors, officers and employees. The plans are administered by the Compensation and Stock Option Committee (the "Committee") of the Board of Directors. Salaried officers, directors and other key employees of the Company and its subsidiaries are eligible to receive awards. The Committee has discretion under the omnibus plan regarding which type of awards to grant, the vesting and service requirements, exercise price and other conditions, in all cases subject to certain limits, including:

- The omnibus plan allowed for the issuance of up to 20 million shares or share-based awards;
- For stock options and stock appreciation rights, the exercise price of the award must equal the fair market value of the stock on the date of grant and the maximum term of such an award is ten years.

To date, the Committee has only awarded stock options and stock appreciation rights under the omnibus plan. The Company's practice has been to issue new shares upon the exercise of stock options. Under the Company's previous plans, the Committee had issued stock options and restricted stock. Stock options and stock appreciation rights granted under all plans generally have either 7-year or 10-year terms, and in most cases are exercisable in either four or five equal annual installments. Restrictions on restricted shares granted under a previous plan lapsed 50% on the third anniversary date after the grant and 50% on the fourth anniversary date after the grant.

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As of December 31, 2006, the aggregate number of share-based awards available for grant under the omnibus plan was 4.7 million. A summary of activity under the Company's share-based payment plans for the year ended December 31, 2006 is presented below:

STOCK OPTIONS AND STOCK APPRECIATION RIGHTS

	Shares (000's)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000's)
Outstanding at January 1, 2006	34,825	\$ 22.93		
Granted	1,914	42.54		
Exercised	(5,623)	15.85		
Forfeited or expired	(584)	27.95		
Outstanding at December 31, 2006	<u>30,532</u>	25.37	<u>5.6</u>	<u>\$ 976,050</u>
Vested and expected to vest at December 31, 2006	<u>29,615</u>	25.27	<u>5.6</u>	<u>\$ 921,203</u>
Exercisable at December 31, 2006	<u>10,602</u>	18.89	<u>5.2</u>	<u>\$ 407,700</u>

The total intrinsic value of stock options and stock appreciation rights exercised during the year ended December 31, 2006, 2005 and 2004 was \$166 million, \$256 million, and \$115 million, respectively. The Company received proceeds from the exercise of employee stock options of \$89 million, \$146 million and \$136 million for the years ended December 31, 2006, 2005 and 2004, respectively. The total income tax benefits from stock option exercises during the year ended December 31, 2006, 2005 and 2004 were \$56 million, \$89 million and \$39 million, respectively. As of December 31, 2006, there was a total of \$99 million of unamortized compensation related to stock options and stock appreciation rights, which cost is expected to be recognized over a weighted-average period of 2.3 years.

RESTRICTED STOCK

	Shares (000's)	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2006	834	\$ 17.59
Granted	—	—
Vested	(830)	17.59
Forfeited	(4)	17.62
Nonvested at December 31, 2006	<u>—</u>	<u>—</u>

During the year ended December 31, 2006, restrictions lapsed with respect to 830,000 shares with a total fair value of \$15 million. During the year ended December 31, 2005, restrictions lapsed with respect to 852,000 shares with a total fair value of \$15 million. In the year ended December 31, 2006 and 2005, certain recipients of restricted shares elected to use a portion of the shares in which restrictions lapsed to pay required withholding taxes. Approximately 280,000 and 261,000 shares, respectively, were surrendered in the years ended December 31, 2006 and 2005. As of December 31, 2006, there was no unamortized compensation related to restricted stock.

Recognition of compensation cost. The following table shows information about compensation cost recognized:

(In thousands)

Year Ended December 31,	2006	2005	2004
Compensation cost:			
Stock options and stock appreciation rights	\$ 71,386	\$ 139	\$ 78
Restricted stock	3,038	7,184	7,092
Total compensation cost	74,424	7,323	7,170
Less: Compensation cost capitalized	(798)	—	—
Compensation cost recognized as expense	73,626	7,323	7,170
Less: Related tax benefit	(24,901)	(1,204)	(1,326)
Compensation expense, net of tax benefit	\$ 48,725	\$ 6,119	\$ 5,844

Compensation cost for stock options and stock appreciation rights was based on the fair value of each award, measured by applying the Black-Scholes model on the date of grant, using the following weighted-average assumptions (assumptions in 2005 were used to compute the pro forma compensation for disclosure purposes only):

Year Ended December 31,	2006	2005	2004
Expected volatility	33%	37%	42%
Expected term	4.1 years	4.3 years	5.0 years
Expected dividend yield	0%	0%	0%
Risk-free interest rate	4.9%	3.8%	3.4%
Forfeiture rate	4.6%	0%	0%
Weighted-average fair value of options granted	\$ 14.50	\$ 12.73	\$ 9.55

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Expected volatility is based in part on historical volatility and in part on implied volatility based on traded options on the Company's stock. The expected term considers the contractual term of the option as well as historical exercise and forfeiture behavior. The risk-free interest rate is based on the rates in effect on the grant date for US Treasury instruments with maturities matching the relevant expected term of the award.

Pro forma disclosures. Had the Company accounted for these plans during 2005 and 2004 under the fair value method allowed by SFAS 123, the Company's net income and earnings per share would have been reduced to recognize the fair value of employee stock options, as follows:

(In thousands)

Year Ended December 31,	2005	2004
Net income		
As reported	\$ 443,256	\$ 412,332
Incremental stock-based compensation under		
SFAS 123, net of tax benefit	(47,934)	(22,963)
Pro forma	<u>\$ 395,322</u>	<u>\$ 389,369</u>
Basic earnings per share		
As reported	<u>\$ 1.56</u>	<u>\$ 1.48</u>
Pro forma	<u>\$ 1.39</u>	<u>\$ 1.39</u>
Diluted earnings per share		
As reported	<u>\$ 1.50</u>	<u>\$ 1.43</u>
Pro forma	<u>\$ 1.33</u>	<u>\$ 1.35</u>

NOTE 15 — EMPLOYEE BENEFIT PLANS

Employees of the Company who are members of various unions are covered by union-sponsored, collectively bargained, multi-employer health and welfare and defined benefit pension plans. The Company recorded an expense of \$189 million in 2006, \$161 million in 2005 and \$86 million in 2004 under such plans. The plans' sponsors have not provided sufficient information to permit the Company to determine its share of unfunded vested benefits, if any.

The Company is self-insured for most health care benefits for its non-union employees. The liability for claims filed and estimates of claims incurred but not reported – \$24 million and \$28 million at December 31, 2006 and 2005, respectively – is included in "Other accrued liabilities" in the accompanying consolidated balance sheets.

The Company has retirement savings plans under Section 401(k) of the Internal Revenue Code for eligible employees. The plans allow employees to defer, within prescribed limits, up to 30% of their income on a pre-tax basis through contributions to the plans. The Company matches, within prescribed limits, a portion of eligible employees' contributions. In the case of certain union employees, the Company contributions to the plan are based on hours worked. The Company recorded charges for 401(k) contributions of \$27 million in 2006, \$19 million in 2005 and \$12 million in 2004.

The Company maintains a nonqualified deferred retirement plan for certain key employees. The plan allows participants to defer, on a pre-tax basis, a portion of their salary and bonus and accumulate tax deferred earnings, plus investment earnings on the deferred balances, as a retirement fund. Participants receive a Company match of up to 4% of salary, net of any Company match received under the Company's 401(k) plan. All employee deferrals vest immediately. The Company matching contributions vest ratably over a three-year period. The Company recorded charges for matching contributions of \$2 million in 2006 and 2005 and \$1 million in 2004.

The Company implemented a supplemental executive retirement plan ("SERP") for certain key employees effective January 1, 2001. The SERP is a nonqualified plan under which the Company makes quarterly contributions which are intended to provide a retirement benefit that is a fixed percentage of a participant's estimated final five-year average annual salary, up to a maximum of 65%. Company contributions and investment earnings on the contributions are tax-deferred and accumulate as a retirement fund. Employees do not make contributions under this plan. A portion of the Company contributions and investment earnings thereon vests after three years of SERP participation and the remaining portion vests after both five years of SERP participation and 10 years of continuous service. The Company recorded expense under this plan of \$7 million in 2006, \$6 million in 2005 and \$5 million in 2004.

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NOTE 16 — RESTRUCTURING COSTS

Restructuring costs (credit) consisted of the following:

(In thousands)

Year Ended December 31,	2006	2005	2004
Contract termination costs	\$ —	\$ —	\$ 3,693
Other	1,035	(59)	1,932
	<u>\$ 1,035</u>	<u>\$ (59)</u>	<u>\$ 5,625</u>

There were no material restructuring activities in 2006 and 2005. At December 31, 2006, there were no material restructuring accruals as all material restructuring costs have been fully paid or otherwise resolved. In 2004, restructuring costs include \$3 million for contract termination costs related to the Aqua restaurant at Bellagio and \$2 million of workforce reduction costs at MGM Grand Detroit as a result of the Company's efforts to minimize the impact of a gaming tax increase in Michigan.

NOTE 17 — PROPERTY TRANSACTIONS, NET

Property transactions, net consisted of the following:

(In thousands)

Year Ended December 31,	2006	2005	2004
Impairment of assets to be disposed of	\$ 40,865	\$ 22,651	\$ 473
Write-off of abandoned capital projects	—	5,971	—
Demolition costs	348	5,362	7,057
Insurance recoveries	(86,016)	—	—
Other net losses on asset sales or disposals	3,823	3,037	704
	<u>\$ (40,980)</u>	<u>\$ 37,021</u>	<u>\$ 8,234</u>

Impairments in 2006 included \$22 million related to the write-off of the tram connecting Bellagio and Monte Carlo, including the stations at both resorts, in preparation for construction of CityCenter. Other impairments related to assets being replaced in connection with several smaller capital projects, primarily at MGM Grand Las Vegas, Mandalay Bay and

The Mirage, as well as the \$4 million write-off of Luxor's investment in the Hairspray show. Insurance recoveries in 2006 relate to the interim insurance recoveries received related to property damage from Hurricane Katrina in excess of the book value of the damaged assets and post-storm costs incurred as of December 31, 2006. See Note 2 under "Financial statement impact of Hurricane Katrina" for further discussion.

In 2005, recognized impairments relate primarily to assets removed from service in connection with new capital projects at several resorts, including Bellagio, TI, The Mirage and Mandalay Bay. The amount of the impairments was based on the net book value of the disposed assets. Demolition costs related primarily to room remodel activity at MGM Grand Las Vegas and the new showroom at The Mirage.

Demolition costs in 2004 primarily relate to the Bellagio room remodel and expansion projects and the KÀ theatre at MGM Grand Las Vegas.

NOTE 18 — RELATED PARTY TRANSACTIONS

Borgata leases 10 acres from the Company on a long-term basis for use in its current operations and for its expansion, and nine acres from the Company on a short-term basis for surface parking. Total payments received from Borgata under these lease agreements were \$6 million, \$4 million, and \$1 million for the years ended December 31, 2006, 2005, and 2004, respectively.

Prior to the Mandalay merger the Company made payments to Monte Carlo for lost business as a result of closing the tram between Bellagio and Monte Carlo in preparation for the Bellagio expansion. These payments totaled \$1 million and \$4 million in 2005 and 2004, respectively.

The Company pays legal fees to a firm affiliated with the Company's general counsel. Payments to the firm totaled \$8 million, \$13 million, and \$4 million for the years ended December 31, 2006, 2005, and 2004, respectively. At December 31, 2006, the Company owed the firm \$5 million.

The Company has occasionally chartered aircraft from its majority shareholder, Tracinda, and pays Tracinda at market rates. Payments to Tracinda for the use of its aircraft totaled \$2 million for the year ended December 31, 2006; amounts in 2005 and 2004 were not material.

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NOTE 19 — CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Company's subsidiaries (excluding MGM Grand Detroit, LLC and certain minor subsidiaries) have fully and unconditionally guaranteed, on a joint and several basis, payment of the senior credit facility, and the senior and senior subordinated notes of the Company and its subsidiaries. The guarantor subsidiaries are 100% owned. Separate condensed financial statement information for the subsidiary guarantors and non-guarantors as of December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004 is as follows:

(In thousands)

As of and for the Year Ended December 31, 2006	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Balance Sheet					
Current assets	\$ 95,361	\$ 1,369,711	\$ 49,679	\$ —	\$ 1,514,751
Real estate under development.....	—	188,433	—	—	188,433
Property and equipment, net.....	—	16,797,263	456,569	(11,972)	17,241,860
Investments in subsidiaries.....	16,563,917	300,560	—	(16,864,477)	—
Investments in unconsolidated affiliates.....	—	792,106	300,151	—	1,092,257
Other non-current assets	94,188	1,911,362	103,387	—	2,108,937
	<u>\$ 16,753,466</u>	<u>\$ 21,359,435</u>	<u>\$ 909,786</u>	<u>\$ (16,876,449)</u>	<u>\$ 22,146,238</u>
Current liabilities.....	\$ 227,743	\$ 1,364,472	\$ 55,885	\$ —	\$ 1,648,100
Intercompany accounts.....	(1,478,207)	1,339,654	138,553	—	—
Deferred income taxes	3,441,157	—	—	—	3,441,157
Long-term debt.....	10,712,047	2,173,972	108,850	—	12,994,869
Other long-term obligations.....	1,177	161,458	49,928	—	212,563
Stockholders' equity	3,849,549	16,319,879	556,570	(16,876,449)	3,849,549
	<u>\$ 16,753,466</u>	<u>\$ 21,359,435</u>	<u>\$ 909,786</u>	<u>\$ (16,876,449)</u>	<u>\$ 22,146,238</u>
Statement of Income					
Net revenues.....	\$ —	\$ 6,714,659	\$ 461,297	\$ —	\$ 7,175,956
Equity in subsidiaries earnings.....	1,777,144	167,262	—	(1,944,406)	—
Expenses:					
Casino and hotel operations	19,251	3,543,026	251,109	—	3,813,386
General and administrative.....	20,713	993,732	56,497	—	1,070,942
Corporate expense	40,151	121,356	—	—	161,507
Preopening and start-up expenses	523	32,526	3,313	—	36,362
Restructuring costs.....	—	1,035	—	—	1,035
Property transactions, net	10,872	(51,853)	1	—	(40,980)
Depreciation and amortization.....	2,398	611,045	16,184	—	629,627
	<u>93,908</u>	<u>5,250,867</u>	<u>327,104</u>	<u>—</u>	<u>5,671,879</u>
Income from unconsolidated affiliates.....	—	218,063	36,108	—	254,171
Operating income	1,683,236	1,849,117	170,301	(1,944,406)	1,758,248
Interest expense, net.....	(708,902)	(40,407)	140	—	(749,169)
Other, net.....	(1,978)	(29,962)	787	—	(31,153)
Income from continuing operations before income taxes	972,356	1,778,748	171,228	(1,944,406)	977,926
Provision for income taxes	(312,288)	(25,676)	(3,966)	—	(341,930)
Income from continuing operations	660,068	1,753,072	167,262	(1,944,406)	635,996
Discontinued operations.....	(11,804)	24,072	—	—	12,268
Net income	<u>\$ 648,264</u>	<u>\$ 1,777,144</u>	<u>\$ 167,262</u>	<u>\$ (1,944,406)</u>	<u>\$ 648,264</u>
Statement of Cash Flows					
Net cash provided by (used in) operating activities	\$ (896,346)	\$ 1,984,375	\$ 153,923	\$ —	\$ 1,241,952
Net cash provided by (used in) investing activities	5,300	(1,369,878)	(283,241)	(4,608)	(1,652,427)
Net cash provided by (used in) financing activities	874,485	(503,801)	134,732	4,608	510,024

Notes to Consolidated Financial Statements

MGM MIRAGE 2006 ANNUAL REPORT

(In thousands)

As of and for the Year Ended December 31, 2005	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Balance Sheet					
Current assets	\$ 89,153	\$ 885,991	\$ 43,439	\$ —	\$ 1,018,583
Property and equipment, net.....	7,113	16,373,113	173,397	(11,972)	16,541,651
Investments in subsidiaries.....	14,569,623	183,208	—	(14,752,831)	—
Investments in unconsolidated affiliates.....	127,902	904,138	241,279	(342,165)	931,154
Other non-current assets	86,011	2,018,809	103,212	—	2,208,032
	<u>\$ 14,879,802</u>	<u>\$ 20,365,259</u>	<u>\$ 561,327</u>	<u>\$ (15,106,968)</u>	<u>\$ 20,699,420</u>
Current liabilities.....	\$ 345,195	\$ 1,148,306	\$ 41,067	\$ —	\$ 1,534,568
Intercompany accounts.....	(1,794,833)	1,726,415	68,418	—	—
Deferred income taxes	3,378,371	—	—	—	3,378,371
Long-term debt.....	9,713,754	2,641,679	—	—	12,355,433
Other long-term obligations.....	2,243	143,733	50,000	—	195,976
Stockholders' equity	3,235,072	14,705,126	401,842	(15,106,968)	3,235,072
	<u>\$ 14,879,802</u>	<u>\$ 20,365,259</u>	<u>\$ 561,327</u>	<u>\$ (15,106,968)</u>	<u>\$ 20,699,420</u>
Statement of Income					
Net revenues.....	\$ —	\$ 5,687,750	\$ 441,093	\$ —	\$ 6,128,843
Equity in subsidiaries earnings.....	1,228,651	152,107	—	(1,380,758)	—
Expenses:					
Casino and hotel operations	—	3,082,987	233,883	—	3,316,870
General and administrative.....	—	834,166	55,640	—	889,806
Corporate expense.....	13,797	116,836	—	—	130,633
Preopening and start-up expenses	—	15,249	503	—	15,752
Restructuring costs (credit)	—	(59)	—	—	(59)
Property transactions, net	—	36,587	434	—	37,021
Depreciation and amortization.....	2,390	531,586	26,650	—	560,626
	<u>16,187</u>	<u>4,617,352</u>	<u>317,110</u>	<u>—</u>	<u>4,950,649</u>
Income from unconsolidated affiliates.....	—	120,330	31,541	—	151,871
Operating income	1,212,464	1,342,835	155,524	(1,380,758)	1,330,065
Interest expense, net.....	(517,617)	(112,506)	1,402	—	(628,721)
Other, net.....	(14,293)	(20,005)	39	—	(34,259)
Income before income taxes	680,554	1,210,324	156,965	(1,380,758)	667,085
Provision for income taxes	(227,374)	—	(4,345)	—	(231,719)
Income from continuing operations	453,180	1,210,324	152,620	(1,380,758)	435,366
Discontinued operations.....	(9,924)	17,814	—	—	7,890
Net income	<u>\$ 443,256</u>	<u>\$ 1,228,138</u>	<u>\$ 152,620</u>	<u>\$ (1,380,758)</u>	<u>\$ 443,256</u>
Statement of Cash Flows					
Net cash provided by (used in) operating activities	\$ (449,590)	\$ 1,471,372	\$ 161,014	\$ —	\$ 1,182,796
Net cash provided by (used in) investing activities	(4,587,820)	(618,007)	(93,687)	(3,303)	(5,302,817)
Net cash provided by (used in) financing activities	5,043,152	(732,145)	(251,484)	3,303	4,062,826

Notes to Consolidated Financial Statements

MGM MIRAGE 2006 ANNUAL REPORT

(In thousands)

As of and for the Year Ended December 31, 2004	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Statement of Income					
Net revenues.....	\$ —	\$ 3,579,862	\$ 421,942	\$ —	\$ 4,001,804
Equity in subsidiaries earnings.....	948,143	117,686	—	(1,065,829)	—
Expenses:					
Casino and hotel operations	—	1,927,258	211,386	—	2,138,644
General and administrative.....	—	505,662	59,725	—	565,387
Corporate expense	11,988	65,922	—	—	77,910
Preopening and start-up expenses	129	10,147	—	—	10,276
Restructuring costs.....	—	4,118	1,507	—	5,625
Property transactions, net	(1,521)	9,400	355	—	8,234
Depreciation and amortization.....	1,039	351,457	30,277	—	382,773
	<u>11,635</u>	<u>2,873,964</u>	<u>303,250</u>	<u>—</u>	<u>3,188,849</u>
Income from unconsolidated affiliates.....	—	119,658	—	—	119,658
Operating income	936,508	943,242	118,692	(1,065,829)	932,613
Interest expense, net.....	(311,825)	(49,129)	(966)	—	(361,920)
Other, net.....	<u>162</u>	<u>(22,092)</u>	<u>47</u>	<u>—</u>	<u>(21,883)</u>
Income from continuing operations before income taxes	624,845	872,021	117,773	(1,065,829)	548,810
Provision for income taxes	<u>(203,900)</u>	<u>—</u>	<u>299</u>	<u>—</u>	<u>(203,601)</u>
Income from continuing operations	420,945	872,021	118,072	(1,065,829)	345,209
Discontinued operations.....	(8,613)	17,317	58,419	—	67,123
Net income	<u>\$ 412,332</u>	<u>\$ 889,338</u>	<u>\$ 176,491</u>	<u>\$ (1,065,829)</u>	<u>\$ 412,332</u>
Statement of Cash Flows					
Net cash provided by (used in) operating activities	\$ (351,000)	\$ 1,038,957	\$ 141,290	\$ —	\$ 829,247
Net cash provided by (used in) investing activities	(20,325)	(448,995)	125,856	(4,289)	(347,753)
Net cash provided by (used in) financing activities	381,467	(599,480)	(112,248)	4,289	(325,972)

Notes to Consolidated Financial Statements

MGM MIRAGE 2006 ANNUAL REPORT

NOTE 20 — SELECTED QUARTERLY FINANCIAL RESULTS (UNAUDITED)

(In thousands, except per share amounts)

Quarter	First	Second	Third	Fourth	Total
2006					
Net revenues.....	\$ 1,774,368	\$ 1,760,508	\$ 1,795,042	\$ 1,846,038	\$ 7,175,956
Operating income	413,353	417,422	419,397	508,076	1,758,248
Income from continuing operations	139,762	143,341	153,765	199,128	635,996
Net income	144,037	146,394	156,262	201,571	648,264
Basic income per share:					
Income from continuing operations	\$ 0.49	\$ 0.50	\$ 0.55	\$ 0.70	\$ 2.25
Net income	0.51	0.51	0.55	0.71	2.29
Diluted income per share:					
Income from continuing operations	\$ 0.48	\$ 0.49	\$ 0.53	\$ 0.68	\$ 2.18
Net income	0.49	0.50	0.54	0.69	2.22
2005					
Net revenues.....	\$ 1,145,067	\$ 1,624,474	\$ 1,700,802	\$ 1,658,500	\$ 6,128,843
Operating income	290,109	369,488	330,578	339,890	1,330,065
Income from continuing operations	110,919	137,891	89,932	96,624	435,366
Net income	111,079	141,168	93,210	97,799	443,256
Basic income per share:					
Income from continuing operations	\$ 0.39	\$ 0.48	\$ 0.31	\$ 0.34	\$ 1.53
Net income	0.39	0.49	0.33	0.34	1.56
Diluted income per share:					
Income from continuing operations	\$ 0.38	\$ 0.46	\$ 0.30	\$ 0.33	\$ 1.47
Net income	0.38	0.48	0.31	0.33	1.50

Because income per share amounts are calculated using the weighted average number of common and dilutive common equivalent shares outstanding during each quarter, the sum of the per share amounts for the four quarters may not equal the total income per share amounts for the year. Quarterly financial results for the first, second, and third quarters of 2006 and all four quarters in 2005 have been restated to reflect discontinued operations related to the pending sales of Primm Valley Resorts and the Laughlin Properties.

As disclosed in Note 2, Beau Rivage closed in August 2005 due to damage sustained from Hurricane Katrina and re-opened one year later. In addition, we recorded income from insurance recoveries of \$86 million, pre-tax, in the fourth quarter of 2006. The impact on diluted net income per share of the insurance recoveries was \$0.19 for the fourth quarter and full year of 2006.

NOTE 21 — SUBSEQUENT EVENT

In February 2007, the Company entered into an operating agreement to form a 50/50 joint venture with Jeanco Realty Development, LLC. The venture will master plan and develop a mixed-use community in Jean, Nevada. The Company will contribute the Jean Properties and surrounding land to the joint venture. Nevada Landing is expected to close in April 2007.

Investor Information

MGM MIRAGE 2006 ANNUAL REPORT

Common Stock Information

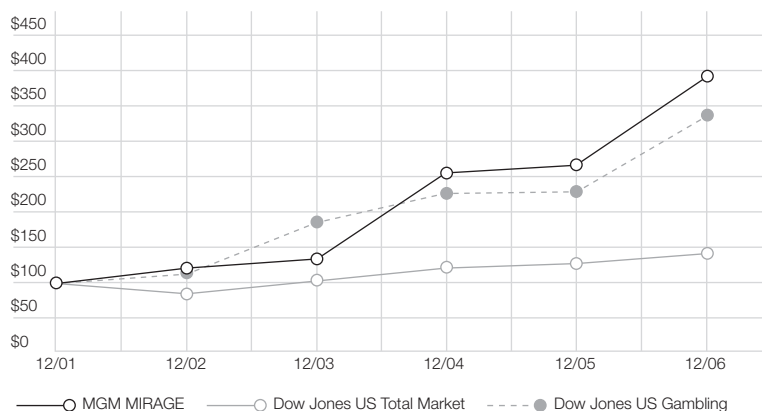
The following table represents the high and low trading prices of the Company's common stock, as adjusted for a 2-for-1 stock split affected in May 2005:

For the years ended December 31,	2006		2005	
	High	Low	High	Low
First Quarter	\$43.43	\$35.26	\$39.80	\$34.50
Second Quarter	46.15	38.13	42.98	32.58
Third Quarter	41.28	34.20	46.75	39.30
Fourth Quarter	59.52	39.28	44.75	35.30

The Company's common stock is listed on the New York Stock Exchange. Effective May 2, 2005, the Company's stock trading symbol was changed to MGM from MGG.

Stock Performance Graph

The graph below compares the cumulative 5-year total return* of holders of MGM MIRAGE'S common stock with the cumulative total returns of the Dow Jones US Total Market index and the Dow Jones US Gambling index. The graph tracks the performance of a \$100 investment in our common stock and in each of the indexes (with the reinvestment of all dividends) from 12/31/2001 to 12/31/2006.



*\$100 invested on 12/31/01 in stock or index-including reinvestment of dividends. Fiscal year ending December 31.

	12/01	12/02	12/03	12/04	12/05	12/06
MGM MIRAGE	100.00	114.20	130.27	251.96	254.04	397.30
Dow Jones US Total Market	100.00	77.92	101.88	114.12	121.34	140.23
Dow Jones US Gambling	100.00	110.05	170.18	226.49	229.75	334.78

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Forward-Looking Statements

This Annual Report contains some forward-looking statements which are subject to change. Actual results may differ materially from those described in any forward-looking statement. Additional information concerning potential factors that could affect our future results is included under the caption "Factors that May Affect Our Future Results" in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2006. This statement is provided as permitted by the Private Securities Litigation Reform Act of 1995.

New York Stock Exchange Corporate Governance Matters

Pursuant to Section 303A.12 (a) of the NYSE Listed Company Manual, MGM MIRAGE'S CEO must certify to the NYSE each year (i) whether or not he is aware of any violations of the NYSE Corporate Governance listing standards and (ii) that the Section 302 Certifications of Sarbanes-Oxley Act were filed with the SEC. On June 8, 2006, Mr. J. Terrence Lanni submitted the Annual CEO Certification to the NYSE, which stated that he was not aware of any violations. Additionally, on February 28, 2007 MGM MIRAGE filed its Form 10-K with the SEC for the year ended 2006, which included the Section 302 certifications.

Transfer Agent and Registrar For Common Stock

Mellon Investor Services LLC
85 Challenger Road
Ridgefield Park, NJ 07660
www.melloninvestor.com
1-800-358-2066

Independent Registered Public Accounting Firm

Deloitte & Touche LLP
3773 Howard Hughes Parkway
Suite 490, North Tower
Las Vegas, NV 89109

Form 10-K

A copy of the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission, will be furnished without charge to any stockholder upon written request to:

Mr. Bryan L. Wright
Senior Vice President, Assistant General Counsel and Assistant Secretary
MGM MIRAGE
3950 Las Vegas Blvd. South
Las Vegas, NV 89119

Corporate Information

MGM MIRAGE 2006 ANNUAL REPORT

DIRECTORS

J. Terrence Lanni

Director/Officer
Chairman & Chief Executive Officer,
MGM MIRAGE

James J. Murren

Director/Officer
President, Chief Financial Officer
& Treasurer, MGM MIRAGE

John T. Redmond

Director/Officer
President & Chief Executive Officer,
MGM Grand Resorts, LLC

Robert H. Baldwin

Director/Officer
President & Chief Executive Officer,
Mirage Resorts, Incorporated,
President - CityCenter

Gary N. Jacobs

Director/Officer
Executive Vice President,
General Counsel & Secretary,
MGM MIRAGE

James D. Aljian

Director
Executive, Tracinda Corporation, a
Privately Held Investment Company

Willie D. Davis

Director
President & Director, All-Pro
Broadcasting, Inc., an AM & FM Radio
Broadcasting Company

Alexander M. Haig, Jr.

Director
Chairman, Worldwide
Associates, Inc., an International
Business Advisory Firm

Alexis M. Herman

Director
Chair & Chief Executive Officer,
New Ventures, Inc., a Corporate
Consulting Company

Roland Hernandez

Director
Retired Chairman & Chief Executive
Officer, Telemundo, Inc., a Spanish
Language Television Station Company

Kirk Kerkorian

Director
President & Chief Executive Officer,
Tracinda Corporation, a Privately Held
Investment Company

Anthony L. Mandekic

Director
Secretary & Treasurer,
Tracinda Corporation, a Privately Held
Investment Company

Rose McKinney - James

Director
Principal,
Energy Works Consulting, LLC, an
Energy Consulting Company

Ronald M. Popeil

Director
Founder of Ronco Invention, LLC.,
a Marketing & Product Invention
Corporation

Daniel J. Taylor

Director
Executive, Tracinda Corporation, a
Privately Held Investment Company

Melvin B. Wolzinger

Director
Principal Owner of Various Privately Held
Restaurant & Gaming Establishments

OFFICERS

Aldo Manzini

Executive Vice President &
Chief Administrative Officer

Alan Feldman

Senior Vice President
Public Affairs

Phyllis A. James

Senior Vice President &
Senior Counsel

Punam Mathur

Senior Vice President
Corporate Diversity &
Community Affairs

Robert C. Selwood

Senior Vice President
Accounting

Daniel J. D'Arrigo

Senior Vice President
Finance

Bruce Gebhardt

Senior Vice President
Global Security

Cynthia Kiser Murphey

Senior Vice President
Human Resources

Shawn T. Sani

Senior Vice President
Tax

Bryan L. Wright

Senior Vice President,
Assistant General Counsel &
Assistant Secretary

CORPORATE DIRECTORY

MGM MIRAGE

3600 Las Vegas Blvd South
Las Vegas, NV 89109
1-702-693-7120
www.mgmmirage.com

Bellagio

Las Vegas, NV
1-702-693-7111
www.bellagiolasvegas.com

MGM Grand Las Vegas

Las Vegas, NV
1-702-891-1111
www.mgmgrand.com

Mandalay Bay

Las Vegas, NV
1-702-632-7777
www.mandalaybay.com

The Mirage

Las Vegas, NV
1-702-791-7111
www.mirage.com

Luxor

Las Vegas, NV
1-702-262-4000
www.luxor.com

Treasure Island

Las Vegas, NV
1-702-894-7111
www.treasureisland.com

**New York-New York
Hotel & Casino**

Las Vegas, NV
1-702-740-6969
www.nynyhotelcasino.com

Excalibur

Las Vegas, NV
1-702-597-7777
www.excalibur-casino.com

Monte Carlo

Las Vegas, NV
1-702-730-7777
www.monte-carlo.com

Circus Circus Las Vegas

Las Vegas, NV
1-702-734-0410
www.circuscircus.com

Circus Circus Reno

Reno, NV
1-775-329-0711
www.circusreno.com

Gold Strike Jean

Jean, NV
1-702-477-5000
www.stopatjean.com

Colorado Belle

Laughlin, NV
1-702-298-4000
www.coloradobelle.com

Edgewater

Laughlin, NV
1-702-298-2453
www.edgewater-casino.com

Railroad Pass

Henderson, NV
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www.railroadpass.com

MGM Grand Detroit

Detroit, MI
1-313-393-7777
www.detroit.mgmgrand.com

Beau Rivage

Biloxi, MS
1-228-386-7111
www.beaurivage.com

Gold Strike Tunica

Tunica, MS
1-662-357-1111
www.goldstrikemississippi.com

**Borgata Hotel
Casino & Spa**

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www.theborgata.com

Silver Legacy

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Grand Victoria

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www.grandvictoria-elgin.com



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