

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR CERTIFICATES OF PUBLIC)	
CONVENIENCE AND NECESSITY AND)	CASE NO.
APPROVAL OF ITS 2011 COMPLIANCE PLAN)	2011-00161
FOR RECOVERY BY ENVIRONMENTAL)	
SURCHARGE)	

**Response to the Attorney General's Supplemental Data
Requests Question No. 5 dated August 18, 2011
One Paper Copy - Volume 4 of 5
Filed - October 25, 2011**

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PUBLIC SERVICE
COMMISSION

PROSPECTUS

KENTUCKY UTILITIES COMPANY

Offers to Exchange

**\$250,000,000 aggregate principal amount of its 1.625% First Mortgage Bonds due 2015,
\$500,000,000 aggregate principal amount of its 3.250% First Mortgage Bonds due 2020
and**

**\$750,000,000 aggregate principal amount of its 5.125% First Mortgage Bonds due 2040,
each of which have been registered under the Securities Act of 1933, as amended,
for any and all of its outstanding**

**1.625% First Mortgage Bonds due 2015, 3.250% First Mortgage Bonds due 2020 and
5.125% First Mortgage Bonds due 2040, respectively**

We are conducting the Offers to Exchange described above, or Exchange Offers, in order to provide you with an opportunity to exchange your unregistered outstanding bonds referred to above, or Outstanding Bonds, for substantially identical bonds of the same series that have been registered under the Securities Act, which we refer to as Exchange Bonds.

The Exchange Offers

- We will exchange all Outstanding Bonds that are validly tendered and not validly withdrawn for an equal principal amount of Exchange Bonds that are registered under the Securities Act.
- You may withdraw tenders of Outstanding Bonds at any time prior to the expiration of the Exchange Offers.
- The Exchange Offers expire at 5:00 p.m., New York City time, on June 30, 2011, unless extended. We do not currently intend to extend the Expiration Date.
- The exchange of Outstanding Bonds for Exchange Bonds in the Exchange Offers will not be a taxable event for US federal income tax purposes.
- The terms of the Exchange Bonds to be issued in the Exchange Offers are substantially identical to the Outstanding Bonds of the respective series, except that the Exchange Bonds will be registered under the Securities Act, and do not have any transfer restrictions, registration rights or liquidated damages provisions.

Results of the Exchange Offers

- Except as prohibited by applicable law, the Exchange Bonds may be sold in the over-the-counter market, in negotiated transactions or through a combination of such methods. There is no existing market for the Exchange Bonds to be issued, and we do not plan to list the Exchange Bonds on a national securities exchange or market.
- We will not receive any proceeds from the Exchange Offers.

All untendered Outstanding Bonds will remain outstanding and continue to be subject to the restrictions on transfer set forth in the Outstanding Bonds and in the indenture governing the Outstanding Bonds. In general, the Outstanding Bonds may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Other than in connection with the Exchange Offers, we do not currently anticipate that we will register the Outstanding Bonds under the Securities Act.

Each broker-dealer that receives Exchange Bonds for its own account in the Exchange Offers must acknowledge that it will deliver a prospectus in connection with any resale of those Exchange Bonds. The letter of transmittal states that by so acknowledging and delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of Exchange Bonds received in exchange for Outstanding Bonds where the broker-dealer acquired such Outstanding Bonds as a result of market-making or other trading activities. We have agreed that, for a period of 180 days after the Expiration Date, we will make this prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution."

See "Risk Factors" beginning on page 12 for a discussion of certain risks that you should consider before participating in the Exchange Offers.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Exchange Bonds to be distributed in the Exchange Offers or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is June 2, 2011.

In making your investment decision, you should rely only on the information contained in or incorporated by reference into this prospectus. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer of the Exchange Bonds in any jurisdiction where the offer thereof is not permitted. The information contained in this prospectus speaks only as of the date of this prospectus.

References to the “Company,” “we,” “us” and “our” in this prospectus are references to Kentucky Utilities Company.

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SUMMARY

This summary highlights certain information concerning the Company, the Exchange Offers and the Exchange Bonds that may be contained elsewhere in this prospectus. This summary is not complete and does not contain all the information that may be important to you. You should read this prospectus in its entirety before making an investment decision.

Kentucky Utilities Company

Kentucky Utilities Company, incorporated in Kentucky in 1912 and Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. We provide electric service to approximately 514,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in five counties in southwestern Virginia and to fewer than 10 customers in Tennessee. Our service area covers approximately 6,600 noncontiguous square miles. During 2010, approximately 98% of the electricity we generated was produced by our coal-fired electric generating stations. The remainder was generated by natural gas and oil fueled combustion turbines, or CTs, and a hydroelectric power plant. In Virginia, we operate under the name Old Dominion Power Company. We also sell wholesale electric energy to 12 municipalities.

Our principal executive offices are located at One Quality Street, Lexington, Kentucky 40507 (Telephone number (502) 627-2000).

Recent Developments

Kentucky Rate Case

In January 2010, we filed an application with the Kentucky Public Service Commission, or the Kentucky Commission, requesting an increase in electric base rates of approximately 12%, or \$135 million annually. A number of intervenors entered the rate case, including the office of the Attorney General of Kentucky, certain representatives of industrial and low-income groups and other third parties, and submitted filings challenging our requested rate increases, in whole or in part. In June 2010, we and all of the intervenors except for the Kentucky Attorney General agreed to stipulations providing for an increase in our electric base rates of \$98 million annually, and jointly filed a request with the Kentucky Commission to approve such settlement. An order in the proceeding was issued in July 2010, approving all provisions in the stipulation, including a return on equity range of 9.75-10.75%. The new rates became effective on August 1, 2010.

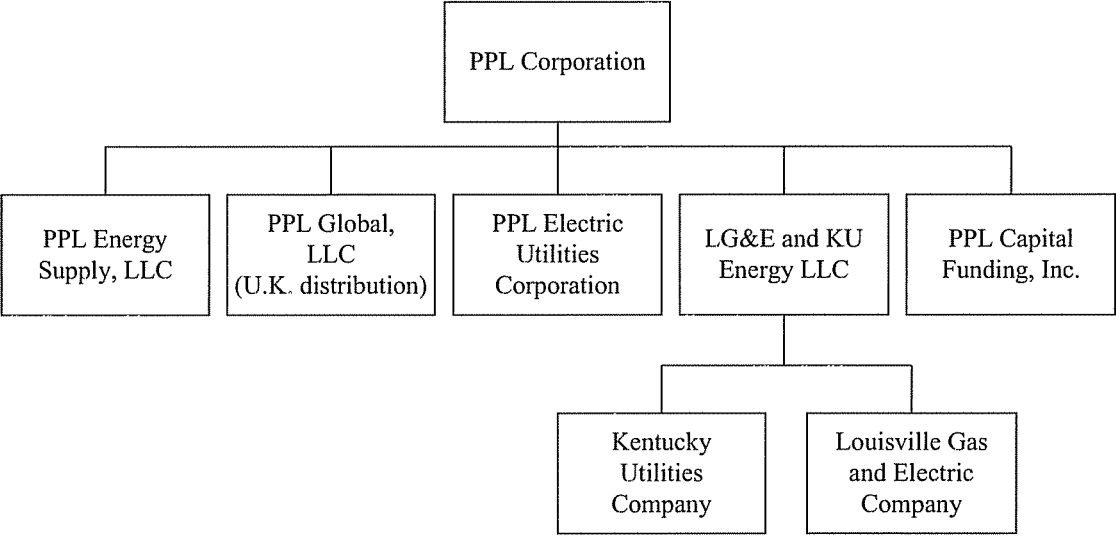
2011 Virginia Rate Case

In April 2011, we filed an application with the Virginia State Corporation Commission, or the Virginia Commission, requesting an increase in electric base rates for our Virginia jurisdictional customers of approximately 14%, or \$9 million annually. The proposed increase reflects a rate of return on rate base of 8%, based on an 11% return on equity, inclusion of expenditures to complete Trimble County Unit 2, or TC2, and all new flue gas desulfurization controls in base rates, recovery of a 2009 regulatory asset and various other adjustments to revenue and expenses for the test year ended December 31, 2010. We expect new rates to go into effect in January 2012. We cannot predict the outcome of this proceeding.

PPL Acquisition

On November 1, 2010, we became an indirect wholly owned subsidiary of PPL Corporation when PPL acquired all of the outstanding limited liability company interests in our direct parent, LG&E and KU Energy LLC, or Parent (formerly E.ON U.S. LLC), from E.ON US Investments Corp. Our Parent,

a Kentucky limited liability company, also owns our affiliate, Louisville Gas and Electric Company, or LG&E, a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and distribution and sale of natural gas in Kentucky. Following the acquisition, our business has not changed and we and LG&E are continuing as subsidiaries of our Parent, which is now an intermediary holding company in the PPL group of companies. An abridged structure of the PPL group of companies, including us, is shown below:



PPL, incorporated in 1994 and headquartered in Allentown, Pennsylvania, is an energy and utility holding company. Through its subsidiaries, PPL Corporation owns or controls about 19,000 megawatts, or Mw, of generating capacity in the United States, sells energy in key U.S. markets, and delivers electricity and natural gas to about 10 million customers in the United States and the United Kingdom.

Neither PPL nor any of its other subsidiaries, including our Parent or LG&E, will be obligated to make payments on, or provide any credit support for, the Exchange Bonds.

PPL Acquisition Approvals

In September 2010, the Kentucky Commission approved a settlement agreement among PPL, joint applicants and all of the intervening parties to PPL’s joint application to the Kentucky Commission for approval of its acquisition of ownership and control of our Parent, the Company and LG&E. In the settlement, the parties agreed that we and LG&E would commit that no base rate increases would take effect before January 1, 2013. Our rate increase that took effect on August 1, 2010 (See “Business—Rates and Regulation”) will not be impacted by the settlement. Under the terms of the settlement, we retain the right to seek approval for the deferral of “extraordinary and uncontrollable costs.” Interim rate adjustments will continue to be permissible during that period for existing fuel, environmental and demand-side management, or DSM, cost trackers. The agreement also substituted an acquisition savings shared deferral mechanism for the requirement that we file a synergies plan with the Kentucky Commission. This mechanism, which will be in place until the earlier of five years or the first day of the year in which a base rate increase becomes effective, permits us to earn up to a 10.75% return on equity. Any earnings above a 10.75% return on equity will be shared with customers on a 50%/50% basis. In October 2010, both the Virginia Commission, and the Tennessee Regulatory Authority approved the transfer of control of the Company from E.ON US Investments Corp. to PPL. The orders of the commissions contained a number of other commitments with regards to operations, workforce, community involvement and other matters.

In October 2010, the Federal Energy Regulatory Commission, or FERC, approved a September 2010 settlement agreement among the Company, LG&E, other applicants and protesting parties, and such protests have been withdrawn. The settlement agreement includes various conditional commitments, such as a continuation of certain existing undertakings with protesters in prior cases, an agreement not to terminate certain of our municipal customer contracts prior to January 2017, an exclusion of any transaction-related costs from wholesale energy and tariff customer rates to the extent that we have agreed to not seek the same transaction-related cost from retail customers and agreements to coordinate with protesters in certain open or on-going matters.

The Exchange Offers

In November 2010, we issued the Outstanding Bonds in transactions not subject to the registration requirements of the Securities Act of 1933, as amended, or Securities Act. The term “2015 Exchange Bonds” refers to the 1.625% First Mortgage Bonds due 2015; the term “2020 Exchange Bonds” refers to the 3.250% First Mortgage Bonds due 2020 and the term “2040 Exchange Bonds” refers to the 5.125% First Mortgage Bonds due 2040, each as registered under the Securities Act, and all of which collectively are referred to as the “Exchange Bonds.” The term “Bonds” collectively refers to the Outstanding Bonds and the Exchange Bonds.

General In connection with the issuance of the Outstanding Bonds, we entered into a registration rights agreement with the initial purchasers pursuant to which we agreed, among other things, to deliver this prospectus to you and to use commercially reasonable efforts to complete the Exchange Offers within 315 days after the date of original issuance of the Outstanding Bonds. You are entitled to exchange in the Exchange Offers your Outstanding Bonds for the respective series of Exchange Bonds that are identical in all material respects to the Outstanding Bonds except:

- the Exchange Bonds have been registered under the Securities Act and, therefore, will not be subject to the restrictions on transfer applicable to the Outstanding Bonds (except as described in “The Exchange Offers—Resale of Exchange Bonds” and “Description of the Exchange Bonds—Form; Transfers; Exchanges”);
- the Exchange Bonds are not entitled to any registration rights which are applicable to the Outstanding Bonds under the registration rights agreement, including any rights to liquidated damages for failure to comply with the registration rights agreement; and
- the Exchange Bonds will bear different CUSIP numbers.

The Exchange Offers We are offering to exchange:

- \$250,000,000 aggregate principal amount of 1.625% First Mortgage Bonds due 2015 that have been registered under the Securities Act for any and all of our existing 1.625% First Mortgage Bonds due 2015;
- \$500,000,000 aggregate principal amount of 3.250% First Mortgage Bonds due 2020 that have been registered under the Securities Act for any and all of our existing 3.250% First Mortgage Bonds due 2020 and
- \$750,000,000 aggregate principal amount of 5.125% First Mortgage Bonds due 2040 that have been registered under the Securities Act for any and all of our existing 5.125% First Mortgage Bonds due 2040.

You may only exchange Outstanding Bonds in minimum denominations of \$2,000 and in multiples of \$1,000 in excess thereof. Any untendered Outstanding Bonds must also be in a minimum denomination of \$2,000.

Resale

Based on an interpretation by the staff of the Securities and Exchange Commission, or SEC, set forth in no-action letters issued to third parties, we believe that the Exchange Bonds issued pursuant to the Exchange Offers in exchange for the Outstanding Bonds may be offered for resale, resold and otherwise transferred by you (unless you are our "affiliate" within the meaning of Rule 405 under the Securities Act) without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that:

- you are acquiring the Exchange Bonds in the ordinary course of your business; and
- you have not engaged in, do not intend to engage in, and have no arrangement or understanding with any person to participate in, a distribution of the Exchange Bonds.

Any holder of Outstanding Bonds who:

- is our affiliate;
- does not acquire Exchange Bonds in the ordinary course of its business; or
- tenders its Outstanding Bonds in the Exchange Offers with the intention to participate, or for the purpose of participating, in a distribution of Exchange Bonds

cannot rely on the position of the staff of the SEC enunciated in *Morgan Stanley & Co. Incorporated* (available June 5, 1991) and *Exxon Capital Holdings Corporation* (available May 13, 1988), as interpreted in *Shearman & Sterling* (available July 2, 1993), or similar no-action letters and, in the absence of an exemption therefrom, must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale of the Exchange Bonds.

If you are a broker-dealer and receive Exchange Bonds for your own account in exchange for Outstanding Bonds that you acquired as a result of market-making activities or other trading activities, you must acknowledge that you will deliver this prospectus in connection with any resale of the Exchange Bonds and that you are not our affiliate and did not purchase your Outstanding Bonds from us or any of our affiliates. See "Plan of Distribution."

Our belief that the Exchange Bonds may be offered for resale without compliance with the registration or prospectus delivery provisions of the Securities Act is based on interpretations of the SEC for other exchange offers that the SEC expressed in some of its no-action letters to other issuers in exchange offers like ours. We have not sought a no-action letter in connection with the Exchange Offers, and we cannot guarantee that the SEC would make a similar decision about our Exchange Offers. If our belief is wrong, or if you cannot truthfully make the representations mentioned above, and you transfer any Exchange Bond issued to you in the Exchange Offers without meeting the registration and prospectus delivery requirements of the Securities Act, or without an exemption from such requirements, you could incur liability under the Securities Act. We are not indemnifying you for any such liability.

Expiration Date	The Exchange Offers will expire at 5:00 p.m., New York City time, on June 30, 2011, unless extended by us. We do not currently intend to extend the Expiration Date.
Withdrawal	You may withdraw the tender of your Outstanding Bonds at any time prior to the expiration of the Exchange Offers. We will return to you any of your Outstanding Bonds that are not accepted for any reason for exchange, without expense to you, promptly after the expiration or termination of the Exchange Offers.
Conditions to the Exchange Offers . .	Each Exchange Offer is subject to customary conditions. We reserve the right to waive any defects, irregularities or conditions to exchange as to particular Outstanding Bonds. See “The Exchange Offers—Conditions to the Exchange Offers.”
Procedures for Tendering Outstanding Bonds	<p>If you wish to participate in any of the Exchange Offers, you must either:</p> <ul style="list-style-type: none"> • complete, sign and date the applicable accompanying letter of transmittal, or a facsimile of the letter of transmittal, in accordance with the instructions contained in this prospectus and the letter of transmittal, and mail or deliver such letter of transmittal or facsimile thereof, together with the Outstanding Bonds to be exchanged for Exchange Bonds, to the exchange agent at the address set forth on the cover page of the letter of transmittal; or • if you hold Outstanding Bonds through The Depository Trust Company, or DTC, comply with DTC’s Automated Tender Offer Program procedures described in this prospectus, by which you will agree to be bound by the letter of transmittal.

By signing, or agreeing to be bound by, the letter of transmittal, you will represent to us that, among other things:

- any Exchange Bonds received by you will be acquired in the ordinary course of your business;
- you have no arrangements or understanding with any person to participate in the distribution of the Exchange Bonds within the meaning of the Securities Act;
- you are not engaged in, and do not intend to engage in, the distribution of the Exchange Bonds;
- you are not an “affiliate,” as defined in Rule 405 of the Securities Act, of the Company or, if you are an affiliate, you will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable; and
- if you are a broker-dealer, you will receive Exchange Bonds for your own account in exchange for Outstanding Bonds that were acquired as a result of market-making activities or other trading activities, and you will deliver a prospectus in connection with any resale of such Exchange Bonds.

Special Procedures for Beneficial

Owners

If you are a beneficial owner of Outstanding Bonds that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, and you wish to tender those Outstanding Bonds in any of the Exchange Offers, you should contact the registered holder promptly and instruct the registered holder to tender those Outstanding Bonds on your behalf. If you wish to tender on your own behalf, you must, prior to completing and executing the letter of transmittal and delivering your Outstanding Bonds, either make appropriate arrangements to register ownership of the Outstanding Bonds in your name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time and may not be able to be completed prior to the Expiration Date.

Guaranteed Delivery Procedures

If you wish to tender your Outstanding Bonds and your Outstanding Bonds are not immediately available, or you cannot deliver your Outstanding Bonds, the letter of transmittal or any other required documents, or you cannot comply with the procedures under DTC’s Automated Tender Offer Program for transfer of book-entry interests prior to the Expiration Date, you must tender your Outstanding Bonds according to the guaranteed delivery procedures set forth in this prospectus under “The Exchange Offers—Guaranteed Delivery Procedures.”

Effect on Holders of Outstanding

Bonds As a result of the making of, and upon acceptance for exchange of all validly tendered Outstanding Bonds pursuant to the terms of, the Exchange Offers, we will have fulfilled a covenant under the registration rights agreement. Accordingly, we will not be required to pay liquidated damages on the Outstanding Bonds under the circumstances described in the registration rights agreement. If you do not tender your Outstanding Bonds in any of the Exchange Offers, you will continue to be entitled to all the rights and limitations applicable to the Outstanding Bonds as set forth in the Indenture (as defined below), except we will not have any further obligation to you to provide for the exchange and registration of untendered Outstanding Bonds under the registration rights agreement. To the extent that Outstanding Bonds are tendered and accepted in the Exchange Offers, the trading market for Outstanding Bonds that are not so tendered and accepted could be adversely affected.

Consequences of Failure to

Exchange All untendered Outstanding Bonds will remain outstanding and continue to be subject to the restrictions on transfer set forth in the Outstanding Bonds and in the Indenture. In general, the Outstanding Bonds may not be offered or sold unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Other than in connection with the Exchange Offers, we do not currently anticipate that we will register the Outstanding Bonds under the Securities Act.

United States Federal Income Tax

Consequences The exchange of Outstanding Bonds in the Exchange Offers will not be a taxable event for US federal income tax purposes. See "Material U.S. Federal Income Tax Consequences."

Use of Proceeds We will not receive any proceeds from the issuance of the Exchange Bonds in the Exchange Offers. See "Use of Proceeds."

Exchange Agent The Bank of New York Mellon is the exchange agent for the Exchange Offers. Any questions and requests for assistance with respect to accepting or withdrawing from the Exchange Offers, requests for additional copies of this prospectus or of the letter of transmittal and requests for the notice of guaranteed delivery should be directed to the exchange agent. The address and telephone number of the exchange agent are set forth in the section captioned "The Exchange Offers—Exchange Agent."

The Exchange Bonds

The summary below describes the principal terms of the Exchange Bonds. Certain of the terms and conditions described below are subject to important limitations and exceptions. The “Description of the Exchange Bonds” section of this prospectus contains more detailed descriptions of the terms and conditions of the Outstanding Bonds and Exchange Bonds. The Exchange Bonds will have terms identical in all material respects to the respective series of Outstanding Bonds, except that the Exchange Bonds will not contain certain terms with respect to transfer restrictions, registration rights and liquidated damages for failure to observe certain obligations in the registration rights agreement.

Issuer	Kentucky Utilities Company, a Kentucky and Virginia corporation.
Securities Offered	\$250,000,000 of 2015 Exchange Bonds \$500,000,000 of 2020 Exchange Bonds \$750,000,000 of 2040 Exchange Bonds
Maturity Date	The 2015 Exchange Bonds will mature on November 1, 2015. The 2020 Exchange Bonds will mature on November 1, 2020. The 2040 Exchange Bonds will mature on November 1, 2040.
Interest Rate and Payment Dates . . .	The 2015 Exchange Bonds will bear interest at the rate of 1.625% per annum, payable semi-annually in arrears on each May 1 and November 1, commencing November 1, 2011. The 2020 Exchange Bonds will bear interest at the rate of 3.250% per annum, payable semi-annually in arrears on each May 1 and November 1, commencing November 1, 2011 The 2040 Exchange Bonds will bear interest at the rate of 5.125% per annum, payable semi-annually in arrears on each May 1 and November 1, commencing November 1, 2011 Interest will accrue on the Exchange Bonds of each series from May 1, 2011, the most recent interest payment date to which interest has been paid on the Outstanding Bonds surrendered in the Exchange Offers.
Optional Redemption	We may redeem the Exchange Bonds at our option, in whole at any time or in part from time to time, on not less than 30 nor more than 60 days’ notice, at the redemption prices described under “Description of the Exchange Bonds—Redemption.” We may redeem, in whole or in part, Exchange Bonds of any or all series.
Ranking	Each series of Exchange Bonds will be our senior secured indebtedness and will rank equally in right of payment with our existing and future first mortgage bonds issued under our Mortgage.

Security	Each series of Exchange Bonds will be secured, equally and ratably, by the lien of the Mortgage, which constitutes a first mortgage lien on substantially all of our real and tangible personal property located in Kentucky and used in the generation, transmission and distribution of electricity (other than property duly released from the lien of the Mortgage in accordance with the provisions thereof and certain other excepted property, and subject to certain Permitted Liens), as described under “Description of the Bonds—Security; Lien of the Mortgage.”
Events of Default	For a discussion of events that will permit acceleration of the payment of the principal of and accrued interest on the Exchange Bonds, see “Description of the Exchange Bonds—Events of Default.”
Further Issuances	Subject to compliance with certain issuance conditions contained in the Mortgage, we may, without the consent of the holders of a series of the Exchange Bonds, increase the principal amount of the series and issue additional bonds of such series having the same ranking, interest rate, maturity and other terms (other than the date of issuance and, in some circumstances, the initial interest accrual date and initial interest payment date) as the Exchange Bonds. Any such additional bonds would, together with the existing Exchange Bonds of such series, constitute a single series of securities under the Mortgage and may be treated as a single class for all purposes under the Mortgage, including, without limitation, voting, waivers and amendments.
Company Obligations	Our obligations to pay the principal of, premium, if any, and interest on the Exchange Bonds are solely obligations of the Company and none of our direct or indirect parent companies nor any of their subsidiaries or affiliates will guarantee or provide any credit support for our obligations on the Exchange Bonds.
Denominations	Minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.
Form of Bonds	The Exchange Bonds will be issued in fully registered book-entry form and each series of Exchange Bonds will be represented by one or more global certificates, which will be deposited with or on behalf of DTC and registered in the name of DTC’s nominee. Beneficial interests in global certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, and your interest in any global certificate may not be exchanged for certificated bonds, except in limited circumstances described herein. See “Description of the Exchange Bonds—Book-Entry Only Issuance—The Depository Trust Company.”
Trustee	The Bank of New York Mellon

Absence of Established Market for
the Exchange Bonds

We do not plan to have the Exchange Bonds listed on any securities exchange or included in any automated quotation system. There is no existing trading market for the Exchange Bonds. If no active trading market develops, you may not be able to resell your Exchange Bonds at their fair market value or at all. Future trading prices of the Exchange Bonds will depend on many factors including, among other things, prevailing interest rates, our operating results and the market for similar securities. No assurance can be given as to the liquidity of or trading market for the Exchange Bonds.

Risk Factors

You should refer to the section entitled "Risk Factors" beginning on page 12 for a discussion of material risks you should carefully consider before deciding to exchange your Outstanding Bonds.

RISK FACTORS

An investment in the Bonds, including a decision to tender your Outstanding Bonds in the Exchange Offers, involves a number of risks. Risks described below should be carefully considered together with the other information included in this prospectus. Any of the events or circumstances described as risks below could result in a significant or material adverse effect on our business, results of operations, cash flows or financial condition, and a corresponding decline in the market price of, or our ability to repay, the Bonds. The risks and uncertainties described below may not be the only risks and uncertainties that we face. Additional risks and uncertainties not currently known may also result in a significant or material adverse effect on our business, results of operations, cash flow or financial condition.

Risks related to Our Operations

The following risks apply to the Outstanding Bonds and will apply equally to the Exchange Bonds.

Our business is subject to significant and complex governmental regulation.

Various federal and state entities, including, but not limited to, the FERC, the Kentucky Commission, the Virginia Commission and the Tennessee Regulatory Authority, regulate many aspects of our utility operations, including the following:

- the rates that we may charge and the terms and conditions of our service and operations;
- financial and capital structure matters;
- siting and construction of facilities;
- mandatory reliability and safety standards and other standards of conduct;
- accounting, depreciation and cost allocation methodologies;
- tax matters;
- affiliate restrictions;
- acquisition and disposal of utility assets and securities; and
- various other matters.

Such regulations or changes thereto may subject us to higher operating costs or increased capital expenditures and failure to comply could result in sanctions or possible penalties. In any rate-setting proceedings, federal or state agencies, intervenors and other permitted parties may challenge our rate requests, and ultimately reduce, alter or limit the rates we seek.

Our profitability is highly dependent on our ability to recover the costs of providing energy and utility services to our customers and earn an adequate return on our capital investments. We currently provide services to our retail customers at rates approved by one or more federal or state regulatory commissions, including those commissions referred to above. While these rates are generally regulated based on an analysis of their costs incurred in a base year, the rates we are allowed to charge may or may not match our costs at any given time. While rate regulation is premised on providing a reasonable opportunity to earn a reasonable rate of return on invested capital, there can be no assurance that the applicable regulatory commissions will consider all of our costs to have been prudently incurred or that the regulatory process in which rates are determined will always result in rates that will produce full recovery of our costs or an adequate return on our capital investments. If our costs are not adequately recovered through rates, it could have an adverse affect on our business, results of operations, cash flows or financial condition.

In connection with the PPL acquisition, we have agreed, subject to certain limited exceptions such as fuel and environmental cost recoveries, that no base rate increase would take effect for our Kentucky retail customers before January 1, 2013. See “Summary—Recent Developments—PPL Acquisition Approvals.”

Our transmission and interstate market activities, as well as other aspects of our business, are subject to significant FERC regulation.

Our business is subject to extensive regulation by the FERC covering matters including rates charged to transmission users, market-based or cost-based rates applicable to wholesale customers; interstate power market structure; construction and operation of transmission facilities; mandatory reliability standards; standards of conduct and affiliate restrictions and other matters. Existing FERC regulation, changes thereto or issuances of new rules or situations of non-compliance, including, but not limited to, the areas of market-based tariff authority, revenue sufficiency guarantee resettlements in the Midwest Independent Transmission System Operator, Inc. market, mandatory reliability standards and natural gas transportation regulation can affect our earnings, operations or other activities.

Changes in transmission and wholesale power market structures could increase costs or reduce revenues.

Wholesale sales fluctuate with regional demand, fuel prices and contracted capacity. Changes to transmission and wholesale power market structures and prices may occur in the future, are not estimable and may result in unforeseen effects on energy purchases and sales, transmission and related costs or revenues. These can include commercial or regulatory changes affecting power pools, exchanges or markets in which we participate.

We undertake significant capital projects and these activities are subject to unforeseen costs, delays or failures, as well as risk of inadequate recovery of resulting costs.

Our business is capital intensive and requires significant investments in energy generation and distribution and other infrastructure projects, such as projects for environmental compliance. The completion of these projects without delays or cost overruns is subject to risks in many areas, including the following:

- approval, licensing and permitting;
- land acquisition and the availability of suitable land;
- skilled labor or equipment shortages;
- construction problems or delays, including disputes with third party intervenors;
- increases in commodity prices or labor rates;
- contractor performance;
- environmental considerations and regulations;
- weather and geological issues; and
- political, labor and regulatory developments.

Failure to complete our capital projects on schedule or on budget, or at all, could adversely affect our financial performance, operations and future growth.

Our costs of compliance with, and liabilities under, environmental laws are significant and are subject to continual changes.

Extensive federal, state and local environmental laws and regulations are applicable to our air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, our costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of our key suppliers, or customers, such as coal producers, industrial power users, etc., and may impact the costs of their products or their demand for our services.

We are subject to operational and financial risks regarding certain on-going developments concerning environmental regulation.

A number of regulatory initiatives have been implemented or are under development which could have the effect of significantly increasing the environmental regulation or operational or compliance costs related to a number of emissions or operating activities which are associated with the combustion of coal as occurs at our generating stations. Such developments could include potential new or revised federal or state legislation or regulation regarding emissions of NO_x, SO₂, mercury and other particulates generally and regarding storage of coal combustion byproducts. Additional regulatory initiatives may occur in other areas involving our operations, including revision of limitations on water discharge or intake activities or increased standards relating to polychlorinated biphenyl, or PCB, usage. Compliance with any new laws or regulations in these matters could result in significant changes to our operations, significant capital expenditures or significant increases in the cost of conducting business.

Our operating results are affected by weather conditions, including storms and seasonal temperature variations, as well as by significant man-made or accidental disturbances, including terrorism or natural disasters.

These weather or other factors can significantly affect our finances or operations by changing demand levels; causing outages; damaging infrastructure or requiring significant repair costs; affecting capital markets and general economic conditions or impacting future growth.

We are subject to operational and financial risks regarding potential developments concerning global climate change.

Various regulatory and industry initiatives have been implemented or are under development to regulate or otherwise reduce emissions of greenhouse gases, or GHGs, which are emitted from the combustion of fossil fuels such as coal and natural gas, as occurs at our generating stations. Such developments could include potential federal or state legislation or regulations limiting GHG emissions; establishing costs or charges on GHG emissions or on fuels relating to such emissions; requiring GHG capture and sequestration or other mitigation measures; establishing renewable portfolio standards or generation fleet-diversification requirements to address GHG emissions; promoting energy efficiency and conservation; mandating changes in transmission grid construction, operation or pricing to accommodate GHG-related initiatives; or requiring other measures. Our generation fleet is predominantly coal-fired and may be highly impacted by developments in this area. Compliance with any new laws or regulations regarding the reduction of GHG emissions could result in significant changes to our operations, significant capital expenditures and a significant increase in our cost of conducting business. We may face strong competition for, or difficulty in obtaining, required GHG-compliance related goods and services, including construction services, emissions allowances and

financing, insurance and other inputs relating thereto. Increases in our costs or prices of producing or selling electric power due to GHG-related developments could materially reduce or otherwise affect the demand, revenue or margin levels applicable to our power, thus adversely affecting our financial condition or results of operations.

We are subject to physical, market and economic risks relating to potential effects of climate change.

Climate change may produce changes in weather or other environmental conditions, including temperature or precipitation changes, such as warming, floods or drought. These changes may affect farm and agriculturally-dependent businesses and activities, which are an important part of Kentucky's economy, and thus may impact consumer demand for electric power. Temperature increases could result in increased overall electricity volumes or peaks and precipitation changes could result in droughts reducing the availability of water for plant cooling operations or floods interfering with facility operations. These or other meteorological changes could lead to increased operating costs, capital expenses or power purchase costs. Conversely, climate change could have a number of potential impacts tending to reduce demand. Changes may entail more frequent or more intense storm activity, which, if severe, could temporarily disrupt regional economic conditions and adversely affect electricity demand levels. As discussed in other risk factors, storm outages and damage often directly decrease revenues or increase expenses, due to reduced usage and higher restoration charges, respectively. GHG regulation could increase the cost of electric power, particularly power generated by fossil fuels, and such increases could have a depressive effect on the regional economy. Reduced economic and consumer activity in our service area both in general and specific to certain industries and consumers accustomed to previously low-cost power, could reduce demand for our electricity. Also, demand for our services could be similarly lowered should consumers' preferences or market factors move toward favoring energy efficiency, low-carbon power sources or reduced electric usage generally.

Our business is subject to risks associated with local, national and worldwide economic conditions.

The consequences of prolonged recessionary conditions may include a lower level of economic activity and uncertainty or volatility regarding energy prices and the capital and commodity markets. A lower level of economic activity might result in a decline in energy consumption, unfavorable changes in energy and commodity prices, and slower customer growth, which may adversely affect our future revenues and growth. Instability in the financial markets, as a result of recession or otherwise, also may affect the cost of capital and our ability to raise capital. A deterioration of economic conditions may lead to decreased production by our industrial customers and, therefore, lower consumption of electricity. Decreased economic activity may also lead to fewer commercial and industrial customers and increased unemployment, which may in turn impact residential customers' ability to pay. Further, worldwide economic activity has an impact on the demand for basic commodities needed for utility infrastructure. Changes in global demand may impact the ability to acquire sufficient supplies and the cost of those commodities may be higher than expected.

Our business is concentrated in the Midwest United States, specifically Kentucky.

Although we also operate in Virginia and Tennessee, the majority of our operations are concentrated in Kentucky. Local and regional economic conditions, such as population growth, industrial growth, expansion and economic development or employment levels, as well as the operational or financial performance of major industries or customers, can affect the demand for energy and our results of operations. Significant industries and activities in our service area include aluminum and steel smelting and fabrication; chemical processing; coal, mineral and ceramic-related activities; educational institutions; health care facilities; paper and pulp processing and water and sewer utilities. Any significant downturn in these industries or activities or in local and regional economic conditions in our service area may adversely affect the demand for electricity in our service area.

We are subject to operational risks relating to our generating plants, transmission facilities, distribution equipment, information technology systems and other assets and activities.

Operation of power plants, transmission and distribution facilities, information technology systems and other assets and activities subjects us to many risks, including the breakdown or failure of equipment; accidents; security breaches, viruses or outages affecting information technology systems; labor disputes; obsolescence; delivery/transportation problems and disruptions of fuel supply and performance below expected levels. Occurrences of these events may impact our ability to conduct our business efficiently or lead to increased costs, expenses or losses.

Although we maintain customary insurance coverage for certain of these risks common to utilities, we do not have insurance covering our transmission and distribution systems, other than substations, because we have found the cost of such insurance to be prohibitive. If we are unable to recover the costs incurred in restoring our transmission and distribution properties following damage as a result of ice storms, tornados or other natural disasters or to recover the costs of other liabilities arising from the risks of our business, through a change in our rates or otherwise, or if such recovery is not received on a timely basis, we may not be able to restore losses or damages to our properties without an adverse effect on our financial condition, results of operations or our reputation.

We are subject to liability risks relating to our generating, transmission, distribution and retail businesses.

The conduct of our physical and commercial operations subjects us to many risks, including risks of potential physical injury, property damage or other financial affects, caused to or caused by employees, customers, contractors, vendors, contractual or financial counterparties and other third parties.

We could be negatively affected by rising interest rates, downgrades to our bond credit ratings or other negative developments in our ability to access capital markets.

In the ordinary course of business, we are reliant upon adequate long-term and short-term financing means to fund our significant capital expenditures, debt interest or maturities and operating needs. As a capital-intensive business, we are sensitive to developments in interest rate levels; credit rating considerations; insurance, security or collateral requirements; market liquidity and credit availability and refinancing steps necessary or advisable to respond to credit market changes. Changes in these conditions could result in increased costs and decreased liquidity available to the Company.

We are subject to commodity price risk and counterparty credit risk associated with the energy business.

General market or pricing developments or failures by counterparties to perform their obligations relating to energy, fuels, other commodities, goods, services or payments could result in potential increased costs to the Company. We have regulatory cost recovery mechanisms in place to mitigate negative fluctuations in commodity supply prices, and credit policies to limit our exposure to counterparty credit, but there can be no assurances that our financial performance will not be negatively impacted by price fluctuations or failure of counterparties with whom we contract to perform their contractual obligations.

We are subject to risks associated with defined benefit retirement plans, health care plans, wages and other employee-related matters.

We sponsor pension and postretirement benefit plans for our employees. Risks with respect to these plans include adverse developments in legislation or regulation, future costs or funding levels, returns on investments, market fluctuations, interest rates and actuarial matters. Changes in health care rules, market practices or cost structures can affect our current or future funding requirements or liabilities. Without sustained growth in our investments over time to increase the value of our plan

assets, we could be required to fund our plans with significant amounts of cash. We are also subject to risks related to changing wage levels, whether related to collective bargaining agreements or employment market conditions, ability to attract and retain key personnel and changing costs of providing health care benefits.

We are subject to risks associated with federal and state tax regulations.

Changes in taxation as well as the inherent difficulty in quantifying potential tax effects of business decisions could negatively impact our results of operations. We are required to make judgments in order to estimate our obligations to taxing authorities. These tax obligations include income, property, sales and use and employment-related taxes. We also estimate our ability to utilize tax benefits and tax credits. Due to the revenue needs of the states and jurisdictions in which we operate, various tax and fee increases may be proposed or considered. We cannot predict whether legislation or regulation will be introduced or the effect on the Company of any such changes. If enacted, any changes could increase tax expense and could have a negative impact on our results of operations and cash flows.

Risks Related to the Exchange Offers

There may be adverse consequences if you do not exchange your Outstanding Bonds.

If you do not exchange your Outstanding Bonds for Exchange Bonds in the Exchange Offers, you will continue to be subject to restrictions on transfer of your Outstanding Bonds as set forth in the offering memorandum distributed in connection with the private offering of the Outstanding Bonds. In general, the Outstanding Bonds may not be offered or sold unless they are registered or exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, we do not intend to register resales of the Outstanding Bonds under the Securities Act. You should refer to “Prospectus Summary—The Exchange Offers” and “The Exchange Offers” for information about how to tender your Outstanding Bonds.

The tender of Outstanding Bonds under the Exchange Offers will reduce the outstanding amount of the Outstanding Bonds, which may have an adverse effect upon, and increase the volatility of, the market prices of the Outstanding Bonds due to a reduction in liquidity.

Your ability to transfer the Exchange Bonds may be limited if there is no active trading market, and there is no assurance that any active trading market will develop for the Exchange Bonds.

We are offering the Exchange Bonds to the holders of the Outstanding Bonds. We do not intend to list the Exchange Bonds on any securities exchange. There is currently no established market for the Exchange Bonds. If no active trading market develops, you may not be able to resell your Exchange Bonds at their fair market value or at all. Future trading prices of the Exchange Bonds will depend on many factors including, among other things, prevailing interest rates, our operating results and the market for similar securities. No assurance can be given as to the liquidity of or trading market for the Exchange Bonds.

Certain persons who participate in the Exchange Offers must deliver a prospectus in connection with resales of the Exchange Bonds.

Based on interpretations of the staff of the SEC contained in *Exxon Capital Holdings Corp.*, SEC no-action letter (available May 13, 1988), *Morgan Stanley & Co. Inc.*, SEC no-action letter (available June 5, 1991) and *Shearman & Sterling*, SEC no-action letter (available July 2, 1993), we believe that you may offer for resale, resell or otherwise transfer the Exchange Bonds without compliance with the registration and prospectus delivery requirements of the Securities Act. We cannot guarantee that the SEC would make a similar decision about our Exchange Offers. If our belief is wrong, or if you cannot truthfully make the representations mentioned above, and you transfer any Exchange Bond issued to

you in the Exchange Offers without meeting the registration and prospectus delivery requirements of the Securities Act, or without an exemption from such requirements, you could incur liability under the Securities Act. Additionally, in some instances described in this prospectus under “Plan of Distribution,” certain holders of Exchange Bonds will remain obligated to comply with the registration and prospectus delivery requirements of the Securities Act to transfer the Exchange Bonds. If such a holder transfers any Exchange Bonds without delivering a prospectus meeting the requirements of the Securities Act or without an applicable exemption from registration under the Securities Act, such a holder may incur liability under the Securities Act. We do not and will not assume, or indemnify such a holder against, this liability.

Risks Related to the Bonds

The following risks apply to the Outstanding Bonds and will apply equally to the Exchange Bonds.

If the ratings of the Bonds are lowered or withdrawn, the market value of the Bonds could decrease.

A rating is not a recommendation to purchase, hold or sell the Bonds, inasmuch as the rating does not comment as to market price or suitability for a particular investor. The ratings of the Bonds address the rating agencies’ views as to the likelihood of the timely payment of interest and the ultimate repayment of principal of the Bonds pursuant to their respective terms. There is no assurance that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if in their judgment circumstances in the future so warrant. In the event that any of the ratings initially assigned to the Bonds is subsequently lowered or withdrawn for any reason, the market price of the Bonds may be adversely affected.

A WARNING ABOUT FORWARD-LOOKING STATEMENTS

We use forward-looking statements in this prospectus. Statements that are not historical facts are forward-looking statements, and are based on beliefs and assumptions of our management, and on information currently available to management. Forward-looking statements include statements preceded by, followed by or using such words as “believe,” “expect,” “anticipate,” “plan,” “estimate” or similar expressions. Actual results may materially differ from those implied by forward-looking statements due to known and unknown risks and uncertainties. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- fuel supply availability;
- weather conditions affecting generation production, customer energy use and operating costs;
- operation, availability and operating costs of existing generation facilities;
- transmission and distribution system conditions and operating costs;
- potential laws or regulations to reduce emissions of GHGs;
- collective labor bargaining negotiations;
- the outcome of litigation against us;
- potential effects of threatened or actual terrorism or war or other hostilities;
- our commitments and liabilities;
- market demand and prices for energy, capacity, transmission services, emission allowances and delivered fuel;
- competition in retail and wholesale power markets;
- liquidity of wholesale power markets;
- defaults by our counterparties under our energy, fuel or other power product contracts;
- market prices of commodity inputs for ongoing capital expenditures;
- capital market conditions, including the availability of capital or credit, changes in interest rates, and decisions regarding capital structure;
- the fair value of debt and equity securities and the impact on defined benefit costs and resultant cash funding requirements for defined benefit plans;
- interest rates and their effect on pension and retiree medical liabilities;
- volatility in or the impact of changes in financial or commodity markets and economic conditions;
- profitability and liquidity, including access to capital markets and credit facilities;
- new accounting requirements or new interpretations or applications of existing requirements;
- securities and credit ratings;
- current and future environmental conditions and requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- political, regulatory or economic conditions in states, regions or countries where we conduct business;

- receipt of necessary governmental permits, approvals and rate relief;
- new state or federal legislation, including new tax, environmental, health care or pension-related legislation;
- state or federal regulatory developments;
- the outcome of any rate cases at the Kentucky Commission, the FERC, the Virginia Commission or the Tennessee Regulatory Authority;
- the impact of any state or federal investigations applicable to us and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures; and
- asset acquisitions and dispositions.

In light of these risks and uncertainties, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. For additional details regarding these and other risks and uncertainties, see “Risk Factors” on page 12 of this prospectus.

USE OF PROCEEDS

We will not receive any cash proceeds from the issuance of the Exchange Bonds pursuant to the Exchange Offers. In consideration for issuing the Exchange Bonds as contemplated in this prospectus, we will receive in exchange a like principal amount of Outstanding Bonds, the terms of which are identical in all material respects to the Exchange Bonds of the related series, except that the Exchange Bonds will not contain terms with respect to transfer restrictions, registration rights and liquidated damages for failure to observe certain obligations in the registration rights agreement. The Outstanding Bonds surrendered in exchange for the Exchange Bonds will be retired and cancelled, and will not be reissued. Accordingly, the issuance of the Exchange Bonds will not result in any increase in our outstanding debt or the receipt of any additional proceeds.

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2011. You should read the data set forth below in conjunction with “Selected Financial Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our Financial Statements as of December 31, 2010 and 2009 and for the Years Ended December 31, 2010, 2009 and 2008 included elsewhere in this prospectus (the “2010 Annual Financial Statements”) and our Unaudited Condensed Financial Statements as of March 31, 2011 and December 31, 2010, and for the Three Months Ended March 31, 2011 and 2010 included elsewhere in this prospectus (“First Quarter Financial Statements”).

The Outstanding Bonds that are surrendered in exchange for the Exchange Bonds will be retired and cancelled and cannot be reissued. As a result, the issuance of the Exchange Bonds will not result in any change in our capitalization.

	As of March 31, 2011
	(in millions)
Cash and cash equivalents	<u>\$ 57</u>
Long-term debt, including current portion	\$1,851
Total equity	<u>2,717</u>
Total capitalization	<u>\$4,568</u>

SELECTED FINANCIAL DATA

The selected financial data presented below for the five fiscal years ended December 31, 2010, and as of December 31 for each of those years, have been derived from our audited financial statements. Our audited financial statements for the three fiscal years ended December 31, 2010, and as of December 31, 2010 for each of those years, are included in this prospectus. The selected financial data for the three months ended March 31, 2011 and 2010 and as of March 31, 2011 and 2010 are derived from our unaudited financial statements included in this prospectus. Historical results are not necessarily indicative of future results. Our financial statements and related financial and operating data include the periods before and after PPL's acquisition of our Parent on November 1, 2010, and are labeled as Predecessor or Successor. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview" for additional information.

You should read the data set forth below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited and unaudited financial statements and related notes included elsewhere in this prospectus.

Dollars are in millions unless otherwise noted. Balance sheet data is as of the last date in the period.

	Successor	Predecessor	Successor	Predecessor				
	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31,			
					2009	2008	2007	2006
Operating revenues	\$ 406	\$ 380	\$ 263	\$1,248	\$1,355	\$1,405	\$1,272	\$1,210
Operating income	\$ 107	\$ 87	\$ 65	\$ 285	\$ 269	\$ 260	\$ 267	\$ 235
Net Income	\$ 58	\$ 44	\$ 35	\$ 140	\$ 133	\$ 158	\$ 167	\$ 152
Total assets	\$6,058	\$4,979	\$6,059	\$5,145	\$4,956	\$4,518	\$3,796	\$3,148
Long-term debt obligations (including amounts due within one year)	\$1,841	\$1,682	\$1,841	\$1,682	\$1,682	\$1,532	\$1,264	\$ 843
Other Financial Data:								
Ratio of Earnings to Fixed Charges(1)	5.68	4.19	6.00	4.01	3.68	3.92	5.05	6.46

(1) For purposes of calculating the ratio of earnings to fixed charges, earnings consist of earnings from continuing operations plus fixed charges. Fixed charges consist of all interest on indebtedness, amortization of debt discount and expense and the portion of rental expense that represents an imputed interest component. Earnings from continuing operations consist of income before taxes, undistributed income of Electric Energy, Inc. and the mark-to-market impact of derivative instruments.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. See "Business" for a description of the business. The rates we charge our customers require approval of the appropriate regulatory government agency. See Note 3 to our 2010 Annual Financial Statements and Note 3 to our First Quarter Financial Statements for information regarding rate cases, regulatory assets and liabilities and other regulatory matters.

The Company and its affiliate, LG&E, are wholly owned subsidiaries of our Parent, a Kentucky limited liability company. PPL Corporation acquired our Parent on November 1, 2010. Headquartered in Allentown, Pennsylvania, PPL is an energy and utility holding company that was incorporated in 1994. Through its subsidiaries, PPL owns or controls about 19,000 Mw of generating capacity in the U.S., sells energy in key U.S. markets and delivers electricity and natural gas to about 10 million customers in the U.S. and the U.K. Following the acquisition, both the Company and LG&E continue operating as subsidiaries of our Parent, which is now an intermediary holding company in the PPL group of companies. See Note 2 to our 2010 Annual Financial Statements for further information regarding the acquisition.

The following discussion and analysis by management focuses on those factors that had a material effect on our results of operations and financial condition during the periods presented and should be read in connection with the financial statements and notes included elsewhere in this prospectus. The discussion also provides information with respect to our material risks and challenges and contains certain forward-looking statements that involve risk and uncertainties. See "Risk Factors" and "A Warning about Forward-Looking Statements" for further information. Specifically:

- "Results of Operations" provides a description of our operating results during the periods presented, including a review of earnings and a brief outlook for 2011.
- "Financial Condition—Liquidity and Capital Resources" provides an analysis of our liquidity position and credit profile, including our sources of cash (including bank credit facilities and sources of operating cash flow) and uses of cash (including contractual obligations and capital expenditure requirements) and the key risks and uncertainties that impact our past and future liquidity position and financial condition. This subsection also includes a discussion of rating agency action on our credit ratings.
- "Financial Condition—Risk Management" provides an explanation of our risk management activities relating to market risk and credit risk.
- "Application of Critical Accounting Policies and Estimates" provides an overview of the accounting policies that are particularly important to our results of operations and our financial condition and that require our management to make significant estimates, assumptions and other judgments.

Predecessor and Successor Financial Presentation

Our financial statements and related financial and operating data include the periods before and after PPL's acquisition of our Parent on November 1, 2010, and are labeled as Predecessor or Successor, as applicable. We applied push-down accounting to account for the acquisition. For accounting purposes only, push-down accounting is considered to create a new entity due to new cost basis assigned to assets, liabilities and equity as of the acquisition date. Consequently, certain results of our operations and cash flows for the Predecessor period in 2010 and the Successor periods in 2010 are shown separately, rather than combined, in our audited financial statements.

In the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of “Years Ended December 31, 2010 and 2009—Results of Operations” and “—Financial Condition,” we have included disclosure of the combined Predecessor and Successor results of operations and cash flows. Such presentation is considered to be a non-GAAP disclosure. We have included such disclosure because we believe it facilitates the comparison of 2010 operating and financial performance to 2009 and 2008, and because our core operations have not changed as a result of the acquisition.

Competition

See the Business section for information concerning competition.

Environmental Matters

General

Protection of the environment is a major priority for us and a significant element of our business activities. Extensive federal, state and local environmental laws and regulations are applicable to our air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc., and may impact the costs of their products or their demand for our services.

Climate Change

Recent developments continue to indicate the possibility of significant climate change or GHG legislation or regulation, at the international, federal, regional or state levels. During December 2009, as part of the United Nation’s Copenhagen Accord, the United States agreed to a non-binding goal to reduce GHG emissions to 17% below 2005 levels by 2020. Additionally, during 2009, the U.S. House of Representatives passed comprehensive GHG legislation, which included a number of measures to limit GHG emissions and achieve GHG emission reduction targets below 2005 levels of 3% by 2012, 17% by 2020 and 83% by 2050. Similar legislation has been considered in the U.S. Senate, but the prospects for passage remain uncertain. In late 2009, the U.S. Environmental Protection Agency, or EPA, issued a final endangerment finding relating to mobile sources of GHGs and a GHG reporting requirement beginning in 2010. In 2010, the EPA issued a final rule requiring implementation of best available control technology for GHG emissions from new or modified power plants, effective January 2011. In December 2010, the EPA announced that it intends to propose New Source Performance Standards addressing GHG emissions from new and existing power plants, with a proposed rule expected in July 2011. In 2011, legislation was introduced in both the House and Senate which seeks to bar the EPA from regulating GHG emissions under the existing authority of the Clean Air Act, but, to date, no such legislation has been enacted. Finally, a number of U.S. states, although not currently including Kentucky, have adopted GHG-reduction legislation or regulation of various sorts. The developing GHG initiatives include a number of differing structures and formats, including direct limitations on GHG sources, issuance of allowances for GHG emissions, cap-and-trade programs for such allowances, renewable or alternative generation portfolio standards and mechanisms relating to demand reduction, energy efficiency, smart-grid, transmission expansion, carbon-sequestration or other GHG-reducing efforts. While the final terms and impacts of such initiatives cannot be estimated, we, as a primarily coal-fired utility, could be highly affected by such proceedings.

Other Environmental Regulatory Initiatives

The EPA has proposed or announced that it intends to propose, and in some cases has finalized, a number of additional environmental regulations that could substantially impact utilities with coal-fired generating assets. These regulatory initiatives include revisions to the ambient air quality standards for SO₂, NO₂, ozone and particulate matter 2.5 microns in size or less, rules aimed at mitigating the interstate transport of SO₂ and NO_x, a program governing emissions of hazardous air pollutants from utility generating units, a program for the management of coal combustion residuals, revised effluent guidelines for utility generating facilities and standards for cooling water intake structures. Such requirements could potentially mandate upgrade of existing emission controls, installation of additional emission controls such as flue gas desulfurization, selective catalytic reduction, or SCRs, fabric filter bag houses, activated carbon injection, wet electrostatic precipitators, closure of ash ponds and retrofit of landfills, installation of cooling towers, deployment of new water treatment technologies and retirement of facilities that cannot be retrofitted on a cost effective basis.

The cost to us and the effect on our business of complying with potential GHG restrictions and other environmental regulatory initiatives will depend upon provisions of any final rules and how the rules are implemented by the EPA. Some of the design elements which may have the greatest effect on us include (a) the required levels and timing of emissions caps, discharge limits or similar standards, (b) the sources covered by such requirements, (c) transition and mitigation provisions, such as phase-in periods, free allowances or price caps, (d) the availability and pricing of relevant mitigation or control technologies, goods or services and (e) economic, market and customer reaction to electricity price and demand changes due to environmental concerns.

Ultimately, environmental matters or potential environmental matters can represent an important element of current or future potential capital requirements, future unit retirement or replacement decisions, supply and demand for electricity, operating and maintenance expenses or compliance risks. Based on prior regulatory precedent, we currently anticipate that many of such direct costs may be recoverable through rates or other regulatory mechanisms, particularly with respect to coal-related generation, but the availability, timing or completeness of such rate recovery cannot be assured. Ultimately, climate change and other environmental matters will likely increase the level of capital expenditures and operating and maintenance costs incurred by us during the next several years. With respect to National Ambient Air Quality Standards, or NAAQS, the Clean Air Transport Rule, or CATR, the utility Maximum Achievable Control Technology, or MACT, rule and coal combustion byproducts developments, based on a preliminary analysis of proposed regulations, we may be required to consider actions such as upgrading existing emissions controls, installing additional emissions controls, upgrading byproducts disposal and storage and possible early replacement of coal-fired units. In order to comply with the coal combustion residual rules and the above referenced air rules, our capital expenditures are preliminarily estimated to be in the \$1.5 to \$2.0 billion range over the next ten years, although final costs may substantially vary. This estimate does not include compliance with GHG rules or contemplated water-related environmental changes including the recently proposed Section 316(b) cooling water intake rule and the expected future revisions to effluent guidelines. See “Risk Factors,” Note 13 to our 2010 Annual Financial Statements and Note 9 to our First Quarter Financial Statements for further information.

Years Ended December 31, 2010 and 2009

Results of Operations

The utility business is affected by seasonal temperatures. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. Revenue and earnings are generally highest during the first and third quarters, and lowest in the second quarter, due to weather.

All dollar amounts are in millions unless otherwise noted.

Net Income

The following table summarizes the significant components of net income for 2010, 2009 and 2008 and the changes therein:

	Combined Year Ended December 31, 2010	Successor November 1, 2010 through December 31, 2010	Predecessor		
			January 1, 2010 through October 31, 2010	Year Ended December 31, 2009	2008
Total operating revenues	\$1,511	\$263	\$1,248	\$1,355	\$1,405
Total operating expenses	1,161	198	963	1,086	1,145
Operating income	350	65	285	269	260
Equity in earnings of unconsolidated venture	3	—	3	1	30
Interest expense	14	8	6	6	14
Interest expense to affiliated companies . . .	64	2	62	69	58
Other income (expense)—net	(2)	—	(2)	5	8
Income before income taxes	273	55	218	200	226
Income tax expense	98	20	78	67	68
Net income	<u>\$ 175</u>	<u>\$ 35</u>	<u>\$ 140</u>	<u>\$ 133</u>	<u>\$ 158</u>

The change in our net income was as follows:

	Increase (Decrease)	
	2010 vs. 2009	2009 vs. 2008
Total operating revenues	\$156	\$(50)
Total operating expenses	75	(59)
Operating income	81	9
Equity in earnings of unconsolidated venture	2	(29)
Interest expense	8	(8)
Interest expense to affiliated companies	(5)	11
Other income (expense)—net	(7)	(3)
Income (loss) before income taxes	73	(26)
Income taxes	31	(1)
Net income	<u>\$ 42</u>	<u>\$(25)</u>

Operating Revenues

The \$156 million increase from 2009 to 2010 and \$50 million decrease from 2008 to 2009 in operating revenues were primarily due to:

	Increase (Decrease)	
	2010 vs. 2009	2009 vs. 2008
Retail sales volumes(a)	\$ 73	\$(43)
Base rate price variance(b)	39	(5)
Demand revenue(c)	16	(1)
Sales to municipal customers(d)	12	(1)
Increased recoverable capital spending billed through the environmental cost recovery, or ECR	8	50
Other operating revenue primarily due to late payment charges	6	6
Fuel adjustment clause, or FAC, price variance(e)	5	(2)
Merger surcredit termination in February 2009	2	13
Transmission sales	1	—
Increased recoverable program spending billed through demand side management mechanism, or DSM	1	9
Wholesale sales(f)	(7)	(77)
Value delivery team process surcredit termination in August 2008	—	1
	<u>\$156</u>	<u>\$(50)</u>

(a) Retail sales volumes increased during 2010 compared to 2009 as a result of increased consumption primarily due to increased heating degree days during the first and fourth quarters of 2010 and increased cooling degree days during the second and third quarters of 2010. Additionally, improved economic conditions in 2010 and significant storm outages in 2009 contributed to the increased volumes.

The decrease in retail sales volumes during 2009 compared to 2008 was attributable to reduced consumption by retail customers, as a result of milder weather and weakened economic conditions, in addition to significant storm outages during 2009.

(b) The increase in revenues due to the base rate price variance during 2010 compared to 2009 resulted from higher base rates effective August 1, 2010. See Note 3 to our 2010 Annual Financial Statements for further discussion of the 2010 Kentucky rate case.

The decrease in revenues due to the base rate price variance during 2009 compared to 2008 resulted from a reduction in base energy rates effective February 6, 2009. See Note 3 to our 2010 Annual Financial Statements for further discussion of the 2008 Kentucky rate case.

(c) Demand revenues increased during 2010 compared to 2009 as a result of higher demand rates effective August 1, 2010 and higher customer peak demand. See Note 3 to our 2010 Annual Financial Statements for further discussion of the 2010 Kentucky rate case.

(d) The increase in sales to municipal customers during 2010 compared to 2009 was primarily due to increased volumes as a result of increased cooling and heating degree days, improved economic conditions and a decline in storm outages.

(e) FAC revenues increased during 2010 compared to 2009 as a result of increased recoverable fuel costs billed to customers through the FAC due to higher fuel prices.

The decrease in the FAC revenue during 2009 compared to 2008 resulted from lower fuel costs billed to customers through the FAC (\$2 million) due to a refund of power purchased costs from

Owensboro Municipal Utilities, or OMU, (\$6 million) partially offset by increased recoverable fuel costs (\$4 million) billed to retail customers through the FAC.

- (f) The decrease in wholesale sales during 2010 compared to 2009 was primarily due to increased consumption by industrial customers, as a result of improved economic conditions, increased consumption by residential customers, as a result of increased cooling and heating degree days and an increase in LG&E's coal-fired generation outages in the first six months of 2010. See Note 15 to our 2010 Annual Financial Statements for further discussion of the mutual agreement for wholesale sales and purchases between us and LG&E.

The decrease in wholesale sales during 2009 compared to 2008 was primarily due to lower sales volumes to LG&E and third parties due to lower economic capacity, caused by low spot market pricing and higher scheduled coal-fired generation outages. See Note 15 to our 2010 Annual Financial Statements for further discussion of the mutual agreement for wholesale sales and purchases between us and LG&E.

Operating Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the FERC, Kentucky Commission, Virginia Commission and the Tennessee Regulatory Authority. Operating expenses and the changes therein for 2010, 2009 and 2008 follow:

	<u>Combined</u>	<u>Successor</u>	<u>Predecessor</u>		
			<u>Year Ended December 31, 2010</u>	<u>November 1, 2010 through December 31, 2010</u>	<u>January 1, 2010 through October 31, 2010</u>
				<u>2009</u>	<u>2008</u>
Fuel for electric generation	\$ 495	\$ 78	\$417	\$ 434	\$ 513
Power purchased	175	28	147	199	221
Other operation and maintenance expenses .	346	66	280	320	275
Depreciation and amortization	145	26	119	133	136
	<u>\$1,161</u>	<u>\$198</u>	<u>\$963</u>	<u>\$1,086</u>	<u>\$1,145</u>

The changes in operating expenses were as follows:

	<u>Increase (Decrease)</u>	
	<u>2010 vs. 2009</u>	<u>2009 vs. 2008</u>
Fuel for electric generation	\$ 61	\$(79)
Power purchased	(24)	(22)
Other operation and maintenance expenses	26	45
Depreciation and amortization	12	(3)
	<u>\$ 75</u>	<u>\$(59)</u>

Fuel for Electric Generation

The \$61 million increase from 2009 to 2010 and \$79 million decrease from 2008 to 2009 were primarily due to:

	Increase (Decrease)	
	<u>2010 vs. 2009</u>	<u>2009 vs. 2008</u>
Fuel usage volumes(a)	\$ 77	\$(97)
Commodity costs for coal	(15)	18
Other	<u>(1)</u>	<u>—</u>
	<u>\$ 61</u>	<u>\$(79)</u>

(a) Fuel usage volumes increased in 2010 compared to 2009 due to increased native load sales. Fuel usage volumes decreased in 2009 compared to 2008 due to decreased native load and wholesale sales.

Power Purchased Expense

The \$24 million decrease from 2009 to 2010 and \$22 million decrease from 2008 to 2009 were primarily due to:

	Increase (Decrease)	
	<u>2010 vs. 2009</u>	<u>2009 vs. 2008</u>
Power purchased from OMU	\$(40)	\$ 12
Purchases from LG&E due to volume(a)	(5)	(2)
Demand payments for third party purchases	(2)	1
Prices for purchases used to serve retail customers	7	(14)
Third party purchased volumes for native load(b)	7	(6)
OMU settlement received in 2009	6	(6)
Purchases from LG&E due to prices	<u>3</u>	<u>(7)</u>
	<u>\$(24)</u>	<u>\$(22)</u>

(a) Purchased volumes from LG&E decreased in 2010 compared to 2009 primarily due to increased consumption by residential customers at LG&E as the result of increased cooling and heating degree days, increased coal-fired generation outages in the first six months of 2010 and higher energy usage by industrial customers as a result of improved economic conditions.

Purchased volumes from LG&E decreased in 2009 compared to 2008 due to LG&E's increased scheduled outages at coal-fired generation units during the fourth quarter of 2009. See Note 15 to our 2010 Annual Financial Statements for further discussion of the mutual agreement for wholesale sales and purchases between us and LG&E.

(b) Third party purchase volumes with counterparties other than OMU increased in 2010 compared to 2009 primarily due to the termination of the OMU agreement. Third party purchase volumes with counterparties other than OMU decreased in 2009 compared to 2008 primarily due to availability of power for native load customers from the OMU agreement. See Note 13 to our 2010 Annual Financial Statements for further discussion of the OMU settlement.

Other Operation and Maintenance Expenses

The \$26 million increase from 2009 to 2010 was primarily due to \$22 million of increased other operation expenses and \$4 million of increased maintenance expenses. The \$45 million increase from 2008 to 2009 was primarily due to \$30 million of increased other operation expenses and \$15 million of increased maintenance expenses.

Other Operation Expenses:

The \$22 million increase from 2009 to 2010 and \$30 million increase from 2008 to 2009 were primarily due to:

	<u>Increase (Decrease)</u>	
	<u>2010 vs. 2009</u>	<u>2009 vs. 2008</u>
Administrative and general expense(a)	\$ 9	\$ 3
Transmission expense(b)	5	—
Bad debt expense(c)	4	(1)
Steam expense(d)	4	7
Generation expense	2	(2)
DSM program spending	—	9
Legal expenses(e)	—	(6)
Other power supply	(1)	—
Pension expense(f)	(2)	20
Other	<u>1</u>	<u>—</u>
	<u>\$22</u>	<u>\$30</u>

- (a) Administrative and general expense increased in 2010 compared 2009 primarily due to higher labor expense and insurance expense, partially offset by lower information technology expense related to the implementation of the Customer Care Solution system in 2009. Administrative and general expense increased in 2009 compared to 2008 primarily due to increased consulting fees for software training and increased labor and benefit costs.
- (b) Transmission expense increased in 2010 compared to 2009 primarily due to a settlement agreement with a third party and the establishment of a regulatory asset approved by the Kentucky Commission for the East Kentucky Power Cooperative, Inc. settlement in 2009, net of twelve months of amortization expense recorded in 2010.
- (c) Bad debt expense increased in 2010 compared to 2009 due to higher billed revenues, higher late payment charges and a higher net charge-off percentage.
- (d) Steam expense increased in 2010 compared to 2009 primarily due to increased generation in 2010. Steam expense increased in 2009 compared to 2008 primarily due to the utilization of SCRs year-round.
- (e) Legal expenses decreased in 2009 compared to 2008 primarily due to OMU expenses in 2008. See Note 13 to our 2010 Annual Financial Statements for further information regarding the OMU settlement.
- (f) Pension expense decreased in 2010 compared to 2009 primarily due to favorable asset performance in 2009 and increased in 2009 compared to 2008 primarily due to unfavorable asset performance in 2008.

Other Maintenance Expenses:

The \$4 million increase from 2009 to 2010 and \$15 million increase from 2008 to 2009 were primarily due to:

	Increase (Decrease)	
	2010 vs. 2009	2009 vs. 2008
Generation expense(a)	\$ 3	\$—
Steam expense(b)	2	7
Administrative and general expense	2	1
Transmission expense	—	2
Distribution expense(c)	(3)	5
	<u>\$ 4</u>	<u>\$15</u>

- (a) Generation expense increased in 2010 compared to 2009 primarily due to the overhaul of Paddy's Run Unit 13.
- (b) Steam expense increased in 2009 compared to 2008 due to increased scope of work for scheduled outages.
- (c) Distribution expense decreased in 2010 compared to 2009 primarily due to higher storm cost in 2009, partially offset by higher tree trimming expense in 2010. Distribution expense increased in 2009 compared to 2008 primarily due to increased repairs, higher tree trimming expense and higher storm related expense.

Equity in Earnings of Unconsolidated Venture

The \$2 million increase in equity in earnings of unconsolidated venture, from 2009 to 2010, was primarily due to higher earnings from Electric Energy, Inc. resulting from increased market prices for electric energy and the \$29 million decrease from 2008 to 2009 was primarily due to lower earnings resulting from decreased market prices for electric energy.

Interest Expense

The \$3 million increase from 2009 to 2010 and \$3 million increase from 2008 to 2009 were primarily due to:

	Increase (Decrease)	
	2010 vs. 2009	2009 vs. 2008
Bond interest expense(a)	\$ 8	\$(8)
Interest expense to affiliated companies(b)	(5)	11
	<u>\$ 3</u>	<u>\$ 3</u>

- (a) Bond interest expense increased in 2010 compared to 2009 due to the issuance of first mortgage bonds in November 2010. Bond interest expense decreased in 2009 compared to 2008 due to lower interest rates on pollution control bonds. See Note 11 to our 2010 Annual Financial Statements for further information.
- (b) Interest expense to affiliated companies decreased in 2010 compared to 2009 primarily due to notes payable to Fidelia Corporation being paid in full in November 2010, as a result of the PPL acquisition. Interest expense to affiliated companies increased in 2009

compared to 2008 primarily due to the issuance of additional debt (\$13 million), which was partially offset by lower interest rates on intercompany short-term borrowings.

Other Income (Expense)—Net

The \$7 million decrease in other income (expense)—net from 2009 to 2010 and the \$3 million decrease in other income (expense)—net from 2008 to 2009 were primarily due to the discontinuance of the allowance for funds used during construction on ECR projects as a result of the FERC rate case.

Income Tax Expense

See Note 10 to our 2010 Annual Financial Statements for a reconciliation of differences between the U.S. federal income tax expense at statutory rates and our income tax expense.

Cash Flows

A condensed table of cash flows for the following periods in 2010, 2009 and 2008 is presented below. The Predecessor period, January 1, 2010 through October 31, 2010, and the Successor period, November 1, 2010 through December 31, 2010, were aggregated without further adjustment for purposes of comparison with the same periods in 2009 and 2008.

	<u>Combined</u>	<u>Successor</u>	<u>Predecessor</u>	
			<u>January 1, 2010 through October 31, 2010</u>	<u>Year Ended December 31, 2009 2008</u>
Net cash provided by operating activities	\$ 372	\$ 28	\$ 344	\$ 253 \$ 292
Net cash (used in) investing activities	(427)	(87)	(340)	(507) (695)
Net cash provided by (used in) financing activities	56	58	(2)	254 405
Change in cash and cash equivalents	<u>\$ 1</u>	<u>\$ (1)</u>	<u>\$ 2</u>	<u>\$ — \$ 2</u>

Operating Activities

Net cash provided by operating activities increased by 47%, or \$119 million, in 2010 compared with 2009, primarily as a result of increased earnings, increased collections from the ECR mechanism and lower storm expenses. These increases in cash flow were partially offset by higher interest payments due to an accelerated settlement with the previous owner and higher 2010 income tax payments due to higher taxable income and investment tax credit benefits received in 2009.

Net cash provided by operating activities decreased by 13%, or \$39 million, in 2009 compared with 2008, primarily as a result of higher storm expenses, decreased earnings and unfavorable changes in working capital. These decreases in cash flow were partially offset by lower income tax payments due to lower taxable income and investment tax credit benefits received.

We expect to achieve relatively stable cash flows from operations during the next three years although future cash flows may be significantly impacted by changes in economic conditions or new environmental and tax regulations.

Investing Activities

The primary use of cash in investing activities is capital expenditures. See “Forecasted Uses of Cash” for details regarding projected capital expenditures for the years 2011 through 2013.

Net cash used in investing activities decreased by 16%, or \$80 million, in 2010 compared with 2009, primarily as a result of a decrease of \$89 million in capital expenditures, partially offset by a decrease of \$9 million from restricted cash collections.

Net cash used in investing activities decreased by 27%, or \$188 million, in 2009 compared with 2008, primarily as a result of a decrease of \$180 million in capital expenditures and an increase of \$8 million from restricted cash collections.

Financing Activities

Net cash provided by financing activities was \$56 million in 2010 compared with \$254 million in 2009. In spite of significant new debt issuances associated with the repayments to E.ON affiliates in connection with PPL's acquisition of the Company, cash provided by financing was less in 2010 due to lower increases in debt in 2010 and the payment of dividends in 2010; whereas, we received equity contributions in 2009.

Net cash provided by financing activities was \$254 million in 2009 compared with \$405 million in 2008. The lower level of cash provided by financing in 2009 was the result of lower debt issuance to affiliated companies and lower levels of equity contributions received.

In the two months of 2010 following the acquisition, cash provided by financing activities of the Successor primarily consisted of the issuance of first mortgage bonds totaling \$1,489 million after discounts and the issuance of intercompany notes totaling \$1,331 million to a PPL subsidiary to repay debt due to an E.ON affiliate upon the closing of the sale. These amounts were offset by the repayment of \$1,331 million to an E.ON affiliate upon the closing of the sale, the repayment of \$1,331 million to a PPL affiliate upon the issuance of the first mortgage bonds, the repayment of \$83 million of short-term borrowings due to an affiliated company and the payment of \$17 million of debt issuance costs.

In 2010, cash used in financing activities by the Predecessor primarily consisted of the payment of \$50 million of dividends to our Parent mostly offset by increases in short-term borrowings due to an affiliated company totaling \$48 million.

In 2009, cash provided by financing activities primarily consisted of the issuance of \$150 million of intercompany notes to an E.ON affiliate, the receipt of capital contributions from our Parent totaling \$75 million and a \$29 million increase in short-term borrowings due to an affiliated company.

In 2008, cash provided by financing activities primarily consisted of the issuance of \$250 million of intercompany notes to an E.ON affiliate, the receipt of capital contributions from our Parent totaling \$145 million and a \$7 million reduction in short-term borrowings due to an affiliated company. In addition, we reacquired pollution control bonds totaling \$80 million, reissued \$63 million of that \$80 million and issued \$77 million of new pollution control bonds. Of the \$77 million, \$60 million was used to retire prior pollution control bonds, including the remaining \$17 million which had been reacquired by us. This resulted in a cash receipt of \$17 million to us.

Our debt financing activity in 2010 was:

	<u>Issuances(a)</u>	<u>Retirements</u>
Short-term borrowings from affiliated company—net change	\$ —	\$ (35)
Other borrowings from affiliated company	1,331	(1,331)
Borrowings from an E.ON affiliate	—	(1,331)
Issuance of bonds	1,489	—
Net change in debt financing	<u>\$2,820</u>	<u>\$(2,697)</u>

(a) Issuances are net of pricing discounts, where applicable.

See Note 11 to our 2010 Annual Financial Statements for further information.

Working Capital Deficiency

As of December 31, 2009, we had a working capital deficiency of \$203 million, primarily due to the current portion of long-term debt to affiliated company totaling \$33 million and \$228 million of tax-exempt bonds which allow the investors to put the bonds back to us causing them to be classified as “Current portion of long-term debt.” As of December 31, 2010, we no longer had a working capital deficiency because the current portion of long-term debt to affiliated company was paid off in conjunction with the PPL acquisition, and the \$228 million of tax-exempt bonds were no longer classified as “Other current liabilities” by the Successor because we have the intent and ability to utilize our \$400 million credit facility that expires in December 2014 to fund any mandatory purchases. See Note 11 to our 2010 Annual Financial Statements for further information.

Auction Rate Securities

Auctions for auction rate securities issued by us continued to fail throughout 2010. See Note 11 to our 2010 Annual Financial Statements for further discussion.

Forecasted Sources of Cash

We expect to continue to have adequate sources of cash available in the near term, including access to external financing, financing from affiliates and/or infusions of capital from our Parent. Regulatory approvals are required for us to incur additional debt. The FERC and the Virginia Commission authorize the issuance of short-term debt while the Kentucky Commission, Virginia Commission and the Tennessee Regulatory Authority authorize the issuance of long-term debt. In November 2009, we received a two-year authorization from the FERC to borrow up to \$400 million in short-term funds. We also have authorization from the Virginia Commission that expires at the end of 2011, allowing short-term borrowing of up to \$400 million. Short-term funds are made available via our participation in an intercompany money pool agreement wherein our Parent and/or LG&E make funds available to us at market-based rates (based on highly rated commercial paper issues) up to \$400 million. We also maintain a \$400 million Revolving Credit Agreement discussed below. We currently believe this authorization and these facilities, together with our credit facilities discussed below, provide the necessary flexibility to address any liquidity needs.

Three Months Ended March 31, 2011, Compared to Three Months Ended March 31, 2010

Results of Operations

As a result of the November 1, 2010 acquisition of our Parent by PPL, our results for the three months ended March 31, 2011 are on a different basis of accounting than our results for the three

months ended March 31, 2010. When discussing our results of operations for 2011, compared with 2010, material differences resulting from the different bases of accounting will be isolated for purposes of comparability. See “—Predecessor and Successor Financial Presentation” above for further information.

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations, and as such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future operating results. Due to weather, revenue and earnings are generally highest during the first and third quarters and lowest in the second quarter.

All dollar amounts are in millions unless otherwise noted.

Net Income

The following table summarizes the significant components of net income for the three months ended March 31, 2011 and 2010, and the changes therein:

	<u>Successor</u>	<u>Predecessor</u>	
	<u>Three Months</u>	<u>Three Months</u>	
	<u>Ended</u>	<u>Ended</u>	
	<u>March 31, 2011</u>	<u>March 31, 2010</u>	<u>Increase</u>
			<u>(Decrease)</u>
Total operating revenues	\$406	\$380	\$ 26
Total operating expenses	299	293	6
Operating income	107	87	20
Equity in earnings of unconsolidated venture	1	3	(2)
Interest expense	18	2	16
Interest expense to affiliated companies	—	18	(18)
Income from continuing operations, before income taxes	90	70	20
Income tax expense	32	26	6
Net income	<u>\$ 58</u>	<u>\$ 44</u>	<u>\$ 14</u>

Statement of Income Analysis—Margin

Non-GAAP Financial Measures

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, Margin. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. These mechanisms allow for timely recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. As a result, this measure represents the net revenues from our operations. This performance measure is used, in conjunction with other information, internally by senior management and the Board of Directors to manage our operations. We believe that Margin provides another criterion to make investment decisions.

Margin is not intended to replace Operating income, which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to present the results of their operations.

The following table reconciles Operating income to Margin as defined by the Company:

	<u>Successor</u> <u>Three Months</u> <u>Ended</u> <u>March 31, 2011</u>	<u>Predecessor</u> <u>Three Months</u> <u>Ended</u> <u>March 31, 2010</u>
Operating income(a)	\$107	\$ 87
Adjustments:		
Other operation and maintenance expenses(a)	89	79
Depreciation and amortization(a)	45	34
Expense adjustments(b)	<u>(22)</u>	<u>(17)</u>
Margin(c)	<u>\$219</u>	<u>\$183</u>

- (a) As reported on the Condensed Statements of Income.
- (b) The components of these adjustments are detailed in the table below.
- (c) Margin is higher primarily due to the increase in Kentucky base rates, effective August 1, 2010, partially offset by lower volumes largely due to milder weather in 2011.

The following table provides details of Margin expense adjustments:

	<u>Successor</u> <u>Three Months</u> <u>Ended</u> <u>March 31, 2011</u>	<u>Predecessor</u> <u>Three Months</u> <u>Ended</u> <u>March 31, 2010</u>
Expense adjustments(a)		
ECR mechanism(b)	\$17	\$ 9
DSM mechanism(b)	2	2
Transmission(c)	2	3
Consumables(c)	1	4
Fuel operating and maintenance expenses(d)	<u>—</u>	<u>(1)</u>
Total expense adjustments	<u>\$22</u>	<u>\$17</u>

- (a) To include/exclude the impact of any expenses consistent with the way management reviews Margin internally.
- (b) Relates to costs associated with the Kentucky Commission's approved cost recovery mechanisms. These costs are recovered in customer rates and are therefore included in Margin.
- (c) Included in Other operation and maintenance expenses on the Condensed Statements of Income.
- (d) For management review purposes, Fuel operating and maintenance expenses are excluded from Margin. The expenses were previously included in Fuel for electric generation on the Condensed Statement of Income under the Predecessor.

Operating Revenues

The \$26 million increase in operating revenues for the three months ended March 31, 2011, compared with the three months ended March 31, 2010, was primarily due to:

	<u>Increase (Decrease)</u>
Base rate price variance(a)	\$21
Demand revenue(b)	10
ECR revenue	4
Sales to LG&E	3
Other	1
FAC price variance	(5)
Retail sales volumes(c)	(8)
	<u>\$26</u>

- (a) The increase in revenues due to the base rate price variance during the three months ended March 31, 2011, compared with the three months ended March 31, 2010, resulted from higher base rates effective August 1, 2010. See Note 3 to our First Quarter Financial Statements for further discussion of the Kentucky rate case.
- (b) Demand revenue increased during the three months ended March 31, 2011, compared with the three months ended March 31, 2010, as a result of higher demand rates effective August 1, 2010. See Note 3 to our First Quarter Financial Statements for further discussion of the Kentucky rate case.
- (c) Retail sales volumes decreased during the three months ended March 31, 2011, compared with the three months ended March 31, 2010, primarily as a result of reduced consumption by residential and commercial customers due to milder 2011 winter.

Operating Expenses

The changes in operating expenses for the three months ended March 31, 2011, compared with the three months ended March 31, 2010, were as follows:

	<u>Increase (Decrease)</u>
Fuel for electric generation	\$ 4
Power purchased	(19)
Other operation and maintenance	10
Depreciation and amortization	11
	<u>\$ 6</u>

Power Purchased

The \$19 million decrease for the three months ended March 31, 2011, compared with the three months ended March 31, 2010, was primarily due to the expiration of a long-term power purchased contract in May 2010.

Other Operation and Maintenance Expenses

The \$10 million increase for the three months ended March 31, 2011, compared with the three months ended March 31, 2010, was primarily due to:

	<u>Increase (Decrease)</u>
Steam maintenance(a)	\$ 5
Steam operations(b)	4
Transmission(c)	2
Distribution maintenance(d)	(4)
Other	3
	<u>\$10</u>

-
- (a) The steam maintenance expense increased due to a scheduled Ghent Unit 3 outage in 2011, in addition to increased boiler and burner maintenance costs.
 - (b) The steam operating expense increased primarily due to increases in scrubber reactant expenses and other consumables.
 - (c) Settlement agreement with a third party and other higher transmission costs.
 - (d) Primarily the result of \$6 million of 2009 storm restoration expenses moved to a regulatory asset in 2011, as these costs will be recovered in rates. See Note 3 to our First Quarter Financial Statements for further discussion of storm restoration.

Depreciation and amortization

The \$11 million increase for the three months ended March 31, 2011, compared with the three months ended March 31, 2010, was primarily due to commencing dispatch of TC2 to serve customer demands in January 2011.

Interest Expense

The \$2 million decrease was primarily due to lower interest rates for the three months ended March 31, 2011, compared with the three months ended March 31, 2010. This decrease was offset by higher debt balances for the three months ended March 31, 2011, compared with the three months ended March 31, 2010. See variance details below:

	<u>Increase (Decrease)</u>
Interest rates(a)	\$(4)
Debt balances(b)	2
	<u>\$(2)</u>

-
- (a) Interest rates on the first mortgage bonds were lower than the rates on the Fidelity loans that were replaced.
 - (b) Our debt principal balances were \$169 million higher for the three months ended March 31, 2011, compared with the three months ended March 31, 2010. See Note 8 to our First Quarter Financial Statements for further information.

Income Tax Expense

See Note 7 to our First Quarter Financial Statements for a reconciliation of differences between the U.S. federal income tax expense at statutory rates and our income tax expense.

2011 Outlook

We project higher earnings in 2011 compared with 2010 as a net result of higher retail revenues and lower financing costs due to the issuance in late 2010 of first mortgage bonds which we used to refund higher-cost debt, partially offset by higher depreciation. Retail revenues are expected to increase as a result of the 2010 Kentucky rate case and recoveries associated with environmental investments. Depreciation is expected to increase due to commencing dispatch of TC2 in January 2011 to serve customer demands. See “Risk Factors” and “A Warning about Forward-Looking Statements” for a discussion of the risk factors that may impact the 2011 outlook.

Financial Condition

Liquidity and Capital Resources

We expect to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents, our credit facilities and/or infusion of capital from our Parent.

Our cash flows from operations and access to cost-effective bank and capital markets are subject to risks and uncertainties including, but not limited to, the following:

- unusual or extreme weather that may damage our transmission and distribution facilities or affect energy sales to customers;
- unavailability of generating units (due to unscheduled or longer than anticipated generation outages, weather and natural disasters) and the resulting loss of revenues and additional costs of replacement electricity;
- ability to recover and the timeliness and adequacy of recovery of costs;
- costs of compliance with existing and new environmental laws;
- changes in market prices for electricity;
- potential ineffectiveness of the trading, marketing and risk management policy and programs used to mitigate our risk exposure to adverse electricity and fuel prices and interest rates;
- operational and credit risks associated with selling and marketing products in the wholesale power markets;
- any adverse outcome of legal proceedings and investigations with respect to our current and past business activities;
- deterioration in the financial markets that could make obtaining new sources of bank and capital markets funding more difficult and more costly; and
- a downgrade in our credit ratings that could adversely affect our ability to access capital and increase the cost of credit facilities and any new debt.

See “Risk Factors” for further discussion of risks and uncertainties affecting our cash flows.

All dollar amounts are in millions unless otherwise noted.

We had the following:

	<u>March 31, 2011</u>	<u>December 31, 2010</u>
Cash and cash equivalents	\$57	\$ 3
Notes payable to affiliated company(a)	\$—	\$10

(a) Amounts represent borrowings under our intercompany money pool agreement wherein our Parent and/or LG&E make funds available to us at market-based rates of up to \$400 million. See Note 8 to our First Quarter Financial Statements for further information.

The \$54 million increase in our cash and cash equivalents position was primarily the net result of the following:

- \$145 million of cash provided by operating activities,
- \$50 million of construction expenditures,
- payment of \$31 million of common stock dividends, and
- a net decrease in short-term debt of \$10 million

Credit Facilities

On November 1, 2010, we entered into a \$400 million unsecured Revolving Credit Agreement with a group of banks. Under this new credit facility, which expires on December 31, 2014, we have the ability to make cash borrowings and to request the lenders to issue letters of credit. Borrowings will generally bear interest at LIBOR-based rates plus a spread, depending upon our senior unsecured long-term debt rating. The new credit facility contains financial covenants requiring our debt to total capitalization to not exceed 70% and other customary covenants. As of March 31, 2011, our debt to total capitalization was 40% as calculated pursuant to the credit agreement. Under certain conditions, we may request that the facility's capacity be increased by up to \$100 million. This new credit facility replaced an existing bilateral line of credit totaling \$35 million that was terminated November 1, 2010. As of March 31, 2011, there was no outstanding balance under the new credit facility, but there were \$198 million of letters of credit outstanding to support outstanding bonds totaling \$195 million. We will utilize unused credit facility and money pool balances to fund working capital needs as they arise.

On April 29, 2011, we entered into a new \$198 million letter of credit agreement that will be used to issue letters of credit to support outstanding tax-exempt bonds. The facility matures in April 2014. On May 2, 2011, letters of credit totaling \$198 million were issued under the new agreement replacing the letters of credit previously issued under our revolving credit facility. See Note 12 to our 2010 Annual Financial Statements and Notes 8 and 11 to our First Quarter Financial Statements for further information regarding our credit facilities.

Contributions from our Parent

Our Parent may make capital contributions to us, which can be used for general business purposes.

Long-Term Debt

We currently do not plan to issue any new long-term debt in 2011 other than the Exchange Bonds.

Credit Ratings

A downgrade in our credit ratings could impact our ability to access capital and increase the cost of credit facilities and any new debt. Our credit ratings reflect the views of three national rating agencies. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency. In March 2011, one national rating agency revised downward our long-term bond ratings and our short-term ratings by one notch, and left the ratings on credit watch with negative implications as a result of PPL's proposed acquisition of the Central Networks business in the United Kingdom. In April 2011, the same agency removed the negative credit watch for our ratings and upgraded by one notch our short-term ratings. In May 2011, one national ratings agency downgraded the long-term rating of four of our pollution control bonds by one notch in connection with the substitution of the letters of credit enhancing these four bonds.

In October 2010, one national rating agency revised downward the short-term credit rating of our pollution control bonds and our issuer rating as a result of the then pending acquisition by PPL. Another raised the long-term rating of our pollution control bonds as a result of the addition of the first mortgage bonds as collateral, while a third national rating agency provided an initial rating of our pollution control bonds and first mortgage bonds. See Note 11 to our 2010 Annual Financial Statements for a discussion of downgrade actions in 2009 and 2008 related to the pollution control bonds caused by a change in the rating of the entity insuring those bonds.

Ratings Triggers

We have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel and commodity transportation, which contain provisions requiring us to post additional collateral, or permit the counterparty to terminate the contract if our credit rating were to fall below investment grade. See Note 5 to our 2010 Annual Financial Statements and Note 4 to our First Quarter Financial Statements for a discussion of Credit Risk Related Contingent Features, including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at December 31, 2010 and March 31, 2011, respectively. At March 31, 2011, if our credit ratings had been below investment grade, we would have been required to prepay or post an additional \$13 million of collateral to counterparties for both derivative and non-derivative commodity and commodity-related contracts used in generation, marketing and trading operations.

Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as fuel for electric generation, power purchased, payroll and taxes; we currently expect to incur future cash outflows for capital expenditures, various contractual obligations and the payment of dividends.

Capital Requirements

Our construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of our service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. We plan to fund capital expenditures through operating cash flows, the credit facility and, if needed, the issuance of long-term debt. We expect our capital expenditures for the three

year period ending December 31, 2013 to total approximately \$1,630 million, consisting primarily of the following:

Construction of environmental controls and capacity replacement	\$ 513
Construction of coal combustion residual storage structures	362
Construction of distribution and metering assets	259
Construction of generation assets	206
Construction of transmission assets	130
Recoverable environmental assets	91
Information technology projects	39
Other projects	30
	\$1,630

Our capital program will focus primarily on compliance with existing or anticipated EPA environmental regulations, aging infrastructure and the need for increased storage capacity for coal combustion by-product materials over the next several years. This program may also be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, changes in commodity prices and labor rates and other regulatory requirements. In particular, climate change initiatives, whether via legislative, regulatory or market channels, could restrict or disadvantage power generation from higher-carbon sources. Therefore, we have included estimates regarding significant additional capital expenditures related to pending environmental regulations and legislation. These estimates are subject to final regulations and least cost analysis based on engineering studies. To the extent financial markets see climate change as a potential risk, we may face reduced access to or increased costs in capital markets. Our capital expenditures associated with such actions are preliminarily estimated to be in the \$1.5 to \$2.0 billion range over the next ten years, although final costs may substantially vary.

See the contractual obligations table below, Note 13 to our 2010 Annual Financial Statements and Note 9 to our First Quarter Financial Statements for further information concerning commitments.

Contractual Obligations

The following is provided to summarize contractual cash obligations for periods after December 31, 2010. We anticipate cash from operations and external financing will be sufficient to fund future obligations. See the Statements of Capitalization in our 2010 Annual Financial Statements.

	Payments Due by Period						Total
	2011	2012	2013	2014	2015	Thereafter	
Short-term debt(a)	\$ 10	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 10
Long-term debt(b)	—	—	—	—	250	1,601	1,851
Interest on long-term debt(c)	67	69	72	75	78	1,414	1,775
Operating leases(d)	8	7	5	5	3	1	29
Unconditional power purchase obligations(e)	9	10	10	10	10	114	163
Coal and natural gas purchase obligations(f)	439	200	144	93	91	14	981
Pension benefit plan obligations(g)	18	24	28	10	7	60	147
Postretirement benefit plan obligations(h)	5	6	6	6	6	33	62
Construction obligations(i)	113	3	—	—	—	—	116
Other obligations(j)	3	3	—	—	—	—	6
	\$672	\$322	\$265	\$199	\$445	\$3,237	\$5,140

This table does not reflect contingent obligations. See Note 13 to our 2010 Annual Financial Statements and Note 9 to our First Quarter Financial Statements for further information on contingent obligations.

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- (a) Represents borrowings due to affiliates within one year.
 - (b) Reflects principal maturities only based on legal maturity dates and includes the current portion of long-term debt.
 - (c) Assumes interest payments through maturity. The payments herein are subject to change as payments for debt that is or becomes variable-rate debt have been estimated.
 - (d) Represents future operating lease payments.
 - (e) Represents future minimum payments under Ohio Valley Electric Corporation, or OVEC, power purchase agreements through March 13, 2026.
 - (f) Represents contracts to purchase coal, natural gas and natural gas transportation.
 - (g) Represents projected cash flows for funding the pension benefit plans as calculated by the actuary. For pension funding information see Note 9 to our 2010 Annual Financial Statements and Note 6 to our First Quarter Financial Statements.
 - (h) Represents projected cash flows for the postretirement benefit plan as calculated by the actuary. For postretirement funding information, see Note 9 to our 2010 Annual Financial Statements and Note 6 to our First Quarter Financial Statements.
 - (i) Represents construction commitments, including commitments for the Brown SCR and the Brown and Ghent landfill construction including associated material transport systems for coal combustion residual.
 - (j) Represents other contractual obligations including the Southwest Power Pool, Inc., or SPP, and the Tennessee Valley Authority, or TVA, coordination agreements.

Pension and Postretirement Benefit Plans

See “—Application of Critical Accounting Policies and Estimates” for discussion regarding discretionary contributions to the pension and postretirement benefit plans in 2011.

Dividends

Future dividends may be declared at the discretion of our Board of Directors, payable to our sole shareholder, our Parent. As discussed in Note 12 to our 2010 Annual Financial Statements, our dividend payments may be effectively limited under a covenant in our \$400 million revolving line of credit facility. This covenant restricts our debt to total capital ratio to not be more than 70%. This limitation did not restrict our ability to pay dividends at December 31, 2010 or at March 31, 2011. We are subject to Section 305(a) of the Federal Power Act, which makes it unlawful for a public utility to make or pay a dividend from any funds “properly included in capital account.” The meaning of this limitation has never been clarified under the Federal Power Act. We believe, however, that this statutory restriction, as applied to our circumstances, would not be construed or applied by the FERC to prohibit the payment from retained earnings of dividends that are not excessive and are for lawful and legitimate business purposes. See Note 15 to our 2010 Annual Financial Statements and Note 10 to our First Quarter Financial Statements.

Purchase, Redemption or Remarketing of Debt Securities

We will continue to evaluate purchasing, redeeming or remarketing outstanding debt securities and may decide to take action depending upon prevailing market conditions and available cash.

Off-Balance Sheet Arrangements

We have very limited off-balance sheet activity. See Note 13 to our 2010 Annual Financial Statements for further discussion.

Risk Management

Market Risk

We are exposed to market risk from equity instruments, interest rate instruments and commodity instruments, as discussed below. However, regulatory cost recovery mechanisms significantly mitigate those risks.

Commodity Price Risk. Our rates are set by regulatory commissions and our fuel costs are recoverable from customers. As a result, we are subject to fuel commodity price risk for only a small portion of on-going business operations. We conduct energy trading and risk management activities to maximize the value of our physical assets at times when they are not required to serve our customers, and we manage energy commodity risk using derivative instruments, including swaps and forward contracts. The following chart sets forth the net fair value of our commodity derivative contracts for the years ended December 31, 2010 and 2009. The changes in net fair value of our commodity derivative contracts for the three months ended March 31, 2011 and 2010 were not significant. See Note 5 to our 2010 Annual Financial Statements and Note 4 to our First Quarter Financial Statements for further information.

	<u>Successor</u>	<u>Predecessor</u>	
	<u>December 31,</u>	<u>October 31,</u>	<u>December 31,</u>
	<u>2010(a)</u>	<u>2010(a)</u>	<u>2009</u>
Fair value of contracts outstanding at the beginning of the period	\$—	\$—	\$ 1
Contracts realized or otherwise settled during the period	—	—	—
Fair value of new contracts entered into during the period	—	—	—
Changes in fair value attributable to changes in valuation techniques	—	—	—
Other changes in fair value	—	—	(1)
Fair value of contracts outstanding at the end of the period	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>

(a) 2010 activity is less than \$1 million.

Interest Rate Risk. We have issued debt to finance our operations, which exposes us to interest rate risk. Our policies allow for the interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate swaps. Pursuant to our company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. Our annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant at March 31, 2011 or at December 31, 2010. See Note 5 to our 2010 Annual Financial Statements and Note 4 to our First Quarter Financial Statements for further information.

Securities Price Risk. We have securities price risk through our participation in defined benefit pension and postretirement benefit plans. Declines in the market price of debt and equity securities could impact contribution requirements. See “—Application of Critical Accounting Policies and

Estimates—Defined Benefits,” Note 9 to our 2010 Annual Financial Statements and Note 6 to our First Quarter Financial Statements for a discussion of the assumptions and sensitivities regarding our defined benefit pension and postretirement benefit plans assumptions.

Credit Risk

We are exposed to potential losses as a result of nonperformance by wholesale counterparties of their contractual obligations. We maintain credit policies and procedures to limit counterparty credit risk that include evaluating credit ratings and financial information as well as requiring collateral if the credit exposure exceeds certain thresholds. See Note 5 to our 2010 Annual Financial Statements and Note 4 to our First Quarter Financial Statements for information regarding credit risk and our risk management activities.

We are exposed to potential losses as a result of nonpayment by customers. We maintain an allowance for doubtful accounts composed of accounts aged more than four months. Accounts are written off as management determines them uncollectible. See “—Application of Critical Accounting Policies and Estimates,” Note 1 to our 2010 Annual Financial Statements and Note 2 to our First Quarter Financial Statements for further discussion.

Certain of our derivative instruments contain provisions that require us to provide immediate and on-going collateralization on derivative instruments in net liability positions based upon our credit ratings from each of the major credit rating agencies. See Note 5 to our 2010 Annual Financial Statements and Note 4 to our First Quarter Financial Statements for information regarding exposure and the risk management activities.

Related Party Transactions

We and our affiliates engage in related party transactions. See Notes 12 and 15 to our 2010 Annual Financial Statements and Note 10 to our First Quarter Financial Statements for further information.

We are not aware of any material ownership interest or operating responsibility by our executive officers in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with us.

Acquisitions, Development and Divestitures

We, along with LG&E, have been constructing a new 760-Mw capacity base-load, coal-fired unit, TC2, which is jointly owned by us (60.75%) and LG&E (14.25%), together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency (combined 25%). With limited exceptions we took care, custody and control of TC2 on January 22, 2011, and have dispatched the unit to meet customer demand since that date. We and the contractor agreed to a further amendment of the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. See Note 13 to our 2010 Annual Financial Statements and Note 9 to our First Quarter Financial Statements for further information.

We continuously re-examine development projects based on market conditions and other factors to determine whether to proceed, to cancel or to expand the projects.

Application of Critical Accounting Policies and Estimates

Our financial statements are prepared in compliance with GAAP. The application of these principles necessarily involves judgments regarding future events, including legal and regulatory challenges and anticipated recovery of costs. These judgments could materially impact the financial

statements and disclosures based on varying assumptions, which may be appropriate to use. In addition, the financial and operating environment also may have a significant effect, not only on the operation of the business, but also on the results reported through the application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies applied has not changed. Our senior management has reviewed the significant and critical accounting policies with the relevant governing bodies of the Company and our Parent, as applicable.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used or if changes in the estimate that are reasonably possible could materially impact the financial statements. Management believes the following critical accounting policies reflect the significant estimates and assumptions used in the preparation of the Financial Statements.

Price Risk Management

See “—Financial Condition—Risk Management” above.

Regulatory Mechanisms

We are a cost-based rate-regulated utility. As a result, our financial statements reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise be charged to expense. Likewise, regulatory liabilities are recognized for obligations expected to be returned through future regulated customer rates. The effect of such transactions or events would otherwise be reflected as income. In certain cases, regulatory liabilities are recorded based on the understanding with the regulator that current rates are being set to recover costs that are expected to be incurred in the future. The regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC, the Kentucky Commission, the Virginia Commission or the Tennessee Regulatory Authority. See Note 3 to our 2010 Annual Financial Statements and Note 3 to our First Quarter Financial Statements for additional detail regarding regulatory assets and liabilities.

Defined Benefits

Our employees benefit from both funded and unfunded retirement benefit plans. See Note 1 to our 2010 Annual Financial Statements and Note 1 to our First Quarter Financial Statements for information about policy changes between the Predecessor and Successor and the accounting for defined benefits including our method of amortizing gains and losses. We make various assumptions in arriving at pension and other postretirement benefit costs and obligations. The major assumptions include:

- Our selection of discount rates is based on the Mercer Pension Discount Yield Curve (Predecessor) and the Towers Watson Yield Curve (Successor).
- Our selection of rate of salary growth is based on historical data that includes employees' periodic pay increases and promotions, which are used to project employees' pension benefits at retirement.
- We determine the expected long-term return on plan assets based on the current level of expected return on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the current asset allocation.

- Our management projects health care cost trends based on past health care costs, the near-term outlook and an assessment of likely long-term trends.

The performance of the capital markets affects the values of the assets that are held in trust to satisfy future obligations under the defined benefit pension plans. The return on investments within the plans was approximately 12% for the year ended December 31, 2010. Our benefit plan assets and obligations are re-measured annually using a December 31 measurement date. Due to the PPL acquisition, the benefit plan assets and obligations were also re-measured at October 31, 2010. Our 2010 pension cost was approximately \$3 million less than 2009. We anticipate our 2011 pension cost will be approximately \$3 million less than the 2010 expense. The amount of future funding will depend upon the actual return on plan assets, the discount rate and other factors, but we fund our pension obligations in a manner consistent with the Pension Protection Act of 2006. We made discretionary contributions to our pension plan of \$13 million in 2010 and 2009, respectively. In January 2011, we contributed \$43 million to our pension plan. See Note 18 to our 2010 Annual Financial Statements for further information.

See Note 9 to our 2010 Annual Financial Statements for further information on defined benefits including sensitivity analysis expressing potential changes in expected returns that would result from hypothetical changes to assumptions and estimates, expected rate of return assumptions and health care trends.

Asset Impairment

We perform a quarterly review to determine if an impairment analysis is required for long-lived assets that are subject to depreciation or amortization. This review identifies changes in circumstances indicating that a long-lived asset's carrying value may not be recoverable. An impairment analysis will be performed if warranted based on the review. For these long-lived assets, such events or changes in circumstances which may indicate an impairment analysis is required include:

- a significant decrease in the market price of an asset;
- a significant adverse change in the manner in which an asset is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset;
- a current-period operating or cash flow loss combined with a history of losses or a forecast that demonstrates continuing losses;
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of before the end of its previously estimated useful life; and
- a significant change in the physical condition of an asset.

For a long-lived asset, impairment is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying value to its estimated fair value. Management must make significant judgments to estimate future cash flows including the useful lives of long-lived assets, the fair value of the assets and management's intent to use the assets. We did not recognize an impairment of any long-lived asset in 2010.

Effective with PPL's acquisition of our Parent on November 1, 2010, we recorded \$607 million of goodwill. At December 31, 2010, our goodwill remained unchanged. GAAP requires goodwill to be tested for impairment on an annual basis or more frequently if events or circumstances indicate that

assets may be impaired. We perform our annual goodwill impairment test in the fourth quarter. See Note 7 to our 2010 Annual Financial Statements for further discussion.

Goodwill is tested for impairment using a two-step approach. In step 1, we identify a potential impairment by comparing the estimated fair value of the Company (the goodwill reporting unit) to its carrying value, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

The second step requires a calculation of the implied fair value of goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value is allocated to all of our assets and liabilities as if we had been acquired in a business combination and our estimated fair value was the price paid. The excess of our estimated fair value over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of goodwill is then compared with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of the reporting unit's goodwill.

Determining our fair value is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions can include revenue growth rates and operating margins used to calculate projected future cash flows, risk adjusted discount rates and future economic and market conditions.

We tested goodwill for impairment in the fourth quarter of 2010 and no impairment was recognized. See Note 7 to our 2010 Annual Financial Statements for further discussion.

Loss Accruals

We accrue losses for the estimated impacts of various conditions, situations or circumstances involving uncertain or contingent future outcomes. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." We do not record the accrual of contingencies that might result in gains, unless recovery is assured. We continuously assess potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events.

The accounting aspects of estimated loss accruals include (1) the initial identification and recording of the loss, (2) the determination of triggering events for reducing a recorded loss accrual and (3) the ongoing assessment as to whether a recorded loss accrual is sufficient. All three of these aspects require significant judgment by our management. We use our internal expertise and outside experts (such as lawyers and engineers), as necessary, to help estimate the probability that a loss has been incurred and the amount or range of the loss.

We have identified certain other events that could give rise to a loss, but that do not meet the conditions for accrual. Such events are disclosed, but not recorded, when it is reasonably possible that a loss has been incurred. Accounting guidance defines "reasonably possible" as cases in which "the future event or events occurring is more than remote, but less than likely to occur." See Note 13 to our 2010 Annual Financial Statements and Note 9 to our First Quarter Financial Statements for disclosure of other potential loss contingencies that have not met the criteria for accrual.

When an estimated loss is accrued, we identify, where applicable, the triggering events for subsequently adjusting the loss accrual. The triggering events generally occur when the contingency has been resolved and the actual loss is incurred, or when the risk of loss has diminished or been

eliminated. The following are some of the triggering events that provide for the adjustment of certain recorded loss accruals:

- Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or underlying amounts are ultimately collected.
- Environmental and other litigation contingencies are reduced when the contingency is resolved, we make actual payments, a better estimate of the loss is determined or the loss is no longer considered probable.

We review our loss accruals on a regular basis to assure that the recorded potential loss exposures are appropriate. This involves ongoing communication and analyses with internal and external legal counsel, engineers, operation management and other parties. This review may result in the increase or decrease of the loss accrual.

Asset Retirement Obligations

We are required to recognize a liability for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. An equivalent amount is recorded as an increase in the value of the capitalized asset and allocated to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the Statements of Income, for changes in the obligation due to the passage of time. An offsetting regulatory asset is recognized to reverse the depreciation and accretion expense related to the asset retirement obligation, or ARO, such that there is no income statement impact. The regulatory asset is relieved when the ARO has been settled. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that considers estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of various AROs and the related assets, are reviewed periodically to ensure that any material changes are incorporated into the estimate of the obligations. Any change to the capitalized asset is amortized over the remaining life of the associated long-lived asset. See Note 4 to our 2010 Annual Financial Statements for further information on AROs.

At December 31, 2010, we had AROs totaling \$54 million recorded on the Balance Sheets. Of the total amount, \$35 million, or 65%, relates to our ash ponds and landfills. The most significant assumptions surrounding AROs are the forecasted retirement costs, the discount rates and the inflation rates. A variance in the forecasted retirement costs, the discount rates or the inflation rates could have a significant impact on the ARO liabilities.

The following chart reflects the sensitivities related to our ARO liabilities for ash ponds and landfills as of December 31, 2010:

	<u>Change in Assumption</u>	<u>Impact on ARO Liability</u> (in millions)
Retirement cost	10%/(10)%	\$4/\$ (4)
Discount rate	0.25%/(0.25)%	\$(2)/\$1
Inflation rate	0.25%/(0.25)%	\$2/\$ (2)

Income Tax Uncertainties

Significant management judgment is required in developing our provision for income taxes primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. We evaluate our tax positions following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. Our management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, we reassess our uncertain tax positions by considering information known at the reporting date. Based on management's assessment of new information, we may subsequently recognize a tax benefit for a previously unrecognized tax position, de-recognize a previously recognized tax position or re-measure the benefit of a previously recognized tax position. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact our financial statements in the future.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. We classify unrecognized tax benefits as current, to the extent management expects to settle an uncertain tax position, by payment or receipt of cash, within one year of the reporting date. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria we use to account for an uncertain tax position. See Note 10 to our 2010 Annual Financial Statements and Note 7 to our First Quarter Financial Statements for the required disclosures.

At December 31, 2010, our existing reserve exposure to either increases or decreases in unrecognized tax benefits during the next 12 months is less than \$1 million. This change could result from subsequent recognition, de-recognition and/or changes in the measurement of uncertain tax positions. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitations.

Purchase Price Allocation

On November 1, 2010, PPL completed the acquisition of our Parent. In accordance with accounting guidance on business combinations, the identifiable assets acquired and the liabilities assumed were measured at fair value at the acquisition date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The excess of the purchase price over the estimated fair value of the identifiable net assets is recorded as goodwill.

The determination and allocation of fair value to the identifiable assets acquired and liabilities assumed was based on various assumptions and valuation methodologies requiring considerable management judgment, including estimates based on key assumptions of the acquisition and historical and current market data. The most significant variables in these valuations were the discount rates, the

number of years on which to base cash flow projections, as well as the assumptions and estimates used to determine cash inflows and outflows. Although the assumptions applied were reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

For purposes of measuring the fair value of the majority of property, plant and equipment and regulatory assets acquired and regulatory liabilities assumed, we determined that fair value was equal to net book value at the acquisition date because our operations are conducted in a regulated environment and the regulatory commissions allow for earning a rate of return on the book value of a majority of the regulated asset bases at rates determined to be fair and reasonable. As there is no current prospect for deregulation in our operating area, it is expected that these operations will remain in a regulated environment for the foreseeable future, therefore management has concluded that the use of these assets in the regulatory environment represents their highest and best use and a market participant would measure the fair value of these assets using the regulatory rate of return as the discount rate, thus resulting in fair value equal to book value.

The fair value of intangible assets and liabilities (e.g., contracts that have favorable or unfavorable terms relative to market), including coal contracts and power purchase agreements, as well as emission allowances, have been reflected on the Balance Sheets with offsetting regulatory assets or liabilities. Prior to the acquisition, we recovered the cost of the coal contracts, power purchases and emission allowances and this rate treatment will continue after the acquisition. As a result, management believes the regulatory assets and liabilities created to offset the fair value adjustments meet the recognition criteria established by existing accounting guidance and eliminate any ratemaking impact of the fair value adjustments. Our customer rates will continue to reflect these items (e.g., coal, purchased power, emission allowances) at their original contracted prices.

We also considered whether a separate fair value should be assigned to our rights to operate within its various electric service areas but concluded that these rights only provided the opportunity to earn a regulated return and barriers to market entry, which in management's judgment is not considered a separately identifiable intangible asset under applicable accounting guidance; rather, it is considered going-concern value, or goodwill.

See Notes 2 and 7 to our 2010 Annual Financial Statements for further information.

New Accounting Guidance

Recent accounting pronouncements affecting us are detailed in Note 1 to our 2010 Annual Financial Statements.

Other Information

PPL's Audit Committee has approved the audit fees and audit-related services. The audit-related services include services in connection with regulatory filings, reviews of offering documents and registration statements and internal control reviews.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On February 23, 2011, PPL's audit committee appointed Ernst & Young LLP as the independent accountant for the Company for 2011. As a result, PricewaterhouseCoopers LLP, or PwC, was dismissed as independent accountant for the Company on February 23, 2011 subject to completion of its procedures on our financial statements as of December 31, 2010 and for the period from January 1, 2010 to October 31, 2010 and the period from November 1, 2010 to December 31, 2010. PwC's dismissal was completed on February 25, 2011.

PwC's reports on the financial statements of the Company as of December 31, 2010 and for the period from January 1, 2010 to October 31, 2010, the period from November 1, 2010 to December 31, 2010, and the year ended December 31, 2009 did not contain any adverse opinion or a disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope or accounting principle. During the period from January 1, 2009 through February 25, 2011, (1) there were no disagreements with PwC on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of PwC, would have caused PwC to make reference thereto in its reports on the financial statements of the Company as of December 31, 2010 and period from January 1, 2010 to October 31, 2010, the period from November 1, 2010 to December 31, 2010, and the year ended December 31, 2009, and (2) there have been no "reportable events" as defined in Item 304(a) (1)(v) of Regulation S-K.

We have provided a copy of the above disclosures to PwC and requested PwC to provide us with a letter addressed to the SEC stating whether or not PwC agrees with those disclosures related to PwC. A copy of PwC's letter, dated April 21, 2011, is attached as Exhibit 16(a) to the registration statement of which this prospectus forms a part.

During the period from January 1, 2009 through February 25, 2011, (1) E&Y had not been engaged as the principal accountant to audit the financial statements of the Company or our predecessor or any of our subsidiaries for any period prior to January 1, 2011, and (2) we have not consulted with E&Y regarding (a) the application of accounting principles to any completed or proposed transaction for any periods prior to January 1, 2011, (b) the type of audit opinion that might be rendered on the Company's financial statements, or (c) any other accounting, auditing or financial reporting matter described in Items 304(a)(2)(i) and (ii) of Regulation S-K. In its capacity as independent accountant of PPL, E&Y was consulted by PPL about various accounting and reporting matters of ours that impacted the consolidated PPL financial statements, primarily around the application of the business combination rules set out in generally accepted accounting principles in the U.S.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Financial Condition—Risk Management—Market Risk" above, Notes 5, 6 and 9 to our 2010 Annual Financial Statements and Notes 4, 5 and 6 to our First Quarter Financial Statements for further information.

BUSINESS

Kentucky Utilities Company, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. We provide electric service to approximately 514,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in five counties in southwestern Virginia and to less than ten customers in Tennessee. Our service area covers approximately 6,600 square miles. During 2010, approximately 98% of the electricity we generated was produced by our coal-fired electric generating stations. The remainder is generated by natural gas and oil fueled CTs and a hydroelectric power plant. In Virginia, we operate under the name Old Dominion Power Company. We also sell wholesale electric energy to 12 municipalities in Kentucky.

Our affiliate, LG&E, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the distribution and sale of natural gas in Kentucky. We and LG&E became indirect wholly owned subsidiaries of PPL on November 1, 2010. Following the acquisition, our business has not changed. We and LG&E are continuing as subsidiaries of our Parent, which is now an intermediary holding company in the PPL group of companies.

Predecessor and Successor

Our historical financial results are presented using “Predecessor” or “Successor” to designate the periods before or after PPL’s acquisition of our Parent. Predecessor covers the time period prior to November 1, 2010. Successor covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL accounting policies and the cost basis of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor period are not comparable to the Predecessor period.

Despite the separate presentation, the core operations of the Company have not changed. See Note 1 to our 2010 Annual Financial Statements and Note 1 to our First Quarter Financial Statements for the major differences in Predecessor and Successor accounting policies. See Note 2 to our 2010 Annual Financial Statements for information regarding the acquisition and the purchase accounting adjustments.

Operations *(Dollars are in millions unless otherwise noted.)*

The sources of our operating revenues and volumes of sales for the following periods in 2010, 2009 and 2008 were as follows:

	Successor		Predecessor					
	November 1, 2010 through December 31, 2010		January 1, 2010 through October 31, 2010		Year Ended December 31, 2009		Year Ended December 31, 2008	
	Revenues	Volumes (Gwh)	Revenues	Volumes (Gwh)	Revenues	Volumes (Gwh)	Revenues	Volumes (Gwh)
Residential	\$106	1,394	\$ 440	5,788	\$ 480	6,594	\$ 462	6,803
Industrial and commercial	117	1,876	588	9,152	637	10,171	636	10,709
Municipals	15	326	88	1,676	91	1,848	92	1,971
Other retail	20	273	114	1,453	118	1,647	108	1,707
Wholesale	5	68	18	376	29	660	107	2,894
	<u>\$263</u>	<u>3,937</u>	<u>\$1,248</u>	<u>18,445</u>	<u>\$1,355</u>	<u>20,920</u>	<u>\$1,405</u>	<u>24,084</u>

Our peak load in 2010 was 4,517 Mw on December 15, 2010, when the temperature dropped to a low of 3 degrees Fahrenheit in Lexington. Our all-time peak load was 4,640 Mw and occurred on January 16, 2009, when the temperature dropped to low of –2 degrees Fahrenheit in Lexington.

Our retail electric rates contain an FAC, whereby increases and decreases in the cost of fuel for electric generation are reflected in the rates charged to retail electric customers. The FAC allows us to adjust billed amounts for the difference between the fuel cost component of base rates and the actual fuel cost, including transportation costs. Credits to customers occur if the actual costs are below the embedded cost component. Additional charges to customers occur if the actual costs exceed the embedded cost component. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

Kentucky law permits us to recover the costs of complying with the Federal Clean Air Act and those federal, state or local environmental requirements which apply to coal combustion wastes and byproducts from facilities utilized for production of energy from coal, including a return of operating expenses, and a return of and on capital invested, through the ECR mechanism. Pursuant to this mechanism, a regulatory asset or liability is established in the amount that has been under- or over-recovered due to timing or adjustments to the mechanism. This mechanism includes construction work in progress and a return on equity, currently set at 10.63%.

We contract with the TVA to act as our transmission reliability coordinator and SPP to function as our independent transmission operator, pursuant to FERC requirements. The TVA and SPP contracts provide service through August 31, 2011 and August 31, 2012, respectively. See Note 3 to our 2010 Annual Financial Statements and Note 3 to our First Quarter Financial Statements for further information.

We and LG&E jointly dispatch our generation units with the lowest cost generation used to serve our retail native load. When we have excess generation capacity after serving our own retail native load and our generation cost is lower than that of LG&E, LG&E purchases electricity from us. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of our, we purchase electricity from LG&E. These transactions are recorded as intercompany wholesale sales and purchases and are recorded by each company at a price equal to the seller's fuel cost. Savings realized from purchasing electricity intercompany instead of generating from their own higher costs units or purchasing from the market are shared equally between the two companies. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

We had a power supply contract with OMU that was terminated by OMU in May 2010. We own 2.5% of OVEC's common stock and are contractually entitled to 2.5% of OVEC's output. Based on nameplate generating capacity, this would be approximately 60 Mw. Additional information regarding this relationship is provided in Notes 1 and 13 to our 2010 Annual Financial Statements and Note 9 to our First Quarter Financial Statements.

Seasonality

Demand for and market prices for electricity are affected by weather. As a result, our overall operating results in the future may fluctuate substantially on a seasonal basis, especially when more severe weather conditions such as heat waves or winter storms make such fluctuations more pronounced. The pattern of this fluctuation may change depending on the type and location of the facilities we own and the terms of our contracts to purchase or sell electricity.

Properties

Our power generating system includes coal-fired steam generating stations, with natural gas and oil fueled CTs that supplement the system during peak or emergency periods. As of December 31, 2010, our system capacity was:

<u>Fuel/Plant</u>	<u>Total Mw Summer Capacity(a)</u>	<u>% Ownership</u>	<u>Ownership or Lease Interest in Mw</u>	<u>Location</u>
Coal (steam)				
Ghent	1,918	100.00	1,918	Carroll County, KY
E.W. Brown	684	100.00	684	Mercer County, KY
Green River	163	100.00	163	Muhlenberg County, KY
Tyrone	71	100.00	71	Woodford County, KY
OVEC—Clifty Creek(b)	1,304	2.50	33	Jefferson County, IN
OVEC—Kyger Creek(b)	1,086	2.50	27	Gallia County, OH
Total steam	<u>5,226</u>		<u>2,896</u>	
Natural gas/oil (CTs)				
E.W. Brown Units 8-11	480	100.00	480	Mercer County, KY
Trimble County Units 7-10(c)	640	63.00	403	Trimble County, KY
Trimble County Units 5-6(c)	320	71.00	227	Trimble County, KY
E.W. Brown Units 6-7(c)	338	62.00	214	Mercer County, KY
Paddy's Run(c)	158	47.00	74	Jefferson County, KY
E.W. Brown Unit 5	129	47.00	63	Mercer County, KY
Haefling	36	100.00	36	Fayette County, KY
Total CTs	2,101		1,497	
Hydro				
Dix Dam Hydroelectric Station	24	100.00	24	Mercer County, KY
Total hydro	<u>24</u>		<u>24</u>	
Total system capacity	<u>7,351</u>		<u>4,417</u>	

- (a) The capacity of generation units is based on a number of factors, including the operating experience and physical conditions of the units and may be revised periodically to reflect changed circumstances.
- (b) We are contractually entitled to 2.50% of OVEC's output based on a power purchase agreement which is comprised of annual minimum debt service payments, as well as contractually-required reimbursement of plant operating, maintenance and other expenses. OVEC's capacity is shown at unit nameplate ratings.
- (c) Units are jointly owned with LG&E. See Note 14 to our 2010 Annual Financial Statements for further information.

With limited exceptions we took care, custody and control of TC2 on January 22, 2011, and have dispatched the unit to meet customer demand since that date. We and the contractor agreed to a further amendment of the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. Unit 2 is coal-fired and has a capacity of 760 Mw, of which our share is 462 Mw.

At December 31, 2010, our transmission system included 132 substations (54 of which are shared with the distribution system) with transformer capacity of approximately 13,136 Megavolt-ampere, or

MVA, and approximately 4,076 miles of lines. The distribution system included 480 substations (54 of which are shared with the transmission system) with transformer capacity of approximately 7,044 MVA and approximately 14,123 miles of overhead lines and 2,221 miles of underground conduit.

Substantially all of our real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity, subject to certain exclusions and exceptions, is subject to the lien of the Mortgage, as described in “Description of the Bonds—Security; Lien of the Mortgage.”

We also own 20% of the common stock of Electric Energy, Inc., which owns and operates a 1,162-Mw generating station in southern Illinois. EEI generally sells its production into the wholesale market.

Additional information regarding our property and investments is provided in Notes 1 and 14 to our 2010 Annual Financial Statements.

Construction and Future Capital Requirements

Our construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of our service area and to comply with environmental regulations. These needs are continually being reassessed, and appropriate revisions are made, when necessary, in construction schedules. At December 31, 2010, we estimated our capital expenditures for the three-year period ending December 31, 2013 to total approximately \$1.6 billion.

In addition to the amounts above, evolving environmental regulations will likely increase the level of capital expenditures over the next several years. At May 23, 2011, we estimated our capital expenditures for environmental control facilities to total approximately \$179 million in 2011 and approximately \$428 million in 2012. See “Business—Environmental Matters.” Future capital requirements may be affected in varying degrees by factors such as electric energy demand, load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, changes in commodity prices and labor rates, further changes in environmental regulations and other regulatory requirements. Credit market conditions can affect aspects of the availability, terms or methods in which we fund our capital requirements. We anticipate funding future capital requirements through operating cash flow, debt and/or infusions of capital from our Parent.

For a discussion of liquidity, capital resources and financing activities, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Coal Supply

Coal-fired generating units provided approximately 98% of our net kilowatt hour generation for 2010. The remaining net generation was provided by natural gas and oil fueled CTs and a hydroelectric power plant. Coal is expected to be the predominant fuel we use in the foreseeable future, with natural gas and oil being used for peaking capacity and flame stabilization in coal-fired boilers or in emergencies. The Company has no nuclear generating units and has no plans to build any in the foreseeable future.

Fuel inventory is maintained at levels estimated to be necessary to avoid operational disruptions at the coal-fired generating units. Reliability of coal deliveries can be affected periodically by a number of factors, including fluctuations in demand, coal mine production issues and other supplier or transporter operating difficulties.

We have entered into coal supply agreements with various suppliers for coal deliveries for 2011 and beyond and normally augment our coal supply agreements with spot market purchases. We have a coal inventory policy that we believe provides adequate protection under most contingencies.

We expect to continue purchasing most of our coal, which has sulfur content in the 0.7% - 3.5% range, from western and eastern Kentucky, West Virginia, southern Indiana, southern Illinois, Ohio and Wyoming for the foreseeable future. This supply, in combination with the installation of our SO₂ removal systems, is expected to enable us to continue to provide electric service in compliance with existing environmental laws and regulations. Coal is delivered to our generating stations by a mix of transportation modes, including barge, truck and rail.

Rates and Regulation

We are subject to the jurisdiction of the Kentucky Commission and the FERC, and we are further subject to the jurisdiction of the Virginia Commission and the Tennessee Regulatory Authority, in virtually all matters related to electric utility regulation, and as such, our accounting is subject to the regulated operations guidance of the Financial Accounting Standards Board Accounting Standards Codification, or FASB ASC. Given our position in the marketplace and the status of regulation in Kentucky, Tennessee and Virginia, there are no plans or intentions to discontinue the application of the regulated operations guidance of the FASB ASC.

Our Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and notes payable) including certain regulatory adjustments to exclude non-regulated investments and environmental compliance plans recovered separately through the ECR mechanism. Currently, none of the regulatory assets or regulatory liabilities are excluded from the return on capitalization utilized in the calculation of Kentucky base rates. Therefore, a return is earned on all Kentucky regulatory assets existing at the time base rates were determined, except where such regulatory assets were offset by associated liabilities and thus have no net impact on capitalization.

Our Virginia base rates are calculated based on a return on rate base (net utility plant less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities are excluded from the return on rate base utilized in the calculation of Virginia base rates.

PPL Acquisition. On April 28, 2010, PPL entered into a purchase and sale agreement with our former ultimate parent, E.ON US Investments Corp., and E.ON A.G., to purchase all of E.ON US Investments Corp.'s limited liability company interests in our Parent. The transaction was subject to customary closing conditions, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Act, receipt of required regulatory approvals (including state regulators in Kentucky, Virginia and Tennessee and the FERC) and the absence of injunctions or restraints imposed by governmental entities.

Change of control and financing applications were filed on May 28, 2010 with the Kentucky Commission, and on June 15, 2010 with the Virginia Commission and the Tennessee Regulatory Authority. An application with the FERC was filed on June 28, 2010. During the second quarter of 2010, a number of parties were granted intervenor status in the Kentucky Commission proceedings and data request filings and responses occurred. Early termination of the Hart-Scott-Rodino waiting period was received on August 2, 2010.

In September 2010, the Kentucky Commission approved a settlement agreement among PPL, joint applicants and all of the intervening parties to PPL's joint application to the Kentucky Commission for approval of its acquisition of ownership and control of our Parent, the Company and LG&E. In the settlement, the parties agreed that we would commit that no base rate increases would take effect before January 1, 2013. Our increase that took effect on August 1, 2010 (as described below) will not be impacted by the settlement. Under the terms of the settlement, we retain the right to seek approval for the deferral of "extraordinary and uncontrollable costs." Interim rate adjustments will continue to be permissible during that period for existing fuel, environmental and DSM recovery mechanisms. The agreement also substitutes an acquisition savings shared deferral mechanism for the requirement that we file a synergies plan with the Kentucky Commission. This mechanism, which will be in place until the earlier of five years or the first day of the year in which a base rate increase becomes effective,

permits us to earn up to a 10.75% return on equity. Any earnings above a 10.75% return on equity will be shared with customers on a 50%/50% basis. In October 2010, both the Virginia Commission and the Tennessee Regulatory Authority approved the transfer of control of our Parent from E.ON US Investments Corp. to PPL. The Commissions' orders contained a number of other commitments with regards to operations, workforce, community involvement and other matters.

In October 2010, the FERC approved a September 2010 settlement agreement among the Company, LG&E, other applicants and protesting parties, and such protests have been withdrawn. The settlement agreement includes various conditional commitments, such as a continuation of certain existing undertakings with protesters in prior cases, an agreement not to terminate certain of our municipal customer contracts prior to January 2017, an exclusion of any transaction-related costs from wholesale energy and tariff customer rates to the extent that we have agreed to not seek the same transaction-related cost from retail customers and agreements to coordinate with protesters in certain open or on-going matters.

2010 Kentucky Rate Case. In January 2010, we filed an application with the Kentucky Commission requesting an increase in electric base rates of approximately 12%, or \$135 million annually. The requested rate increase was based on an 11.5% return on equity. A number of intervenors, including the office of the Kentucky Attorney General, certain representatives of industrial and low-income groups and other third parties, entered the rate cases and submitted filings challenging our requested rate increases, in whole or in part. In June 2010, we and all of the intervenors except for the Kentucky Attorney General agreed to stipulations providing for an increase in our electric base rates of \$98 million annually, and filed a request with the Kentucky Commission to approve such settlement. An order in the proceeding was issued in July 2010, approving the provisions in the stipulation, including a return on equity range of 9.75-10.75%. The new rates became effective on August 1, 2010.

Virginia Rate Cases. In April 2011, we filed an application with the Virginia Commission, requesting an annual increase in electric base rates for our Virginia jurisdictional customers in an amount of \$9 million, or approximately 14%. The proposed rate increase reflects a rate of return on rate base of 8% based on a return on equity of 11%, inclusion of expenditures to complete TC2 and all new flue gas desulfurization controls in base rates, recovery of a 2009 regulatory asset and various other adjustments to revenue and expenses for the test year ended December 31, 2010. We expect the new rates to go into effect in January 2012. We cannot predict the outcome of this proceeding.

In June 2009, we filed an application with the Virginia Commission requesting an increase in electric base rates for our Virginia jurisdictional customers in an amount of \$12 million annually or approximately 21%. The proposed increase reflected a proposed rate of return on rate base of 8.586% based on a return on equity of 12%. During December 2009, we and the Virginia Commission Staff agreed to a Stipulation and Recommendation authorizing a base rate revenue increase of \$11 million annually and a return on rate base of 7.846% based on a 10.5% return on equity. In March 2010, the Virginia Commission issued an order approving the stipulation, with the increased rates to be put into effect as of April 1, 2010. As part of the stipulation, we refunded approximately \$1 million in interim rate increases in excess of the ultimately approved rates.

FERC Wholesale Rate Case. In September 2008, we filed an application with the FERC for increases in electric base rates applicable to wholesale power sales contracts or interchange agreements involving, collectively, twelve Kentucky municipalities. The application requested a shift from an all-in stated unit charge rates to an unbundled formula rate, including an annual adjustment mechanism. In May 2009, the FERC issued an order approving a settlement among the parties in the case, incorporating increases of approximately 3% from prior rates and a return on equity of 11%. In May 2010, we submitted to the FERC the annual adjustments to the formula rates, which incorporated certain proposed increases. Updated rates, including certain further adjustments from a review process involving wholesale requirements customers, became effective as of July 1, 2010, subject to certain

review procedures by the wholesale requirements customers and the FERC. The review process ended in September 2010 and the rates that went into effect July 1, 2010 were determined to be final.

By mutual agreement, the parties' settlement of the 2008 application left outstanding the issue of whether we must allocate to the municipal customers a portion of renewable resources we may be required to procure on behalf of our retail ratepayers. An order was issued by the FERC in July 2010, indicating that we are not required to allocate a portion of any renewable resources to the twelve municipalities, thus resolving the remaining issue.

Refund of Over-Collected Amounts. On July 15, 2010, our Parent, on behalf of the Company and LG&E, submitted an informational filing indicating it had inadvertently over-collected certain costs related to the independent transmission organization and reliability coordinator in rates charged pursuant to the Attachment O formula rate included in the companies' open access transmission tariff. Total refunds being issued in connection with the inadvertent recovery are approximately \$1 million. No action has been taken by FERC with respect to this informational filing.

PUHCA. The Company, along with our Parent and LG&E, are subject to extensive regulation by the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. LG&E and the Company believe that they have adequate authority, including financing authority, under existing FERC orders and regulations to conduct our business and will seek additional authorization when necessary.

Storm Restoration. In January 2009, a significant ice storm passed through our service area causing approximately 199,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 44,000 customer outages. We filed an application with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset and defer for future recovery approximately \$62 million in incremental operation and maintenance expenses related to the storm restoration. In September 2009, the Kentucky Commission issued an order allowing the establishment of a regulatory asset of up to \$62 million based on our actual costs for storm damages and service restoration due to the January and February 2009 storms. In September 2009, we established a regulatory asset of \$57 million for actual costs incurred. We received approval in our 2010 base rate case to recover this asset over a ten year period with recovery beginning August 1, 2010.

In September 2008, high winds from the remnants of Hurricane Ike passed through the service area causing significant outages and system damage. In October 2008, we filed an application with the Kentucky Commission requesting approval to establish a regulatory asset and defer for future recovery approximately \$3 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an order allowing us to establish a regulatory asset of up to \$3 million based on our actual costs for storm damages and service restoration due to Hurricane Ike. In December 2008, we established a regulatory asset of \$2 million for actual costs incurred. We received approval in our 2010 base rate case to recover this asset over a ten year period beginning August 1, 2010.

In December 2009, a major snow storm hit our Virginia service area causing approximately 30,000 customer outages. During the normal 2009 Virginia Annual Information Filing, or AIF, we requested that the Virginia Commission establish a regulatory asset and defer for future recovery approximately \$6 million in incremental operation and maintenance expenses related to the storm restoration. In March 2011, the Virginia Commission issued a staff report on our 2009 AIF stating that the staff considers storm damage to be extraordinary, non-recurring and material to the Company. The staff report also recommended establishing a regulatory asset for these costs, with recovery over a five year period upon approval in the next base rate case. In March 2011, a regulatory asset of \$6 million was established for actual costs incurred. In April 2011, we filed an application with the Virginia Commission requesting an annual increase in electric base rates for our Virginia jurisdictional customers including recovery of the storm costs over five years.

2008 Kentucky Rate Case. In July 2008, we filed an application with the Kentucky Commission requesting an increase in electric base rates. In January 2009, the Company, the Kentucky Attorney General, the Kentucky Industrial Utility Consumers, Inc. and all other parties to the rate case filed a settlement agreement with the Kentucky Commission, under which our electric base rates decreased by \$9 million annually. An order approving the settlement agreement was received in February 2009. The new rates were implemented effective February 6, 2009.

Rate Mechanisms

FAC. Our retail electric rates contain a FAC, whereby increases and decreases in the cost of fuel for electric generation are reflected in the rates charged to retail electric customers. The FAC allows us to adjust billed amounts for the difference between the fuel cost component of base rates and the actual fuel cost, including transportation costs. Refunds to customers occur if the actual costs are below the embedded cost component. Additional charges to customers occur if the actual costs exceed the embedded cost component. A regulatory asset or liability is established in the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

In February 2011, we filed an application with the Virginia commission seeking approval of an increase in our fuel cost factor beginning with service rendered in April 2011. In March 2011, a hearing was held on our requested fuel factor and an order was issued approving a revised fuel factor to be in effect beginning with service rendered on or after April 1, 2011, with recovery of the regulatory asset over a three year period.

ECR. Kentucky law permits us to recover the costs of complying with the Federal Clean Air Act and those federal, state or local environmental requirements that apply to coal combustion wastes and byproducts from facilities utilized for production of energy from coal, including a return of operating expenses, and a return of and on capital invested, through the ECR mechanism. Pursuant to this mechanism, a regulatory asset or liability is established in the amount that has been under- or over-recovered due to timing or adjustments to the mechanism. This mechanism includes construction work in progress and a return on equity, currently set at 10.63%.

In May 2011, we filed notice of intent to file an environmental cost recovery application with the Kentucky Commission for certain upcoming environmental expenditures. The capital cost of the new pollution control facilities for which we intend to seek recovery at this time is estimated to be \$1.1 billion. Additional operations and maintenance expenses will be incurred for these projects and are costs that we intend to request to recover through the environmental surcharge mechanism in our application.

DSM. Our rates contain a DSM provision which includes a rate mechanism that provides for concurrent recovery of DSM costs and provides an incentive for implementing DSM programs. DSM consists of energy efficiency programs that are intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information to become better managers of their energy usage and prepare for potential future legislation governing energy efficiency. The provision allows us to recover revenues from lost sales associated with the DSM programs based on program plan engineering estimates and post-implementation evaluations.

For a further discussion of current rates and regulatory matters, see Note 3 to our 2010 Annual Financial Statements and Note 3 to our First Quarter Financial Statements.

Environmental Matters

General. Protection of the environment is a major priority for us, and a significant element of our business activities. Our properties and operations are subject to extensive environmental-related oversight by federal, state and local regulatory agencies, including via air quality, water quality, waste management and similar laws and regulations. Therefore, we must conduct our operations in

accordance with numerous permit and other requirements issued under or contained in such laws or regulations.

Climate Change. Growing global, national and local attention to climate change matters has led to the development of various international, federal, regional and state laws and regulations directly or indirectly relating to emissions of GHGs, including carbon dioxide, which is emitted from the combustion of fossil fuels such as coal and natural gas, as occurs at our generating stations. In particular, beginning in January 2011, GHG emissions from stationary sources, including our generating assets, will be subject to regulation by the EPA under the Prevention of Significant Deterioration and Title V provisions of the federal Clean Air Act through the GHG “tailoring” rule if a major modification is undertaken at such facilities. Other developing laws and regulations include a variety of mechanisms and structures to regulate GHGs, including direct limits or caps, emission allowances or taxes, renewable generation requirements or standards and energy efficiency or conservation measures, and may require investments in transmission, alternative fuel or carbon sequestration or other emission reduction technologies.

While the final terms and impacts of such developments cannot be estimated, we, as a primarily coal-fired utility, could be adversely affected. Among other emissions, GHGs include carbon-dioxide, which is produced via the combustion of fossil fuels such as coal and natural gas. Our generating fleet is approximately 66% coal-fired, 34% oil/natural gas-fired and less than 1% hydroelectric based on capacity. During 2010, we produced approximately 98% of our electricity from coal, 2% from natural gas combustion and less than 1% from hydroelectric generation, based on Mw hours. During 2010, our emissions of GHGs were approximately 16.4 million metric tons of carbon-dioxide equivalents from our owned or controlled generation sources. While our generation activities account for the bulk of our GHG emissions, other GHG sources at the Company include operation of motor vehicles and powered equipment, leakage or evaporation associated with natural gas pipelines, refrigerating equipment and similar activities.

Ambient Air Quality. The Clean Air Act requires the EPA to periodically review the available scientific data for six criteria pollutants and establish concentration levels in the ambient air sufficient to protect the public health and welfare with an extra margin for safety. These standards are known as NAAQS. Each state must identify “nonattainment areas” within its boundaries that fail to comply with the NAAQS and develop a state implementation plan, or SIP, to bring such nonattainment areas into compliance. If a state fails to develop an adequate plan, the EPA must develop and implement a plan. As the EPA increases the stringency of the NAAQS through its periodic reviews, the attainment status of various areas may change, thereby triggering additional emission reduction obligations under revised SIPs aimed to achieve attainment.

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO₂ and NO_x emissions from power plants. In 1998, the EPA issued its final “NO_x SIP Call” rule requiring reductions in NO_x emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NO_x emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the Clean Air Interstate Rule, or CAIR, which required additional SO₂ emission reductions of 70% and NO_x emission reductions of 65% from 2003 levels. The CAIR provided for a two-phase cap and trade program, with initial reductions of NO_x and SO₂ emissions due by 2009 and 2010, respectively, and final reductions due by 2015. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR.

In July 2008, a federal appeals court issued a ruling finding deficiencies in the CAIR and vacating it. In December 2008, the Court amended its previous order, directing the EPA to promulgate a new regulation, but leaving the CAIR in place in the interim. The remand of the CAIR results in some

uncertainty with respect to certain other EPA or state programs and proceedings and our compliance plans relating thereto, due to the interconnection of the CAIR with such associated programs.

In January 2010, the EPA proposed a revised NAAQS for ozone which would increase the stringency of the standard. In addition, the EPA published final revised NAAQS standards for NO₂ and SO₂ in February 2010 and June 2010, respectively, which are more stringent than previous standards. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the revised NAAQS standards, our power plants are potentially subject to requirements for additional reductions in SO₂ and NO_x emissions.

In August 2010, the EPA issued the proposed CATR, which serves to replace the CAIR. The CATR provides for a two-phase SO₂ reduction program with Phase I reductions due by 2012 and Phase II reductions due by 2014. The CATR provides for NO_x reductions in 2012, but the EPA advised that it is studying whether additional NO_x reductions should be required for 2014. The CATR is more stringent than the CAIR as it accelerates certain compliance dates and provides for only intrastate and limited interstate trading of emission allowances. In addition to its preferred approach, the EPA is seeking comment on an alternative approach which would provide for individual emission limits at each power plant. The EPA has announced that it will propose additional “transport” rules to address compliance with revised NAAQS standards for ozone and particulate matter which will be issued by the EPA in the future.

Hazardous Air Pollutants. As provided in the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the Clean Air Mercury Rule, establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provided for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets would be achieved as a “co-benefit” of the controls installed for purposes of compliance with the CAIR.

In February 2008, a federal appellate court issued a decision vacating the CAMR. In March 2011, the EPA released the proposed utility MACT rule to replace the CAMR. The proposed rule would establish standards for hazardous air pollutants emitted by power plants including mercury, other heavy metals, and acid gases. The emissions limitations specified in the proposed rule are stringent, requiring a 91% reduction in the case of mercury emissions. Upon promulgation of a final rule, facilities would have a short three-year period to comply with the new requirements, with the possibility of a one-year extension from the state. The Company will be unable to determine the exact impact on company operations until such time as a final rule is promulgated by the EPA.

Ash Ponds and Coal-Combustion Byproducts. The EPA has undertaken various initiatives in response to the December 2008 impoundment failure at the TVA's Kingston power plant, which resulted in a major release of coal combustion byproducts into the environment. The EPA issued information requests to utilities throughout the country, including us, to obtain information on their ash ponds and other impoundments. In addition, the EPA inspected a large number of impoundments located at power plants to determine their structural integrity. The inspections included several of our impoundments, which the EPA found to be in satisfactory condition. In June 2010, the EPA published proposed regulations for coal combustion byproducts handled in landfills and ash ponds. The EPA has proposed two alternatives: (1) regulation of coal combustion byproducts in landfills and ash ponds as a hazardous waste; or (2) regulation of coal combustion byproducts as a solid waste with minimum national standards. Under both alternatives, the EPA has proposed safety requirements to address the structural integrity of ash ponds. In addition, the EPA will consider potential refinements of the provisions for beneficial reuse of coal combustion byproducts.

Water Discharges and PCB Regulations. In March 2011, the EPA released a proposed cooling water intake structure rule pursuant to Section 316(b) of the Clean Water Act. The proposed rule would require a case-by-case review to identify appropriate measures to mitigate the impact of cooling water intake structures on aquatic life. Mitigation measures required as a result of the review could range from use of smaller mesh screens on intake structures to more costly measures such as construction of cooling towers. The exact impact of the rule will depend on the provisions contained in the final rule promulgated by EPA and the subsequent implementation of the rule by the states. The EPA has also announced plans to develop revised effluent limitation guidelines governing discharges from power plants. The EPA has further announced plans to develop revised standards governing the use of PCB in electrical equipment. We are monitoring these ongoing regulatory developments, but will be unable to determine the impact until such time as new rules are finalized.

Impact of Pending and Future Environmental Developments. As a company with significant coal-fired generating assets, we will likely be substantially impacted by pending or future environmental rules or legislation requiring mandatory reductions in GHG emissions or other air emissions, imposing more stringent standards on discharges to waterways, or establishing additional requirements for handling or disposal of coal combustion byproducts. These evolving environmental regulations will likely require an increased level of capital expenditures and increased incremental operating and maintenance costs by us over the next several years. Due to the uncertain nature of the final regulations that will ultimately be adopted by the EPA, including the reduction targets and the deadlines that will be applicable, we cannot finalize estimates of the potential compliance costs, but should the final rules incorporate additional emission reductions requirements, require more stringent emissions controls, or implement more stringent byproduct storage and disposal practices, such costs will likely be significant. With respect to NAAQS, CATR, utility MACT rule and coal combustion byproducts developments, based upon a preliminary analysis of proposed regulations, we may be required to consider actions such as upgrading existing emissions controls, installing additional emissions controls, upgrading byproduct disposal and storage and possible early replacement of coal-fired units. Our capital expenditures associated with such actions are preliminarily estimated to be in the \$1.5 to \$2.0 billion range over the next ten years, although final costs may substantially vary. With respect to potential developments in water discharge, including the recently proposed Section 316(b) cooling water intake rule and the expected revisions to the effluent guidelines, revised PCB standards, or GHG initiatives, costs in such areas cannot be estimated due to the preliminary status or uncertain outcome of such developments, but would be in addition to the above amount and could be substantial. Ultimately, the precise impact on our operations of these various environmental developments cannot be determined prior to the finalization of such requirements. Based upon prior regulatory precedent, we believe that many costs of complying with such pending or future requirements would likely be recoverable under the ECR or other potential cost-recovery mechanisms, but we can provide no assurance as to the ultimate outcome of such proceedings before the regulatory authorities.

Environmental laws and regulations applicable to our business and governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contaminants and employee health and safety are discussed in Note 13 to our 2010 Annual Financial Statements and Note 9 to our First Quarter Financial Statements.

State Executive or Legislative Matters

In November 2008, the Commonwealth of Kentucky issued an action plan to create efficient, sustainable energy solutions and strategies and move toward state energy independence. The plan outlines the following seven strategies to work toward these goals:

- Improve the energy efficiency of Kentucky's homes, buildings, industries and transportation fleet
- Increase Kentucky's use of renewable energy

- Sustainably grow Kentucky's production of biofuels
- Develop a coal-to-liquids industry in Kentucky to replace petroleum-based liquids
- Implement a major and comprehensive effort to increase natural gas supplies, including coal-to-natural gas in Kentucky
- Initiate aggressive carbon capture/sequestration projects for coal-generated electricity in Kentucky
- Examine the use of nuclear power for electricity generation in Kentucky

In December 2009, the Governor of Kentucky's Executive Task Force on Biomass and Biofuels issued a final report to establish potential strategic actions to develop biomass and biofuels industries in Kentucky. The plan noted the potential importance of biomass as a renewable energy source available to Kentucky and discussed various goals or mechanisms, such as the use of approximately 25 million tons of biomass for generation fuel annually, allotment of electricity and natural gas taxes and state tax credits to support biomass development.

In January 2010, a state-established Kentucky Climate Action Plan Council commenced formal activities. The council, which includes governmental, industry, consumer and other representatives, seeks to identify possible Kentucky responses to potential climate change and federal legislation, including increasing statewide energy efficiency, energy independence and economic growth. The council has established various technical work groups, including in the areas of energy supply and energy efficiency/conservation, to provide input, data and recommendations.

During sessions of the Kentucky General Assembly, legislators have introduced or are expected to introduce various bills with respect to environmental or utility matters, including potential requirements relating to renewable energy portfolios, energy conservation measures, coal mining or coal byproduct operations and other matters. The most recent legislative session ended without material developments in these areas. Legislative and regulatory actions as a result of future proposals and their impact on us, which may be significant, cannot currently be predicted.

Employees and Labor Relations

We had 974 employees at December 31, 2010, consisting of 973 full-time employees and 1 part-time employee. Of the total employees, 145, or 15%, were operating, maintenance and construction employees represented by the International Brotherhood of Electric Workers Local 2100 and the United Steelworkers of America Local 9447-01. In August 2009, we and our employees represented by the IBEW Local 2100 entered into a three-year collective bargaining agreement that provides for negotiated increases or changes to wages, benefits or other provisions and annual wage re-openers. In August 2008, we and our employees represented by the USWA Local 9447-01 entered into a three-year collective bargaining agreement that provides for negotiated increases or changes to wages, benefits or other provisions and annual wage re-openers.

Competition

There are currently no other electric utilities operating within our electric service areas. Neither the Kentucky General Assembly nor the Kentucky Commission has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of any legislative or regulatory actions regarding industry restructuring and their impact on us, which may be significant, cannot currently be predicted. Virginia, formerly a competitive jurisdiction, has enacted legislation which implements a hybrid model of cost-based regulation. See Note 3 to our 2010 Annual Financial Statements for further information.

Legal Proceedings

For a discussion of the significant legal proceedings, including, but not limited to, certain rates and regulatory, environmental, climate change, litigation and other matters involving the Company, reference is made to the information in Notes 3 and 13 to our 2010 Annual Financial Statements and Notes 3 and 9 to our First Quarter Financial Statements.

In the normal course of business from time to time, other lawsuits, claims, environmental actions and other governmental proceedings arise against the Company. To the extent that damages are assessed in any of these actions or proceedings, the Company believes that its insurance coverage is adequate. Although we cannot accurately predict the amount of any liability that may ultimately arise with respect to such matters, management, after consultation with legal counsel, does not currently anticipate that liabilities arising out of other currently pending or threatened lawsuits and claims will have a material adverse effect on our financial condition or results of operations.

Franchises and Licenses

We provide electric delivery service in our various service areas pursuant to certain franchises, licenses, statutory service areas, easements and other rights or permissions granted by state legislatures, cities or municipalities or other entities.

MANAGEMENT

Set forth below is information regarding our executive officers and members of our board of directors. There are no family relationships among any of the executive officers or directors, nor, except as described under “Executive Compensation—Employment-Related Arrangements” with respect to Messrs. Staffieri and McCall, is there any arrangement or understanding between any executive officer or director and any other person pursuant to which the officer was selected.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer or director during the past ten years.

Officers generally serve in the same capacities at our Parent, the Company and LG&E.

Listed below are the executive officers and directors at April 1, 2011.

Name	Age	Position
Victor A. Staffieri	56	Chairman, President, Chief Executive Officer and Director
S. Bradford Rives	52	Chief Financial Officer, Principal Accounting Officer and Director
John R. McCall	67	Executive Vice President, General Counsel, Corporate Secretary, Chief Compliance Officer and Director
Chris Hermann	63	Senior Vice President—Energy Delivery and Director
Paul W. Thompson	54	Senior Vice President—Energy Services and Director
Paul A. Farr	43	Director
William H. Spence	54	Director

A brief biography of each director and executive officer follows:

Victor A. Staffieri has been Chairman, President and Chief Executive Officer of the Company, LG&E and the Parent since 2001. Before he was elected to his current position, Mr. Staffieri was President and Chief Operating Officer of LG&E Energy Corp. (“LG&E Energy”), the predecessor to the Parent, from February 1999 to April 2001 and President of the Company and LG&E from June 2000 to April 2001. He served as Chief Financial Officer of LG&E Energy and LG&E from May 1997 to February 2000 and Chief Financial Officer of the Company from May 1998 to February 1999. He served as President of Distribution Services Division of LG&E Energy from December 1995 to May 1997, President of LG&E from January 1994 to December 1995 and Senior Vice President of Public Policy of LG&E Energy and LG&E from November 1992 to December 1993 and General Counsel. Mr. Staffieri has been a Director of the Company, LG&E and the Parent since April 2001. He served as a Director of E.ON UK (previously, Powergen PLC) from April 2001 to January 2004 and of Edison Electric Institute since 2001. He holds a bachelor’s degree from Yale University and a juris doctor degree from Fordham University School of Law.

S. Bradford Rives has been Chief Financial Officer of the Company, LG&E and the Parent since 2003 and serves as its Principal Accounting Officer. Before he was elected to his current position, Mr. Rives was Senior Vice President—Finance and Controller of LG&E Energy, LG&E and the Company from December 2000 to September 2003. He has been a Director of the Parent since December 2003 and the Company and LG&E since January 2004. Mr. Rives is a certified public accountant and a member of the Kentucky Society of Certified Public Accountants. He has a bachelor’s degree in accounting from the University of Kentucky, and a juris doctor degree from the University of Louisville School of Law. Mr. Rives is a member of the Kentucky and Louisville Bar Associations.

John R. McCall has been Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer of the the Company, LG&E and the Parent since 2006 and Executive Vice President, General Counsel and Corporate Secretary of the Parent and LG&E since July 1994 and of the Company since May 1998. Mr. McCall has been a Director of the Parent since 2003 and LG&E and the Company since January 2004. Mr. McCall has a bachelor’s degree and a juris doctor degree

from Vanderbilt University. He is a member of the American, Kentucky and Louisville Bar Associations. He is a member of the Legal Committee of Edison Electric Institute.

Chris Hermann has been Senior Vice President—Energy Delivery of the Company, LG&E and the Parent since 2003. Before he was elected to his current position, Mr. Hermann was Senior Vice President—Distribution Operations, of LG&E Energy, LG&E and the Company from December 2000 to February 2003. Mr. Hermann has been a Director of the Parent since December 2003 and of the Company and LG&E since 2005. Mr. Hermann serves on the American Gas Association Advisory Board, Safety Task Force Board and Strategic Planning Committee, Southern Gas Association Board. He received a B.S. in mechanical engineering from the University of Louisville.

Paul W. Thompson has been Senior Vice President—Energy Services of the Company, LG&E and the Parent since 2000. Before he was elected to his current position, Mr. Thompson was Senior Vice President—Energy Services of LG&E Energy from August 1999 to June 2000. He served as Group Vice President for LG&E Energy Marketing, Inc. from June 1998 to August 1999 and as Vice President—Retail Electric Business for LG&E from December 1998 to August 1999. Mr. Thompson served as Vice President—Retail Electric Business for LG&E from September 1996 to June 1998 and as Vice President, Business Development for LG&E Energy from July 1994 to September 1996. Previously, Mr. Thompson served in several management positions for Koch Industries and Lone Star Technologies. Mr. Thompson has a bachelor's degree in mechanical engineering from the Massachusetts Institute of Technology, and a master's degree in business administration in finance and accounting from the University of Chicago. Mr. Thomson has been a director of the Company, LG&E and the Parent since January 2005. Mr. Thompson is a member of the American Society of Mechanical Engineers. He is a board member and former Chairman of the Board of the FutureGen Industrial Alliance. He serves on the Boards of Ohio Valley Electric Corp., Electric Energy Inc., and the Center for Applied Energy Research.

Paul A. Farr has been Executive Vice President and Chief Financial Officer of PPL Corporation since April 2007. Prior to assuming his current position in April of 2007, Mr. Farr was named Senior Vice President-Financial in August 2005, Vice President and Controller in August 2004 and served as Controller until January 2006. Prior to serving in his PPL Corporation positions, Mr. Farr served as Senior Vice President of PPL Global, LLC, a subsidiary of PPL Corporation that owns and operates electricity businesses in the United Kingdom, as well as formerly in Latin America, from January 2004, as well as Vice President-International Operations from June 2002 and Vice President since October 2001. Mr. Farr also served for several years as Vice President and Chief Financial Officer of PPL Montana, LLC, and in other management positions at PPL Global. Before joining PPL in 1998, Mr. Farr served as international project finance manager at Illinova Generating Company, as international tax manager for Price Waterhouse LLP and as an international tax senior at Arthur Andersen. Mr. Farr earned a bachelor's degree in accounting from Marquette University and a master's degree in management from Purdue University. He is a certified public accountant and also serves on the boards of LG&E, the Company, PPL Electric Utilities Corporation and PPL Energy Supply, LLC. Mr. Farr has been a director of the Company since November 2010.

William H. Spence has been Executive Vice President and Chief Operating Officer of PPL Corporation since June 2006, and President of PPL Generation, LLC, a subsidiary of PPL, since June 2008. Prior to joining PPL in June 2006, Mr. Spence had 19 years of service with Pepco Holdings, Inc. and its heritage companies, Delmarva Power and Conectiv. He served as Senior Vice President of Pepco Holdings from August 2002 and as Senior Vice President of Conectiv Holdings since September 2000. He joined Delmarva Power in 1987 in that company's regulated gas business, where he held various management positions before being named Vice President of Trading in 1996. Mr. Spence earned a bachelor's degree in petroleum and natural gas engineering from Penn State University and a master's degree in business administration from Bentley College. He also serves on the boards of the Company, LG&E, PPL Electric Utilities Corporation and PPL Energy Supply, LLC. Mr. Spence has been a director of the Company since November 2010.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview

On November 1, 2010, PPL acquired our Parent, and its subsidiaries, including LG&E and us, from the German company E.ON AG, which we refer to as the acquisition or change in control. In this Compensation Discussion and Analysis and the executive compensation tables and narratives that follow, we discuss 2010 compensation paid to our named executive officers for services provided to our Parent, LG&E and us. The information we are providing relates to total compensation for our named executive officers for 2010, without any allocation among the companies.

Our named executive officers are:

- Victor A. Staffieri—chairman of the board, president and chief executive officer of our Parent, LG&E and us
- S. Bradford Rives—chief financial officer of our Parent, LG&E and us
- John R. McCall—executive vice president, general counsel, corporate secretary and chief compliance officer of our Parent, LG&E and us
- Chris Hermann—senior vice president—energy delivery of our Parent, LG&E and us and
- Paul W. Thompson—senior vice president—energy services of our Parent, LG&E and us.

The named executive officers also serve as directors of our Parent, LG&E and us.

The E.ON AG Board of Management, a committee comprised of E.ON AG senior management, set compensation for our named executive officers for 2010 prior to the acquisition. The E.ON AG Board of Management consulted with Mr. Staffieri, the E.ON AG chairman of the board, chief executive officer and president and the E.ON AG senior vice president of group corporate officer resources in connection with setting executive compensation. Because E.ON AG, our Parent, LG&E and the Company are not subject to the listing standards of a U.S. national securities exchange, there was no requirement for a compensation committee or other committee of independent board directors to determine compensation for our named executive officers for 2010. When Mr. Staffieri became an executive officer of PPL, which is a listed company, the PPL Compensation, Governance and Nominating Committee, a committee of independent directors as required by the New York Stock Exchange, assumed oversight of his compensation.

In connection with the acquisition, contractual commitments provide for continuation, for 24 months, of specified components of the compensation program in place for our named executive officers, on terms materially no less favorable in the aggregate than the then-current terms. This included each named executive officer's annual base salary, short-term incentive opportunity and cash-based long-term incentive opportunity in addition to specified benefits, including the supplemental executive retirement plan, a non-qualified deferred compensation plan and certain perquisites.

The PPL Compensation, Governance and Nominating Committee, at its October 21, 2010 meeting, ratified or approved the following for Mr. Staffieri:

- current base salary
- 2010 short-term and long-term incentive awards and targets
- accelerated vesting of outstanding long-term incentive awards made in 2008, 2009 and 2010, which were paid in cash upon the acquisition

- a cash divestiture incentive payment, previously approved by the E.ON AG Board of Management
- all other payments made to Mr. Staffieri during 2010 relating to benefit plans or perquisites and
- a new grant of PPL restricted stock units to be made for retention purposes.

The Compensation, Governance and Nominating Committee also ratified Mr. Staffieri's amended and restated employment and severance agreement with our Parent and his participation in the LG&E Energy Corp. Supplemental Executive Retirement Plan and the E.ON U.S. LLC Nonqualified Savings Plan. In January 2011, the Compensation, Governance and Nominating Committee approved payment of Mr. Staffieri's 2010 short-term incentive award.

Compensation for the other named executive officers after the change in control was reviewed by the PPL vice president—human resources and services, the PPL chief executive officer and the PPL chief operating officer. The Corporate Leadership Council approved grants of restricted stock units to the other named executive officers for retention purposes and approved payment of their 2010 short-term incentive awards in January 2011.

Compensation Elements

The named executive officers' compensation for 2010 consisted primarily of base salary, short-term incentive awards, long-term incentive awards and payments relating to the acquisition. The acquisition-related payments included a cash divestiture incentive payment, as well as payments relating to incentive awards that accelerated because the acquisition constituted a change in control. Mr. Staffieri and Mr. McCall had employment agreements pursuant to which they were guaranteed minimum base salaries and target short-term and long-term incentive award opportunities.

Direct Compensation

Target direct compensation for 2010 included base salary, short-term incentive and long-term incentive awards. Target incentive levels were determined as a percentage of base salary, so that any increase in base salary resulted in an increase in the target short-term and long-term incentive awards.

Table 1 below shows the allocation of each element of total target direct compensation for the named executive officers for 2010.

Table 1
Elements of Target Compensation as a Percentage of Total Target Direct Compensation—2010

<u>Name</u>	<u>Total Target Direct Compensation(1)</u>		
	<u>Base Salary</u> <u>(%)</u>	<u>Short-Term Incentive</u> <u>Target</u> <u>(%)</u>	<u>Long-Term</u> <u>Incentive Target</u> <u>(%)</u>
Victor A. Staffieri Chief Executive Officer	29	21	50
S. Bradford Rives Chief Financial Officer	43	22	35
John R. McCall EVP, General Counsel, Corporate Secretary and Chief Compliance Officer	40	20	40
Chris Hermann SVP—Energy Delivery	48	24	28
Paul W. Thompson SVP—Energy Services	43	22	35

(1) Percentages based on target award levels as a percentage of total target direct compensation. Actual amounts earned for short-term and long-term incentives are reflected in the Summary Compensation Table.

In December of each year, E.ON AG's Board of Management reviewed and approved the base salaries for the named executive officers. Due to 2010 budget constraints, base salaries for the named executive officers were frozen until the E.ON AG Board of Management approved an increase of three percent on March 3, 2010, retroactive to January 1, based upon recommendations by Mr. Staffieri. Mr. Staffieri received no increase.

Table 2
2010 Base Salary Adjustments by Position—Effective January 1, 2010

	<u>2009 Base Salary</u>	<u>2010 Base Salary</u>	<u>% Change</u>
Victor A. Staffieri	\$811,220	\$811,220	0%
S. Bradford Rives	\$402,300	\$414,400	3%
John R. McCall	\$493,100	\$507,900	3%
Chris Hermann	\$316,600	\$326,100	3%
Paul W. Thompson	\$375,500	\$386,800	3%

Short-Term Incentive Awards

In March 2010, the E.ON AG Board of Management granted short-term incentive awards to the named executive officers under the Powergen Short-Term Incentive Plan. E.ON AG's short-term incentive award program was designed to reward annual performance compared to financial, business and individual goals determined jointly by Mr. Staffieri and the E.ON AG Board of Management. The short-term incentive award, unlike base salary, was "at risk" because awards were based on achievement of these financial, business and individual goals. Actual payments could range from 0 percent to 200 percent of the target award.

Table 3
2010 Short-Term Incentive Targets as a Percentage of Base Salary by Position—Effective January 1, 2010

	<u>Targets as a % of Base Salary</u>
Victor A. Staffieri	75%
S. Bradford Rives	50%
John R. McCall	50%
Chris Hermann	50%
Paul W. Thompson	50%

The E.ON AG Board of Management approved the short-term incentive goals and weightings for 2010 as outlined in the table below.

Table 4
2010 Short-Term Incentive Goals and Weightings before Change in Control

	<u>E.ON AG Adjusted EBIT</u>	<u>E.ON U.S. Adjusted EBIT</u>	<u>Lost-Time Injury Frequency / Safety</u>	<u>Management Effectiveness</u>
Victor A. Staffieri	20%	30%	10%	40%
S. Bradford Rives	20%	30%		50%
John R. McCall	20%	30%	7%	43%
Chris Hermann	20%	30%	10%	40%
Paul W. Thompson	20%	30%		50%

In connection with the acquisition, the PPL vice president—human resources and services and Mr. Staffieri discussed alternatives to the E.ON AG adjusted earnings before interest and taxes, or EBIT, measure. Because E.ON AG would not be in a position to share financial information after the closing of the acquisition and the public release of E.ON AG financial results would not be timely as to the normal PPL incentive award payment practices, the E.ON AG adjusted EBIT measure was replaced with a combined LG&E and KU Energy LLC adjusted EBIT and PPL earnings per share measure. In addition, Messrs. Rives', McCall's and Thompson's awards were modified to add lost-time injury frequency/safety as a goal with a 10 percent weighting, and the weighting assigned to the individual management effectiveness component of their awards was reduced to 40 percent. The short-term incentive goals and weightings after the change in control are outlined below.

Table 5
2010 Short-Term Incentive Goals and Weightings after Change in Control

	Combined LG&E and KU Energy Adjusted EBIT + PPL EPS	LG&E and KU Energy Adjusted EBIT	Lost-Time Injury Frequency / Safety	Management Effectiveness
Victor A. Staffieri	20%	30%	10%	40%
S. Bradford Rives	20%	30%	10%	40%
John R. McCall	20%	30%	10%	40%
Chris Hermann	20%	30%	10%	40%
Paul W. Thompson	20%	30%	10%	40%

Performance could range from 0 percent to 200 percent of target for each goal, but the award formula is additive, meaning that a zero result for one goal would not cause the named executive officer to forfeit the entire award. Payouts for percentile ranks falling between threshold and target and between target and maximum would be interpolated. To earn 100 percent of the total target award, the named executive officers had to attain 100 percent of target on all of the goals.

EBIT and EPS Measures. The 2010 short-term incentive financial measures were (i) combined LG&E and KU Energy LLC adjusted EBIT and PPL earnings per share (EPS) from ongoing operations and (ii) full year LG&E and KU Energy LLC adjusted EBIT. Adjusted EBIT is equal to earnings before interest and taxes as reported in our Parent's financial statements, adjusted for impacts related to the acquisition and was targeted for the full year at \$490 million. For the combined adjusted EBIT and PPL EPS goals, the targets were based on the full year adjusted EBIT of \$490 million and EPS of \$2.87; after determining performance for the full year in relation to the targets, the amounts were then prorated—10/12 for adjusted EBIT and 2/12 for EPS. No payment would be earned under the financial measures component of the award if PPL EPS were below \$2.61 and adjusted EBIT did not exceed \$343 million. The maximum payment would be earned for achievement of PPL EPS of \$3.10 or more and adjusted EBIT was at least \$637 million.

LTIF/Safety Measure. The named executive officers' operational goal was "lost-time injury frequency," or LTIF, based on a target that was established by the E.ON AG Board of Management, taking into consideration prior year results, with the expectation that current year results would be better than the prior year.

The goals, weightings and actual results for the adjusted EBIT, EPS and LTIF/Safety goals were as follows:

Table 6
2010 Short-Term Incentive Goals and Results

<u>Goal</u>	<u>Weighting as % of Total Target Award</u>	<u>Target</u>	<u>Actual Results</u>	<u>Results as % of Total Target Award</u>
<i>Financial</i>				
Combined LG&E and KU Energy LLC Adjusted EBIT and	16.666	Full year: \$490 million (min: \$343 million) (max: \$637 million)	\$551 million (between target and maximum)	23.665
PPL EPS	3.334	Full year: \$2.87 (min: \$2.61) (max: \$3.10)	\$3.13 (above maximum)	6.668
LG&E and KU Energy LLC Adjusted EBIT	30.00	Full year: \$490 million (min: \$343 million) (max: \$637 million)	\$551 million (between target and maximum)	42.60
<i>Lost-Time Injury Frequency/Safety</i>				
Employee Lost-Time Injury Frequency	2.50	≤ 1.2	0.38 (above maximum)	5.00
Contractor Lost-Time Injury Frequency	2.50	≤ 1.3	0.95 (above maximum)	5.00
Safety Systems and Safety Culture Indicator	5.00	Implement program to reinforce safety culture	Satisfied (at target)	5.00
			Total	87.933
<i>Management Effectiveness</i>	40.00		See discussion below	

Management Effectiveness Measure. The E.ON AG Board of Management, the E.ON AG chairman of the board, chief executive officer and president and Mr. Staffieri agreed on Mr. Staffieri's individual management effectiveness goals. Each of the other named executive officers agreed on his individual management effectiveness goals with Mr. Staffieri, who then submitted the goals to the E.ON AG Board of Management and the E.ON AG chairman of the board, chief executive officer and president for approval.

Victor A. Staffieri. Mr. Staffieri's individual performance goals for 2010 were as follows:

- successfully prosecute 2010 rate case before the Kentucky Commission, as measured by annualized revenue increase granted. Consideration would be given, as appropriate, to the

impact of strategic initiatives, financing costs, depreciation expense and other regulatory proceedings

- maintain good regulatory relations and full recovery of Environmental Cost Recovery surcharge for regulated expenditures
- effectively manage investment program, balancing capital constraints with internal and regulatory expectations of providing safe and reliable service and
- develop scenarios to understand effects of possible carbon dioxide (CO₂) requirements.

In determining Mr. Staffieri's performance for the short-term incentive award, the PPL Compensation, Governance and Nominating Committee considered the recommendations of James H. Miller, PPL chief executive officer. In developing his recommendations, Mr. Miller consulted with William H. Spence, PPL chief operating officer, and conducted a performance review at the end of 2010 with assessment input from Mr. Spence and the PPL vice president-human resources and services. The assessment contained two dimensions—an assessment of attainment of overall objectives for the year, as well as an assessment of values, behaviors and key attributes.

In particular, the PPL Compensation, Governance and Nominating Committee considered that, under Mr. Staffieri's leadership:

- our Parent achieved the successful rate case goal with annualized revenue increase exceeding goal target of \$187 million
- the quality of his operations' regulatory relations, as reflected in the Kentucky Commission approval of the rate case settlement without adjustments
- the achievement of the Environmental Cost Recovery surcharge recovery which fell short of the maximum target of \$221 million and the GAAP budget capital spending at \$610 million and
- our Parent successfully updated the long-term financing planning model to adjust for the various tenets of proposed CO₂ legislation and calculated the impact of various proposals throughout the year. This effort was expanded to cover a number of new proposed Environmental Protection Agency regulations.

Mr. Staffieri's performance was rated at 100 percent, resulting in the management effectiveness component of his award to be earned at 40 percent.

When determining achievement of individual objectives for the other named executive officers, Mr. Staffieri, the PPL vice president—human resources and services, Mr. Miller and Mr. Spence assessed each named executive officer's performance based on his individual management effectiveness goals. The assessments were further reviewed by the PPL Corporate Leadership Council. The overall rating also reflected an element of how the named executive officers achieved objectives consistent with company values and behaviors.

S. Bradford Rives. Mr. Rives' individual performance goals for 2010 were as follows:

- support company goals and initiatives for safety, wellness, diversity, affirmative action and model company values and behaviors. Ensure performance management and individual development plans are completed for each employee, and that job performance and behaviors align with position expectations and support company goals and objectives. Ensure succession planning is considered in creating development plans, promotions, reassignments, and hiring decisions. Inform, evaluate and discuss employee opinion survey results and implement action plans
- successfully prosecute 2010 rate case before the Kentucky Commission, as measured by annualized revenue increase granted. Consideration would be given, as appropriate, to the

impact of strategic initiatives, financing costs, depreciation expense and other regulatory proceedings

- develop scenarios to understand effects of possible CO₂ requirements
- effectively manage working capital
- effectively manage information technology function through transition and hire a new chief information officer and
- advance strategic initiatives as directed by Mr. Staffieri and E.ON AG including refinancing intercompany debt.

The assessment of Mr. Rives' performance took into consideration that he:

- provided significant contributions relating to the November 1, 2010 change in control
- provided key testimony, settlement position development and management oversight of the rate case that was settled in July 2010
- oversaw the completion of the refinancing activity in the fourth quarter
- coordinated a search for and hired a new chief information officer in 2010 and provided financial oversight of the capital and expense budgets throughout the organization, effectively managing changing priorities
- was involved in the environmental scenario development incorporated into the 2011-2015 business plan and
- supervised the tax department in reaching settlements of state and federal tax matters.

Mr. Rives' performance was rated at 140 percent, resulting in the management effectiveness component of his award to be earned at 56 percent.

John R. McCall. Mr. McCall's individual performance goals for 2010 were as follows:

- support company goals and initiatives for safety, wellness, diversity, affirmative action and model company values and behaviors. Ensure performance management and individual development plans are completed for each employee, and that job performance and behaviors align with position expectations and support company goals and objectives. Ensure succession planning is considered in creating development plans, promotions, reassignments, and hiring decisions. Inform, evaluate and discuss employee opinion survey results and implement action plans
- advance strategic initiatives as directed by Mr. Staffieri and E.ON AG
- resolve litigation and
- deliver 2010 regulatory compliance oversight.

The performance assessment of Mr. McCall took into consideration that he:

- led the strategy and implementation efforts for early regulatory approval of the change in control
- worked with Mr. Rives' team to reach a successful settlement of the rate case proceeding
- was heavily involved in fourth quarter refinancing efforts
- worked with the tax department to settle matters with state and federal tax authorities
- oversaw the successful representation of company interests during the last Kentucky legislative session and

- provided effective oversight of the regulatory compliance program and supported corporate responsibility and diversity efforts and communication strategy.

Mr. McCall's performance was rated at 140 percent, resulting in the management effectiveness component of his award to be earned at 56 percent.

Chris Hermann. Mr. Hermann's individual performance goals for 2010 were as follows:

- support company goals and initiatives for safety, wellness, diversity, affirmative action and model company values and behaviors. Ensure performance management and individual development plans are completed for each employee, and that job performance and behaviors align with position expectations and support company goals and objectives. Ensure succession planning is considered in creating development plans, promotions, reassignments, and hiring decisions. Inform, evaluate and discuss employee opinion survey results and implement action plans
- achieve overall energy delivery employee recordable injury rate. Reinforce the safety culture in energy delivery, through leadership, communications, performance monitoring and maximizing employee involvement. Drive sustained improvement in the safety performance of energy delivery and contractor companies
- achieve energy delivery budget and capital commitments. Continue to identify and implement process improvements in energy delivery. Implement supplier related initiatives to reduce cost and improve supplier diversity and relationships. Manage energy delivery budget to address unexpected shortfalls due to storm restoration efforts and
- maintain high reliability and achieve availability and reliability targets.

The performance assessment of Mr. Hermann took into consideration that he and his team:

- received the Edison Electric Institute's Emergency Recovery Award for outstanding restoration efforts related to the 2009 Kentucky ice storm, which was characterized by Kentucky's governor as the worst storm in the Commonwealth's history
- achieved 2010 reliability and availability results that improved over 2009 results, although they did not meet target in 2010
- achieved energy delivery budget and commitments
- successfully launched major technology and service improvement initiatives that enhanced work efficiency and resulted in positive business and customer impacts and
- received eleven state, national and international awards for safety performance.

Mr. Hermann's performance was rated at 135 percent, resulting in the management effectiveness component of his award to be earned at 54 percent.

Paul W. Thompson. Mr. Thompson's individual performance goals for 2010 were as follows:

- achieve upstream generation results for safety, unplanned unavailability, achievement of financial availability deviation and successful delivery of new build project
- support company goals and initiatives for safety, wellness, diversity, affirmative action and model company values and behaviors. Ensure performance management and individual development plans are completed for each employee, and that job performance and behaviors align with position expectations and support company goals and objectives. Ensure succession planning is considered in creating development plans, promotions, reassignments, and hiring decisions. Inform, evaluate and discuss employee opinion survey results and implement action plans

- lead strategic issues to include environmental, political, regulatory, transmission and long-term investments and
- strengthen personal network and relationships with all other E.ON AG officers. Spend time each quarter in the field, build local, state and federal community network and relationships.

The performance assessment of Mr. Thompson took into consideration that he:

- oversaw the successful completion of the Trimble County construction
- oversaw the operations of the generating fleet which performed effectively during record breaking summer peak demand, achieved safety results better than target and managed budgets well
- developed a good management team
- was a key player in developing strategy on environmental issues, scenario planning and communications and
- was effective in settling transmission related issues with customers in 2010.

Mr. Thompson’s performance was rated at 140 percent, resulting in the management effectiveness component of his award to be earned at 56 percent.

The following table shows each goal as a percentage of the total target award earned and the total goal results.

**Table 7
Short-Term Incentive Goals and Results as Percent of Award Earned**

<u>Name</u>	<u>Combined LG&E and KU Energy LLC Adjusted EBIT + PPL EPS (%)</u>	<u>LG&E and KU Energy LLC Adjusted EBIT (%)</u>	<u>Lost-Time Injury Frequency / Safety (%)</u>	<u>Management Effectiveness (%)</u>	<u>Total Goal Result as % of Target Award Earned</u>
Victor A. Staffieri	30.33	42.6	15	40	127.93
S. Bradford Rives	30.33	42.6	15	56	143.93
John R. McCall	30.33	42.6	15	56	143.93
Chris Hermann	30.33	42.6	15	54	141.93
Paul W. Thompson	30.33	42.6	15	56	143.93

The total goal results were then used to determine short-term incentive payments as follows:

2010 Base Salary (Table 2)	X	Incentive Target Percentage (Table 3)	X	Total Goal Results (Table 7)	=	2010 Short-Term Incentive Award Payment (Table 8)
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The named executive officers received the following short-term incentive award payments, which are included in the Summary Compensation Table in the column headed “Non-Equity Incentive Plan Compensation.”

Table 8
Short-Term Incentive Awards for 2010 Performance

	<u>Salary Basis for Award</u>	<u>Target as a % of Salary</u>	<u>Total Goal Results</u>	<u>2010 Short-Term Incentive Award Payment</u>
Victor A. Staffieri	\$811,220	75%	127.93%	\$778,400
S. Bradford Rives	\$414,400	50%	143.93%	\$298,200
John R. McCall	\$507,900	50%	143.93%	\$365,500
Chris Hermann	\$326,100	50%	141.93%	\$231,400
Paul W. Thompson	\$386,800	50%	143.93%	\$278,400

Long-Term Incentive Awards Granted in 2010 Prior to the Change in Control

The E.ON AG Board of Management granted long-term incentive awards payable in cash to each named executive officer in 2010. The long-term incentive awards had two components:

- 75 percent of the total target award opportunity was comprised of performance units with a 2010-2012 performance period granted under the LG&E Energy Corp. Long-Term Performance Unit Plan and
- 25 percent of the total target award opportunity was comprised of share performance rights with a 2010-2013 performance period granted under the E.ON Share Performance Plan.

Performance Units

The value of the performance units was dependent upon company performance against a value-added target at the end of the 2010-2012 performance period. Value-added is the amount by which return on capital employed exceeds the target, based on average cost of capital. Payment could range from 0 percent to 150 percent of target. Because of the change in control, vesting of the performance units was accelerated and they were paid out at target.

Share Performance Rights

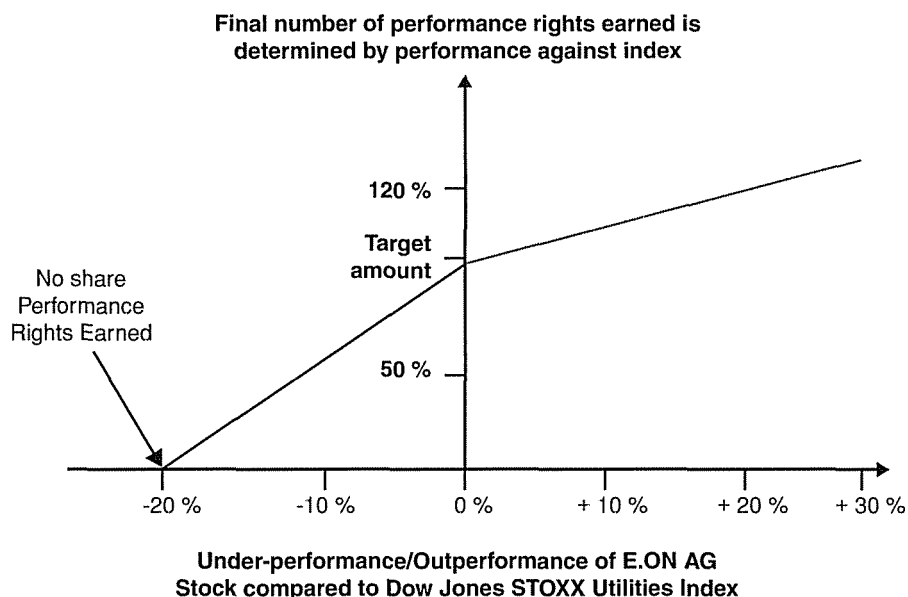
The value of share performance rights was based on E.ON AG total shareholder return in comparison to the Dow Jones STOXX Utilities Index (Total Return EUR) over the 2010-2013 performance period, which we refer to as the performance factor, and the closing value of E.ON AG stock. Executives would receive payment at the end of the performance period equal to:

$$\# \text{ of Share Performance Rights Granted} \times \text{Performance Factor} \times \text{Closing Value of E.ON AG Stock}$$

E.ON AG's calculation agent, HSBC Trinkaus, calculated the closing value of E.ON AG stock, which is the average closing price for the 60 trading days preceding the end of the performance period. Values provided by HSBC Trinkaus were in Euros and converted to US currency using the average

exchange rate for the 60 trading days preceding the end of the performance period. Payment of these awards was determined as follows:

Table 9
E.ON Share Performance Rights Performance Factor



If the performance of E.ON AG stock during the performance period was identical to the performance of the Dow Jones STOXX Utilities Index, the performance factor is “1.” If E.ON AG’s total shareholder return under-performed the Dow Jones STOXX Utilities Index, the target number of share performance rights granted would be decreased by five percent for every one percent of under-performance, with under-performance of 20 percentage points or more resulting in no payment. If E.ON AG’s total shareholder return outperformed the Dow Jones STOXX Utilities Index, the target number of share performance rights granted would be increased by one percent for every one percent of outperformance, with a maximum performance factor of 3. The maximum amount payable for this award was three times the initial E.ON AG share price of €27.25, or €81.75, per performance right. The grant date fair value of the share performance rights is included in the Summary Compensation Table in the column headed “Stock Awards” and in the Grants of Plan-Based Awards During 2010 table in the column headed “Grant Date Fair Value of Stock and Option Awards.”

Table 10
2010 Long-Term Incentive Award Targets

	Targets as a % of Base Salary		Total
	E.ON Share Performance Rights	LG&E Energy Corp. Performance Units	
Victor A. Staffieri	43.75%	131.25%	175%
S. Bradford Rives	20%	60%	80%
John R. McCall	25%	75%	100%
Chris Hermann	15%	45%	60%
Paul W. Thompson	20%	60%	80%

Payment of Long-Term Incentive Awards Granted in 2007

The long-term incentive awards granted by the E.ON AG Board of Management to the named executive officers in 2007 for the 2007-2009 performance period vested and were paid in cash in January 2010.

Performance Units

The performance unit awards granted under the LG&E Energy Corp. Long-Term Performance Unit Plan were based on a value-added target. Results were 119 percent of target. The results were approved by the E.ON AG Board of Management at its January 2010 meeting.

Share Performance Rights

The share performance rights granted under the E.ON Share Performance Plan were paid based on a performance factor of 1.11, indicating that E.ON AG's total shareholder return outperformed the Dow Jones STOXX Utilities Index by 11 percentage points, and an average closing value of E.ON AG stock of €81.76, which was converted to \$121.02, each as adjusted. E.ON AG effected a 3-for-1 stock split, effective August 1, 2008. While the share performance rights were not adjusted for the split, in determining payment, the average closing value was calculated and then adjusted by HSBC Trinkaus to give effect to the stock split.

The payments in 2010 of these long-term incentive awards are included in Table 11 below.

Table 11
Long-Term Incentive Awards Granted in 2007 and Paid in 2010

	<u>E.ON AG Share Performance Rights(1)</u>	<u>LG&E Energy Performance Units</u>	<u>Total</u>
Victor A. Staffieri	\$357,983	\$1,182,808	\$1,540,791
S. Bradford Rives	\$ 81,121	\$ 268,036	\$ 349,157
John R. McCall	\$124,305	\$ 410,728	\$ 535,033
Chris Hermann	\$ 47,758	\$ 158,186	\$ 205,944
Paul W. Thompson	\$ 75,740	\$ 250,186	\$ 325,926

(1) E.ON AG share performance rights payments are included in the Option Exercises and Stock Vested table in the column headed "Value Realized on Vesting."

Accelerated Payment of Outstanding Long-Term Incentive Awards Granted in 2008, 2009 and 2010 upon Change in Control

Outstanding long-term incentive awards granted in 2008, 2009 and 2010 vested and were paid out as a result of the November 1, 2010 change in control.

Performance Units

The LG&E Energy Corp. Long-Term Performance Unit Plan provides for payment of outstanding awards upon a change in control based on the higher of actual performance or target. Payment of these awards was based on actual results for 2008, 2009 and the nine month period ended September 30, 2010 and results at target for 2011 and 2012.

Table 12
LG&E Energy Corp. Long-Term Performance Unit Plan Award Summary

Year	Actual Value Added Results (Unless Noted)	2008 Grant Payout	2009 Grant Payout	2010 Grant Payout
2008	116%	122%	116.67%	116.67%
2009	100%			
2010	150%			
2011	100% (Target)			
2012	100% (Target)			

Share Performance Rights

Payments from the E.ON Share Performance Plan were based on E.ON AG total shareholder return for the period ending September 30, 2010 and the average closing value of E.ON AG stock of €22.29, or \$29.64, as determined by HSBC Trinkaus, for the 60 trading days preceding November 1, 2010, the effective date of the change in control.

Table 13 below reflects payments made in 2010 as a result of accelerated vesting upon the change in control under the E.ON Share Performance Unit Plan and the LG&E Energy Corp. Long-Term Performance Unit Plan.

Table 13
Long-Term Incentive Award Payments Made in 2010

	<u>E.ON AG Share Performance Rights(1)</u>	<u>LG&E Energy Performance Units(2)</u>	<u>Total</u>
Victor A. Staffieri	\$282,761	\$3,745,493	\$4,028,254
S. Bradford Rives	\$ 64,674	\$ 857,536	\$ 922,210
John R. McCall	\$ 99,121	\$1,313,886	\$1,413,007
Chris Hermann	\$ 38,172	\$ 506,126	\$ 544,298
Paul W. Thompson	\$ 60,382	\$ 800,424	\$ 860,806

- (1) E.ON AG share performance rights payments are included in the Summary Compensation Table in the column headed "All Other Compensation" and in the Option Exercises and Stock Vested table in the column headed "Value Realized on Vesting."
- (2) LG&E Energy performance unit payments are included in the Summary Compensation Table in the column headed "All Other Compensation."

Divestiture Incentive Awards Paid in 2010

In 2008, the E.ON AG Board of Management granted an incentive award opportunity to the named executive officers in connection with the consummation of a change in control of our Parent.

Payment of the award opportunity depended upon objective factors—the price paid for our Parent—and subjective factors—preparation of information, data room and management presentations, support of negotiations and definitive documents, participation in regulatory proceedings and execution of other tasks in support of the change in control. Possible payments ranged from 0 percent to 150 percent of base salary and target short-term incentive for the year in which the change in control occurred. The E.ON AG chairman, chief executive officer and president assessed the named executive officers’ performance as a team with respect to this award opportunity and determined that they had earned the maximum payments as listed in the table below.

Table 14
Earned Divestiture Incentive Award Payments

<u>Name</u>	<u>Threshold (\$)</u>	<u>Target (\$)</u>	<u>Maximum (\$)</u>	<u>Amount Earned (\$)(1)</u>
Victor A. Staffieri	354,909	1,419,635	2,129,453	2,129,453
S. Bradford Rives	155,400	621,600	932,400	932,400
John R. McCall	190,463	761,850	1,142,775	1,142,775
Chris Hermann	122,288	489,150	733,725	733,725
Paul W. Thompson	145,050	580,200	870,300	870,300

(1) Amounts earned are included in the Summary Compensation Table in the column headed “Non-Equity Incentive Plan Compensation.”

Retention Agreements and Restricted Stock Unit Awards Granted by PPL in 2010

PPL entered into retention agreements with the named executive officers on December 1, 2010, pursuant to which they were granted restricted stock units payable in PPL common stock. The named executive officers receive cash dividend-equivalents during the period of restriction that are not subject to forfeiture. In his retention agreement, Mr. Staffieri also agreed to modify the perquisites he received pursuant to his employment and severance agreement and gave up an employer-paid country club membership and company-paid use of air transportation for any non-business purpose, as well as, effective January 1, 2011, tax gross-up payments on his perquisites. PPL entered into the retention agreements to encourage the named executive officers to remain employed by affiliates of PPL and to compensate Mr. Staffieri for the loss of these perquisites.

The named executive officers received the following awards:

Table 15
2010 Restricted Stock Unit Awards

<u>Name</u>	<u>Number of Restricted Stock Units Granted (#)</u>	<u>Grant Date Fair Value (\$)(1)</u>	<u>Vesting Date</u>
Victor A. Staffieri	80,940	2,129,531	December 1, 2012
Bradford Rives	23,630	621,705	December 1, 2012
John R. McCall	28,960	761,938	December 1, 2011
Chris Hermann	18,590	489,103	December 1, 2012
Paul W. Thompson	22,050	580,136	December 1, 2012

(1) The grant date fair value of the restricted stock units is included in the Summary Compensation Table in the column headed “Stock Awards” and in the Grants of Plan-Based

Awards During 2010 table in the column headed “Grant Date Fair Value of Stock and Option Awards.”

The named executive officers must remain continuously employed by affiliates of PPL through the vesting date, unless the executive’s employment is terminated due to death or disability. They must also sign a release of liability agreement to receive payment of their awards. If employment is terminated due to death or disability, payment will be prorated.

Perquisites and Other Benefits

The named executive officers received the perquisites and other benefits listed below in 2010. As discussed above, in connection with the change in control, Mr. Staffieri agreed to modify his perquisites.

- annual \$15,000 auto allowance to lease a vehicle and personal use of that vehicle. If the total lease cost is less than the annual allowance, the difference is paid in cash to the named executive officer
- country club membership for Mr. Staffieri
- personal financial planning and tax preparation services
- company-paid reserved parking
- supplemental executive term life insurance for all named executive officers, except Mr. McCall who received a cash payment instead and
- travel on the company aircraft for spouses of Messrs. Staffieri and McCall when the executive traveled on the aircraft for business purposes.

Our Parent paid a full tax gross-up to executives for additional tax expenses in connection with personal usage of executive auto, any difference between the auto lease allowance and total lease cost that was paid in cash, country/luncheon club membership, tax preparation fees and financial planning services and spousal air travel, and for Mr. Staffieri, life insurance benefits.

Matching Contributions on Nonqualified Deferred Compensation

The named executive officers participate in the E.ON U.S. LLC Nonqualified Savings Plan and may elect to defer up to 75 percent of their base pay and short-term incentive pay. Our Parent matches executive contributions to the E.ON U.S. LLC Nonqualified Savings Plan equal to 70 percent of the first six percent deferred.

Employment Agreements

In October 2010, our Parent entered into amended and restated employment and severance agreements with Messrs. Staffieri and McCall that replaced previous agreements, dated February 25, 2000, as amended, with LG&E Energy Corporation and Powergen plc. The agreements provide for changes needed to reflect the change in control, Messrs. Staffieri’s and McCall’s retention with our Parent and their anticipated roles after the change in control. The agreements have an initial two-year term, with automatic one-year extensions and provide for minimum base salary, target short-term incentive and long-term incentive levels, participation in employee benefit programs, severance and change in control protection, tax gross-ups, perquisites and other benefits substantially similar to those in the previous agreements.

The other named executive officers entered into retention and severance agreements in October 2010 that replaced previous agreements with LG&E Energy Corp. and E.ON AG. Messrs. Rives’, Hermann’s and Thompson’s agreements provide for changes needed to reflect the change in control,

and their retention with our Parent. The new retention and severance agreements have an initial two-year term, with automatic one-year extensions and provide for severance payments, tax gross-ups and benefits upon specified terminations of employment including those in connection with a future change in control, excluding a change in control of PPL, that are substantially similar to those in the previous agreements. The benefits provided under the named executive officers' agreements replaced any other benefits provided by our Parent or any prior employment-related agreement. Additional details on the terms of these employment and severance agreements and the retention and severance agreements are contained in the "Employment-Related Arrangements" section.

Tax and Accounting Considerations

Sections 280G and 4999. While the old employment agreements provided for benefits upon termination of employment in connection with a change in control and a gross-up payment, the November 1, 2010 change in control did not qualify as a change in ownership or effective control under Internal Revenue Code Sections 280G and 4999. As discussed above, our Parent entered into agreements with each of the named executive officers that provide benefits to the executives upon specified terminations of employment in connection with any future change in control, excluding a change in control of PPL. The agreements provide for tax protection in the form of a gross-up payment to reimburse the executive for any excise tax under Internal Revenue Code Section 4999, as well as any additional income and employment taxes resulting from such reimbursement. Pursuant to the excise tax provisions, a 20 percent tax is levied on excess parachute payments. Our Parent has determined that it is appropriate to provide protection to the named executives from adverse consequences of the additional tax.

Executive Compensation Tables

The following table summarizes all compensation for the chief executive officer, chief financial officer, and the next three most highly compensated executives, or "named executive officers," in 2010. During 2010, the named executive officers received compensation for services provided to our Parent, LG&E and us. In the tables, we include all compensation for services to any of these companies during 2010, without any allocation among the companies. All of the named executive officers also served as our directors and the directors of our Parent and LG&E during 2010, but received no compensation for board service.

Summary Compensation Table for 2010

Name and Principal Position (a)	Year (b)	Salary (\$) (c)	Bonus (\$) (d)	Stock Awards (\$)(1) (e)	Option Awards (\$) (f)	Non-Equity Incentive Plan Compensation (\$)(2) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(3) (h)	All Other Compensation (\$)(4) (i)	Total (\$) (j)
Victor A. Staffieri Chief Executive Officer	2010	811,220	0	2,484,440	0	2,907,853	1,285,224	4,193,869	11,682,606
S. Bradford Rives Chief Financial Officer	2010	414,215	0	704,585	0	1,230,600	515,207	975,105	3,839,712
John R. McCall EVP, General Counsel, Corporate Secretary and Chief Compliance Officer	2010	507,674	0	888,913	0	1,508,275	191,020	1,523,236	4,619,118
Chris Hermann SVP— Energy Delivery	2010	326,102	0	538,018	0	965,125	184,417	611,200	2,624,862
Paul W. Thompson SVP—Energy Services	2010	386,624	0	657,496	0	1,148,700	499,932	920,959	3,613,711

- (1) The Stock Awards column represents the aggregate grant date fair value as calculated under ASC Topic 718, without taking into account estimated forfeitures, and reflects 2010 grants of PPL restricted stock units and E.ON share performance rights. Vesting of the E.ON share performance rights accelerated upon the November 1, 2010 change in control, and the amounts paid in cash to the named executive officers are included in the All Other Compensation column. For additional information on the assumptions in the valuation, see the Grants of Plan-Based Awards During 2010 table below.
- (2) Non-Equity Incentive Plan Compensation represents payments of the E.ON AG divestiture incentive award tied to the change in control and payments made in 2011 under the Powergen Short Term Incentive Plan for performance under that annual cash incentive program in 2010.
- (3) This column represents the sum of the changes in the present value of the accumulated benefit in the E.ON U.S. LLC Retirement Plan and the LG&E Energy Corp. Supplemental Executive Retirement Plan from December 31, 2009 to December 31, 2010.
- (4)

All Other Compensation in 2010

Name	401(k) Match (\$)	Non-Qualified Deferred Compensation Employer Contributions \$(a)	Change in Control— Accelerated Payments \$(b)	Executive Auto Personal Usage \$(c)	Executive Auto Lease Allowance Cash Difference \$(c)	Company Paid Reserved Parking \$()	Country / Luncheon Club \$()	Gift Card \$()	Executive Life Insurance \$(d)	Financial Planning \$()	Spousal Air Travel \$(f)	Tax Preparation \$()	Vacation Sell Back \$()	Tax Gross- Up \$(g)
Staffieri	10,290	53,118	4,028,253	11,620	1,898	1,680	7,200	150	15,710	6,000	7,574	3,500	12,480	34,396
Rives	10,290	17,271	922,210	11,472	1,892	1,680	50	150	592					9,498
McCall	10,290	23,666	1,413,008	11,836	1,466	1,680		150	29,255(e)	8,000	3,577	1,500		18,808
Hermann	10,290	11,603	544,298	5,921	4,035	1,680		150	8,682	5,583		1,750	4,871	12,337
Thompson	10,290	15,432	860,806	11,083		1,680		150	3,358	4,028		2,021		12,111

(a) Our Parent matches executive contributions to the E.ON U.S. LLC Nonqualified Savings Plan equal to 70 percent of the first six percent deferred.

- (b) Vesting of all outstanding awards granted in 2008, 2009 and 2010 under the E.ON Share Performance Plan and the LG&E Energy Corp. Long-Term Performance Unit Plan was accelerated upon the November 1, 2010 change in control, and the awards were paid in cash as follows:

Name	2010 E.ON Share Performance Rights (\$)	2009 E.ON Share Performance Rights (\$)	2008 E.ON Share Performance Rights (\$)	2010 LG&E Energy Corp. Long-Term Performance Units (\$)	2009 LG&E Energy Corp. Long-Term Performance Units (\$)	2008 LG&E Energy Corp. Long-Term Performance Units (\$)
Staffieri	85,409	118,043	79,309	1,242,180	1,242,180	1,261,132
Rives	19,947	26,764	17,963	290,080	281,610	285,846
McCall	30,557	41,006	27,558	444,413	431,463	438,011
Hermann	11,774	15,802	10,596	171,203	166,215	168,708
Thompson	18,618	24,984	16,780	270,760	262,850	266,814

- (c) Personal usage of executive auto. The named executive officers receive an annual \$15,000 allowance to cover auto lease expenses, and any difference between the annual allowance and the total lease cost is paid in cash to them.
- (d) Premiums paid by our Parent for \$2 million of supplemental executive term life insurance for Mr. Staffieri and \$400,000 for the other named executive officers, except for Mr. McCall.
- (e) *Prior to 2010, Mr. McCall waived future coverage for executive life insurance. A fixed cash payment is made each October in lieu of executive life insurance and applies for the duration of his employment.*
- (f) Occasionally, an executive's spouse may accompany the executive on a business trip. In 2010, Messrs. Staffieri's and McCall's spouses accompanied them on business trips. The dollar amounts reflected in the table are the standard industry fare level values, which were greater than the aggregate incremental cost, which was de minimis.
- (g) Our Parent paid a full tax gross-up to executives for additional tax expenses in connection with personal usage of executive auto, auto lease allowance cash difference, country/luncheon club membership, tax preparation fees and financial planning services and spousal air travel, and for Mr. Staffieri, life insurance benefits.

Grants of Plan-Based Awards During 2010

Name (a)	Grant Date (b)	Board or Committee Approval Date	LG&E Energy Corp. Long- Term Performance Unit: Number of Units (#)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Possible Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#) (i)	All Other Option Awards: Number of Securities Underlying Options (#) (j)	Exercise or Base Price of Option Awards (\$/sh) (k)	Grant Date Fair Value of Stock and Option Awards(6) (l)
				Threshold (\$) (c)	Target (\$) (d)	Maximum (\$) (e)	Threshold (\$) (f)	Target (\$) (g)	Maximum (\$) (h)				
Staffieri . . .	3/3/10(1)			23,619	608,415	1,216,830							
	4/16/10(2)		1,064,726	809,192	1,064,726	1,597,089						354,909	
	4/16/10(3)	3/3/10					17,745	354,909	1,064,727			2,129,531	
	11/1/10(4)	10/21/10								80,940			
Rives	3/3/10(1)		248,640	188,966	207,200	414,400							
	4/16/10(2)				248,640	372,960						82,880	
	4/16/10(3)	3/3/10					4,144	82,880	248,640			621,705	
	11/1/10(5)									23,630			
McCall	3/3/10(1)		380,925	289,503	253,950	507,900							
	4/16/10(2)				380,925	571,388						126,975	
	4/16/10(3)	3/3/10					6,349	126,975	380,925			761,938	
	11/1/10(5)									28,960			
Hermann . . .	3/3/10(1)		146,745	111,526	163,050	326,100							
	4/16/10(2)				146,745	220,118						48,915	
	4/16/10(3)	3/3/10					2,446	48,915	146,745			489,103	
	11/1/10(5)									18,590			
Thompson . .	3/3/10(1)		232,080	176,381	193,400	386,800							
	4/16/10(2)				232,080	348,120						77,360	
	4/16/10(3)	3/3/10					3,868	77,360	232,080			580,136	
	11/1/10(5)									22,050			

- (1) Short-term cash incentive awards granted under the Powergen Short-Term Incentive Plan. The amounts reported reflect the potential payout range from a threshold of approximately four percent of target to a maximum of 200 percent of target. Threshold amounts are based on threshold performance on objective measures and exclude subjective measures. Payouts for percentile ranks falling between threshold and target and between target and maximum are interpolated. The actual 2010 payout is included in the Summary Compensation Table in the column headed "Non-Equity Incentive Plan Compensation."
- (2) Performance unit awards payable in cash for the 2010-2012 performance cycle granted under the LG&E Energy Corp. Long-Term Performance Unit Plan. The amounts reported reflect the potential payout range from a threshold of 50 percent of target to a maximum of 150 percent of target. Performance below 76 percent of target yields 0 percent payout. Vesting of these awards accelerated upon the November 1, 2010 change in control, and the dollar amounts paid are included in the Summary Compensation Table in the column headed "All Other Compensation."
- (3) Share performance rights for the 2010-2013 performance cycle granted under the E.ON Share Performance Plan on April 16, 2010 for purposes of Financial Accounting Standards Board generally accepted accounting principles for stock-based compensation. The E.ON AG Board of Management approved these awards on March 3, 2010. Vesting of these awards accelerated upon the November 1, 2010 change in control, and the dollar amounts paid are included in the Summary Compensation Table in the column headed "All Other Compensation" and in the Option Exercises and Stock Vested table in the column headed "Value Realized on Vesting."
- (4) Restricted stock units granted under the PPL Incentive Compensation Plan on November 1, 2010 for purposes of Financial Accounting Standards Board generally accepted accounting principles for stock-based compensation. The PPL Compensation, Governance and Nominating Committee approved these awards on October 21, 2010.
- (5) Restricted stock units granted under the PPL Incentive Compensation Plan for Key Employees on November 1, 2010 for purposes of Financial Accounting Standards Board generally accepted accounting principles for stock-based compensation.
- (6) This column shows the full grant date fair value, as calculated under ASC Topic 718, of share performance rights and restricted stock units granted to the named executive officers, without taking into account estimated forfeitures. For restricted stock units granted by PPL, the grant date fair value was calculated using the closing price of PPL stock on the New York Stock Exchange on the November 1, 2010 grant date of \$26.31. The named executive officers receive cash dividend-equivalents during the period of restriction that are not subject to forfeiture. For share performance rights granted by E.ON AG on April 16, 2010, the grant date fair value was calculated using the initial E.ON AG share price of €27.25, which was the arithmetic mean of the E.ON stock's closing prices, as determined and published by the Deutsche Börse AG in the XETRA (Exchange Electronic Trading) system during the 60 trading days prior to the beginning of the maturity period, January 1, 2010. The Euro share price was multiplied by the initial exchange rate of 1.4803 which represents the average exchange rate for the 60 trading days preceding the beginning of the maturity period; the US\$ share price was calculated at \$40.34. The maximum amount payable is three times the initial E.ON AG share price, or €81.75.

**Narrative Discussion Relating to the
Summary Compensation Table and the Grants of Plan-Based Awards Table**

Short-Term Incentive Awards

In March 2010, short-term incentive award opportunities were granted to the named executive officers under the Powergen Short-Term Incentive Plan. These award opportunities are reflected in the Grants of Plan-Based Awards table at grant in columns (c), (d) and (e) and in the Summary Compensation Table as earned with respect to 2010 in column (g). We discuss the short-term incentive award opportunities, incentive goals and results in the Compensation Discussion and Analysis.

Long-Term Incentive Awards Granted in 2010 Prior to the Change in Control

The long-term incentive awards granted in 2010 had two components:

- 75 percent of the total target award opportunity was comprised of performance units with a 2010-2012 performance period granted under the LG&E Energy Corp. Long-Term Performance Unit Plan and
- 25 percent of the total target award opportunity was comprised of share performance rights with a 2010-2013 performance period granted under the E.ON Share Performance Plan.

We describe these long-term incentive awards in the Compensation Discussion and Analysis.

Accelerated Payment of Outstanding Long-Term Incentive Awards Granted in 2008, 2009 and 2010 upon Change in Control

Outstanding long-term incentive awards granted in 2008, 2009 and 2010 vested and were paid out as a result of the November 1, 2010 change in control as described in the Compensation Discussion and Analysis.

Divestiture Incentive Awards Paid in 2010

In 2008, the E.ON AG Board of Management granted an incentive award opportunity to the named executive officers in connection with the consummation of a change in control of our Parent. We describe these divestiture incentive awards in the Compensation Discussion and Analysis.

Retention Agreements and Restricted Stock Unit Awards Granted by PPL in 2010

As previously stated, PPL granted restricted stock units to Mr. Staffieri under the PPL Incentive Compensation Plan and to the other named executive officers under the PPL Incentive Compensation Plan for Key Employees. These award opportunities are reflected in the Grants of Plan-Based Awards table at grant in columns (i) and (l) and in the Summary Compensation Table in column (e). We discuss the restricted stock unit awards in the Compensation Discussion and Analysis.

Employment Agreements

In October 2010, our Parent entered into amended and restated employment and severance agreements with Messrs. Staffieri and McCall that replace previous agreements, dated February 25, 2000, as amended, with LG&E Energy Corporation and Powergen plc. The other named executive officers also entered into retention and severance agreements in October 2010 that replace previous agreements with LG&E Energy Corp. and E.ON AG. We discuss the named executive officers' agreements in the Compensation Discussion and Analysis and in the Employment-Related Arrangements section.

Salary and Bonus as a Proportion of Total Compensation

The named executive officers did not receive any bonuses. The proportion of salary to compensation is reflected in the table below.

Name	Salary (\$)	Total Compensation (\$)	Salary as % of Total Compensation
Staffieri	811,220	11,682,606	6.94
Rives	414,215	3,839,712	10.79
McCall	507,674	4,619,118	10.99
Hermann	326,102	2,624,862	12.42
Thompson	386,624	3,613,711	10.70

Outstanding Equity Awards at Fiscal-Year End 2010

The following table provides information on all unvested restricted stock unit awards for each named executive officer as of December 31, 2010. The Option Awards columns have been omitted because there were no stock option awards outstanding as of December 31, 2010.

Name(a)	Stock Awards			
	Number of Shares or Units of Stock That Have Not Vested (#) (g)(1)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (h)(2)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) (j)
Staffieri	80,940	2,130,341	0	0
Rives	23,630	621,942	0	0
McCall	28,960	762,227	0	0
Hermann	18,590	489,289	0	0
Thompson	22,050	580,356	0	0

- (1) Restrictions lapse on these awards on December 1, 2011 for Mr. McCall and on December 1, 2012 for Messrs. Staffieri, Rives, Hermann and Thompson assuming the named executive officer remains continually employed affiliates of by PPL until then.
- (2) The fair market value of the units was based on the closing price of PPL common stock on the New York Stock Exchange on December 31, 2010, which was \$26.32.

Option Exercises and Stock Vested in 2010

The following table provides information for each of the named executive officers with respect to payments from the E.ON Share Performance Plan for grants made in 2007 that vested in January 2010 and grants made in 2008, 2009 and 2010 that vested at the November 1, 2010 change in control. Value reflects payment in the aggregate before applicable withholding tax.

Name (a)	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#) (b)	Value Realized on Exercise (\$) (c)	Number of Shares Acquired on Vesting (#) (d)(1)	Value Realized on Vesting (\$) (e)(2)
Staffieri	0	0	22,885	640,744
Rives	0	0	5,248	145,795
McCall	0	0	8,041	223,426
Hermann	0	0	3,097	85,930
Thompson	0	0	4,899	136,122

- (1) Reflects vesting of share performance rights for the 2007-2009 performance period that vested on January 5, 2010 and share performance rights granted in 2008, 2009 and 2010 for which vesting was accelerated upon the November 1, 2010 change in control. All awards were paid in cash.
- (2) Reflects the actual cash value of share performance rights that the named executive officers realized upon vesting. The value realized with respect to the share performance rights granted in 2007 was based on an E.ON AG stock price of \$121.02, which was the average closing stock price for the 60 trading days preceding the end of the 2007-2009 performance period, as adjusted. Values were provided by HSBC Trinkaus in Euros and converted to US currency using the average exchange rate for the 60 trading days preceding the end of the performance period. E.ON AG effected a 3-for-1 stock split, effective August 1, 2008. While the share performance rights were not adjusted for the split, in determining payment, the average closing value was calculated and then adjusted by HSBC Trinkaus to give effect to the stock split.

The value realized with respect to share performance rights granted in 2008, 2009 and 2010 was based on an E.ON AG stock price of \$29.64, which was the average closing stock price for the 60 trading days preceding the change in control. Values were provided by HSBC Trinkaus in Euros and converted to US currency using the average exchange rate for the 60 trading days preceding the change in control.

Pension Benefits in 2010

The following table sets forth information on the pension benefits for the named executive officers:

Name (a)	Plan Name (b)(1)	Number of Years Credited Service (#) (c)	Present Value of Accumulated Benefit (\$) (d)	Payments During Last Fiscal Year (\$) (e)
Staffieri	Retirement	18.75	693,309	0
	SERP	18.75	7,645,065	0
Rives	Retirement	26.83	819,226	0
	SERP	27.83	2,034,524	0
McCall	Retirement	16.50	767,610	0
	SERP	16.50	4,426,391	0
Hermann	Retirement	30.00	1,532,112	0
	SERP	30.00	2,047,683	0
Thompson	Retirement	19.75	657,499	0
	SERP	19.75	2,218,154	0

(1) E.ON U.S. LLC Retirement Plan (Retirement) and LG&E Energy Corp. Supplemental Executive Retirement Plan (SERP).

The amounts shown for the retirement plan and the SERP represent the actuarial present values of the executives' accumulated benefits accrued as of December 31, 2010, calculated using a 5.52 percent discount rate for the retirement plan and a 5.46 percent discount rate for the SERP, the mortality table used for 2011 Pension Protection Act target liability purposes as prescribed by the Internal Revenue Service for December 31, 2010 present values for post retirement mortality rates and no recognition of future salary increases or pre-retirement mortality. The assumed retirement age for these benefits was age 62 for Messrs. Staffieri, Rives and Thompson. Retirement on December 31, 2010 was assumed for Messrs. McCall and Hermann, who were age 67 and 63, respectively, on that date. Benefits were also assumed to be paid as life annuities. While Mr. Hermann has over 40 years of actual service with us, his years of credited service are capped at 30 in accordance with the provisions of the E.ON U.S. LLC Retirement Plan.

E.ON U.S. LLC Retirement Plan

Messrs. Staffieri, Rives, McCall, Hermann and Thompson participate in the E.ON U.S. LLC Retirement Plan. The plan is a funded and tax-qualified defined benefit retirement plan that was closed to new participants on December 31, 2005. The purpose of the plan is to provide all vested eligible employees with retirement income. Vesting occurs after completing five years of service. The named executive officers are vested under the plan.

Benefit formula

The plan provides monthly retirement income equal to the greater of

- 1.58 percent of average monthly earnings plus 0.40 percent of average monthly earnings in excess of covered compensation, such sum multiplied by years of credited service and
- 1.68 percent of average monthly earnings multiplied by years of credited service.

The maximum years of service recognized when determining benefits under the plan is 30.

For purposes of the plan, average monthly earnings is the average of the highest five consecutive monthly earnings prior to termination of employment. Monthly earnings is defined as total compensation as indicated on Form W-2, including deferrals to a 401(k) plan, but excluding any earnings from the exercise of stock options, divided by 12.

Covered compensation is one-twelfth of the average of the social security taxable wage base for the 35-year period ending with the year of a participant's social security retirement age. The social security taxable wage base for future years is assumed to be equal to the social security taxable wage base for the current year.

The Internal Revenue Code limits the amounts that may be paid under the plan and the amount of compensation that may be recognized when determining benefits. In 2010, the maximum annual benefit payable under the plan was \$195,000, and the maximum amount of compensation that could be recognized when determining benefits was \$245,000.

Early retirement

Normal retirement age is age 65, and Mr. McCall was eligible for normal retirement on December 31, 2010. Early retirement occurs at the earlier of age 55 or 30 years of credited service, and Messrs. Staffieri and Hermann were eligible for early retirement on December 31, 2010. To receive unreduced retirement benefits under the plan, participants must remain employed until age 62, and Mr. Hermann was eligible for unreduced benefits on December 31, 2010. Participants who elect to retire before reaching age 62 receive benefits under the plan calculated as follows:

<u>Age</u>	<u>Early Retirement Factor</u>
61	96.00%
60	92.00%
59	86.56%
58	81.60%
57	77.04%
56	72.96%
55	69.20%
54	65.20%
53	61.20%
52	57.20%

Form of payment

Participants may choose whether their benefits will be in the form of:

- a single life annuity
- a survivor annuity payable to the participant's designated relative equal to 50 percent, 66⅔ percent, 75 percent or 100 percent of the participant's benefit. Under the survivor annuity options, the benefit payments are reduced to allow payments for the longer of two lives. The reduction factor is determined by the age difference between the participant and the participant's relative or
- a level income form equal to the actuarial equivalent of the participant's normal retirement benefit, but increased for each month prior to the participant's attainment of age 62 and decreased after age 62 so that the participant's total monthly plan benefit and social security retirement benefit are approximately level during the participant's lifetime.

LG&E Energy Corp. Supplemental Executive Retirement Plan

Messrs. Staffieri, Rives, McCall, Hermann and Thompson participate in the SERP, which is a non-qualified defined benefit pension plan. The SERP is unfunded and is not qualified for tax purposes. Accrued benefits under the SERP are subject to claims of our creditors in the event of bankruptcy. The purpose of the SERP is to provide additional retirement income to selected executives.

Benefit formula

Upon a separation from service occurring on or after the participant attains age 65, participants are entitled to monthly retirement income equal to 64 percent of average monthly compensation less:

- 100 percent of the monthly E.ON U.S. LLC Retirement Plan benefit payable at age 65
- 100 percent of the primary social security benefit payable at age 65
- 100 percent of any matching contribution or other employer contribution for those participants where the defined contribution is the primary retirement vehicle and
- 100 percent of any other employer-provided benefit payable at age 65 as a life annuity from any qualified defined benefit plan or defined contribution plan sponsored by previous employers, provided such qualified defined contribution plan was the employer’s primary vehicle for retirement.

Such amount is multiplied by a fraction not to exceed “1”, the numerator of which is years of service at date of separation from service and the denominator of which is 15.

Average monthly compensation is the average compensation for the 36 consecutive months preceding the participant’s separation from service that yields the highest average. Compensation is defined as base salary plus short term incentive pay prior to any deferrals under any qualified or non-qualified deferred compensation plan.

Normal and early retirement

Normal retirement age is 65, and Mr. McCall was eligible for normal retirement on December 31, 2010. A participant who has at least five years of credited service and whose age is at least 50 is eligible to receive early retirement benefits after the later of separation from service and the date the participant attains age 55. Messrs. Staffieri and Hermann were eligible for early retirement on December 31, 2010. To receive unreduced benefits under the SERP, participants must remain employed until age 62, and Mr. Hermann was eligible for unreduced benefits on December 31, 2010. Participants electing to retire before reaching age 62 receive benefits under the SERP calculated as follows:

<u>Age at Commencement</u>	<u>Percentage of Benefit Payable</u>
61	96
60	92
59	86
58	80
57	74
56	68
55	62

Forms of payment

Benefits under the SERP are paid as a single life annuity unless the participant dies before benefits commence or the participant elects to receive actuarial equivalent payments in the form of a joint and survivor annuity. The joint and survivor annuity provides a reduced monthly benefit payable for the life of the participant that will continue to be made in an amount equal to 50 percent of the participant’s benefit to a beneficiary designated by the participant.

The present values in the Pension Benefits for 2010 table are theoretical figures prescribed by the SEC for disclosure and comparison purposes. The table below reflects the actual benefits payable under the listed events assuming separation from service occurred as of December 31, 2010.

SERP Payments upon Separation from Service as of December 31, 2010

Name	Separation from Service (Other Than Death or Disability) (\$)	Death (\$)	Disability (\$)
Staffieri(1)	8,825,464	6,703,996	6,220,019
Rives(2)	2,331,425	1,880,181	1,626,046
McCall(3)	4,960,680	2,602,451	4,960,680
Hermann(4)	2,283,282	1,218,074	1,967,861
Thompson(5)	2,537,610	2,116,113	1,572,400

- (1) If Mr. Staffieri separated from service, for reasons other than due to death or disability, on December 31, 2010 and commenced his SERP benefit on January 1, 2011, the monthly benefit payable as a life annuity is \$48,297. If he had died on December 31, 2010, the monthly SERP benefit payable to his spouse for her lifetime on January 1, 2011 is \$36,588. If Mr. Staffieri had become disabled on December 31, 2010, the monthly SERP disability benefit payable at age 65 as a life annuity, assuming continued accrual, is \$69,321.
- (2) If Mr. Rives separated from service, for reasons other than due to death or disability, on December 31, 2010 and commenced his SERP benefit at age 55, the monthly benefit payable as a life annuity is \$14,479. If he had died on December 31, 2010, the monthly SERP benefit payable to his spouse for her lifetime on January 1, 2011 is \$11,676. If Mr. Rives had become disabled on December 31, 2010, the monthly SERP disability benefit payable at age 65 as a life annuity, assuming continued accrual, is \$21,859.
- (3) If Mr. McCall separated from service, for reasons other than due to death or disability, on December 31, 2010 and commenced his SERP benefit on January 1, 2011, the monthly benefit payable as a life annuity is \$34,627. If he had died on December 31, 2010, the monthly SERP benefit payable to his spouse for her lifetime on January 1, 2011 is \$17,313. If Mr. McCall had become disabled on December 31, 2010, the monthly SERP disability benefit payable at January 1, 2011 as a life annuity is \$34,627.
- (4) If Mr. Hermann separated from service, for reasons other than due to death or disability, on December 31, 2010 and commenced his SERP benefit on January 1, 2011, the monthly benefit payable as a life annuity is \$14,446. If he had died on December 31, 2010, the monthly SERP benefit payable to his spouse for her lifetime on January 1, 2011 is \$7,223. If Mr. Hermann had become disabled on December 31, 2010, the monthly SERP disability benefit payable at age 65 as a life annuity, assuming continued accrual, is \$14,198.
- (5) If Mr. Thompson separated from service, for reasons other than due to death or disability, on December 31, 2010 and commenced his SERP benefit at age 55, the monthly benefit payable as a life annuity is \$14,511. If he had died on December 31, 2010, the monthly SERP benefit payable to his spouse for her lifetime on January 1, 2011 is \$11,703. If Mr. Thompson had become disabled on December 31, 2010, the monthly SERP disability benefit payable at age 65 as a life annuity, assuming continued accrual, is \$19,318.

Non-Qualified Deferred Compensation in 2010

Name (a)	Executive Contributions in Last FY \$(1) (b)	Registrant Contributions in Last FY \$(1) (c)	Aggregate Earnings in Last FY \$((d)	Aggregate Withdrawals / Distributions \$((e)	Aggregate Balance at Last FYE \$((f)
Staffieri					
E.ON U.S. NQSP	82,345	53,118	22,729	145,025(2)	762,230
LG&E Energy Corp. NQSP	0	0	29,663	0	928,850
Rives					
E.ON U.S. NQSP	45,339	17,271	11,096	0	374,232
LG&E Energy Corp. NQSP	0	0	40,872	0	1,279,849
McCall					
E.ON U.S. NQSP	117,218	23,666	26,615	0	896,195
LG&E Energy Corp. NQSP	0	0	45,560	0	1,426,646
Hermann					
E.ON U.S. NQSP	28,062	11,603	7,580	0	256,540
LG&E Energy Corp. NQSP	0	0	19,391	0	607,188
Thompson					
E.ON U.S. NQSP	55,466	15,432	23,022	0	753,620
LG&E Energy Corp. NQSP	0	0	45,297	0	1,418,424

- (1) Executive contributions to the E.ON U.S. LLC Nonqualified Savings Plan are reported in the salary column of the Summary Compensation Table for 2010. Registrant contributions to the E.ON U.S. LLC Nonqualified Savings Plan are reported in the All Other Compensation column of the Summary Compensation Table for 2010. Contributions to the LG&E Energy Corp. Nonqualified Savings Plan have not been previously reported in a Summary Compensation Table.
- (2) Paid in accordance with Mr. Staffieri's deferral election under the E.ON U.S. LLC Nonqualified Savings Plan.

Messrs. Staffieri, Rives, McCall, Hermann and Thompson participate in the E.ON U.S. LLC Nonqualified Savings Plan, which we refer to as the E.ON U.S. plan, and the LG&E Energy Corp. Nonqualified Savings Plan, which we refer to as the LG&E Energy plan. Both plans are non-qualified, unfunded deferred compensation plans, and all benefits under the plans are subject to the claims of creditors in the event of bankruptcy. The LG&E Energy plan benefits are limited to the contributions credited to the participants' plan accounts as of December 31, 2004 and interest accruing on those accounts. Executives are no longer permitted to defer income under the LG&E Energy plan. The E.ON US plan benefits are based on contributions made and interest accruing on those contributions after December 31, 2004 and are subject to Section 409A of the Internal Revenue Code.

Participation

The E.ON U.S. plan provides executives with an opportunity to defer income on a tax-deferred basis in addition to deferrals under the tax-qualified savings plan. Executives may participate in the E.ON U.S. plan after the later of promotion to an executive position and the completion of six months of continuous employment.

Deferrals

A hypothetical account is established for each participant who elects to defer compensation. Under the E.ON U.S. plan, executives may elect to defer up to 75 percent of their eligible compensation, which includes base pay and short-term incentive pay. This amount is reduced by any amount deferred and subject to an employer match under the tax-qualified savings plan. Participants in the plan receive a matching contribution equal to 70 percent of the first six percent deferred.

Participants are immediately vested in their deferrals and employer matching contributions.

Interest

The amounts in the participant's hypothetical accounts in the E.ON U.S. plan and the LG&E Energy plan are credited with interest at an annual rate equal to the U.S. prime interest rate reset as of the immediately preceding March 31, June 30, September 30 and December 31. The interest rate in effect for 2010 was 3.25 percent.

Distributions

All distributions are made in cash. Participants may choose whether distributions will be made in a lump sum or in two to ten annual installments. In general, distributions under the E.ON U.S. plan are made at the time specified by the named executive officer at the time of completion of the deferral election. However, a "hardship distribution" will be approved if there is an unforeseeable emergency, as defined by Section 409A, that causes a severe financial hardship to the participant.

A participant is eligible to receive a distribution under the LG&E Energy plan upon termination of employment.

Employment-Related Arrangements

Messrs. Staffieri's and McCall's Agreements

In connection with PPL's acquisition of our Parent's, our Parent entered into amended and restated employment and severance agreements with Messrs. Staffieri and McCall in October 2010 that replaced previous agreements, dated February 25, 2000, as amended, with LG&E Energy Corporation and Powergen plc. The agreements provide severance, change in control protection and other benefits substantially similar to those in the previous agreements. The agreements provide for changes needed to reflect the change in control, Messrs. Staffieri's and McCall's retention with our Parent and their anticipated roles after the change in control.

The employment and severance agreements have an initial two-year term beginning November 1, 2010, with automatic one-year extensions, unless our Parent or any subsidiary of our Parent gives 90 days notice that the agreements will not be extended. Under the terms of their agreements, Mr. Staffieri and Mr. McCall are entitled to:

- a position of chairman of the board of directors, chief executive officer and president of our Parent for Mr. Staffieri and a position of executive vice president, general counsel and corporate secretary of our Parent for Mr. McCall
- a base salary of at least \$811,220 for Mr. Staffieri and at least \$507,900 for Mr. McCall, which were their base salaries at the time of the change in control
- a divestiture incentive award payment of \$2,129,453 for Mr. Staffieri and \$1,142,775 for Mr. McCall, which was paid upon closing of the change in control
- a retention agreement, which is described below
- short-term incentive award opportunities with a target of not less than 75 percent of base salary for Mr. Staffieri and not less than 50 percent for Mr. McCall
- long-term incentive award opportunities with a target of not less than 175 percent of base salary for Mr. Staffieri and not less than 100 percent for Mr. McCall
- participation in employee benefit programs and in the LG&E Energy Corp. Supplemental Executive Retirement Plan and the E.ON U.S. LLC Nonqualified Savings Plan

- term life insurance for Mr. Staffieri of at least \$2,000,000 and a full gross-up with respect to any taxes paid by Mr. Staffieri imposed as a result of such life insurance, the gross-up of which was given up by Mr. Staffieri, as discussed below
- a supplemental life insurance annual payment of \$29,255 for Mr. McCall in lieu of a supplemental life insurance policy and
- perquisites:
 - for Mr. Staffieri and Mr. McCall: an automobile allowance, financial planning, tax preparation, company-paid reserved parking and executive physical examination
 - for Mr. Staffieri only: an employer-paid country club membership, company-paid use of air transportation for non-business purposes and full tax gross-up payments on Mr. Staffieri's perquisites, all of which were given up by Mr. Staffieri as discussed below and
 - for Mr. McCall only: a luncheon club membership.

If, within two years following our Parent's acquisition by PPL or a future change in control, excluding a change in control of PPL, the executive's employment is terminated by the executive for good reason or by our Parent for reasons other than cause, disability or death, which includes notice by our Parent not to extend the term of the agreement, the executive would be entitled to:

- earned, but unpaid salary and vacation pay at the time of termination
- a lump sum cash payment equal to 2.99 times the sum of annual base salary and the greater of (i) most recent annual bonus, (ii) the annual bonus paid or payable under the annual bonus plan for 2009 or the year before a future change in control occurs and (iii) the target award for 2009 or the year before a future change in control occurs
- an amount for outplacement services equal to 20 percent of base salary
- benefit continuation for a period of three years and
- a gross-up payment to reimburse the executive for any excise tax on excess parachute payments made under the agreement or otherwise that is imposed by Internal Revenue Code Section 4999, as well as any additional income and employment taxes resulting from such reimbursement.

Change in control is defined as:

- acquisition by any person of securities representing more than 50 percent of the combined voting power of our Parent's then outstanding securities entitled to vote in the election of directors, unless PPL continues to own more than 50 percent of the combined voting power of our Parent's voting securities
- consummation of a merger or similar transaction of our Parent, any parent of our Parent, other than PPL or any parent of PPL, or any subsidiary with any other entity, unless the voting securities outstanding before the merger represent at least 50 percent of the voting power of the surviving entity
- stockholder approval of our Parent's liquidation or dissolution or
- sale or disposition of all or substantially all of our Parent's and its subsidiaries' assets.

If Mr. Staffieri's or Mr. McCall's employment is terminated at any other time by the executive for good reason or by our Parent for reasons other than cause, disability or death, which includes notice by our Parent not to extend the term of the agreement, he would be entitled to:

- earned, but unpaid salary and vacation pay at the time of termination

- an amount equal to two times the sum of annual base salary and the greater of (i) most recent annual bonus, (ii) the annual bonus paid or payable under the annual bonus plan for 2009 and (iii) the target award for 2009
- an amount for outplacement services equal to 20 percent of his base salary and
- benefit continuation for a period of two years.

Termination for cause is defined as a termination evidenced by a resolution approved by at least 75 percent of our Parent's board that the executive has engaged in repeated willful misconduct in performing his reasonably assigned duties or has been convicted of a felony in the course of performing such duties.

Good reason is defined as follows:

- base salary or annual or long-term target bonus percentages have been reduced
- place of employment has been relocated more than 50 miles
- authorities, duties, responsibilities or reporting are materially reduced from those in effect prior to November 1, 2010 or
- employment and severance agreement has been materially breached by our Parent or any of its subsidiaries.

The executive may not terminate his employment for good reason, unless he has provided notice, within 90 days of the occurrence of any of these actions, to our Parent or its subsidiary and it has failed to cure such circumstances within a period of at least 30 days.

If the executive's employment is terminated due to death or disability, he will be entitled to:

- earned, but unpaid salary and vacation pay on the date of death or termination due to disability
- a prorated payment of the restricted stock unit award described below
- if Mr. Staffieri dies, benefit continuation for a period of three years for his dependents and beneficiaries
- if Mr. Staffieri is terminated due to disability, until age 65 a benefit equal to 60 percent of his base salary, less any social security disability benefits and amounts payable under any disability insurance policy that our Parent maintains during the term of his agreement and
- for Mr. McCall, a lump sum cash payment equal to his target long-term incentive award, prorated for his actual period of service, and the greater of his most recent annual bonus, the annual bonus paid or payable under the annual bonus plan for 2009 and the target award for 2009.

Messrs. Rives', Hermann's and Thompson's Agreements

In 2010, our Parent entered into retention and severance agreements with Messrs. Rives, Hermann and Thompson that replace previous change in control agreements and retention and severance agreements with LG&E Energy Corp. and E.ON AG. The agreements provide severance, change in control protection and other benefits substantially similar to those in the previous agreements.

The retention and severance agreements have an initial two-year term beginning November 1, 2010, with automatic one-year extensions, unless our Parent or any subsidiary of our Parent gives 90 days notice that the agreements will not be extended. Under the terms of these agreements, the executives are entitled to receive a retention agreement and a divestiture incentive award payment of

\$932,400 for Mr. Rives, \$733,725 for Mr. Hermann and \$870,300 for Mr. Thompson, which were paid upon closing of the change in control.

If, within two years following the acquisition by PPL or a future change in control, excluding a change in control of PPL, the executive's employment is terminated by the executive for good reason or by our Parent for reasons other than cause, disability or death, the executive would be entitled to:

- earned, but unpaid salary and vacation pay at the time of termination
- a lump sum cash payment equal to 2.99 times the sum of annual base salary and the executive's target annual bonus at the time of payment
- an amount for outplacement services equal to 20 percent of base salary
- benefit continuation for the lesser of 24 months and the number of months remaining until the executive's 65th birthday and
- a gross-up payment to reimburse the executive for any excise tax on excess parachute payments made under the agreement or otherwise that is imposed by Internal Revenue Code Section 4999, as well as any additional income and employment taxes resulting from such reimbursement.

If employment is terminated at any other time by the executive for good reason or by our Parent for reasons other than cause, disability or death, the executive would be entitled to:

- earned, but unpaid salary and vacation pay at the time of termination
- an amount equal to the sum of his annual base salary and target annual bonus at the time of payment and
- an amount for outplacement services equal to 20 percent of his base salary.

Termination for cause is defined as a termination evidenced by a resolution approved by at least 75 percent of our Parent's board that the executive has engaged in repeated gross negligence in performing his reasonably assigned duties or has committed a felony in the course of performing such duties.

Good reason is defined as follows:

- base salary or annual or long-term bonus opportunities have been reduced or
- within two years following our Parent's acquisition by PPL or another change in control,
 - present place of employment has been relocated more than 100 miles
 - authorities or responsibilities have been materially reduced or
 - retention and severance agreement has been materially breached by our Parent or any of its subsidiaries.

The executive may not terminate his employment for good reason, unless he has provided notice, within 90 days of the occurrence of any of these actions, and our Parent or its subsidiary failed to cure such circumstances within a period of not less than 30 days.

The definition of change in control for these executives' agreements is the same as that contained in Messrs. Staffieri's and McCall's employment and severance agreements, which we describe above.

Retention Agreements

PPL entered into retention agreements with the named executive officers on December 1, 2010, pursuant to which they were granted restricted stock units payable in PPL common stock. The named executive officers receive cash dividend-equivalents during the period of restriction that are not subject

to forfeiture. In his retention agreement, Mr. Staffieri also agreed to modify the perquisites he received pursuant to his employment and severance agreement and gave up an employer-paid country club membership and company-paid use of air transportation for any non-business purpose, as well as, effective January 1, 2011, tax gross-up payments on his perquisites. PPL entered into the retention agreements to encourage the named executive officers to remain employed by PPL or an affiliated company and to compensate Mr. Staffieri for the loss of these perquisites.

See the Compensation Discussion and Analysis for the number of restricted stock units granted, the grant date fair value and the vesting date of the awards.

The named executive officers must remain continuously employed by affiliates of PPL through the vesting date, unless the executive's employment is terminated due to death or disability. They must also sign a release of liability agreement to receive payment of their awards. If employment is terminated due to death or disability, payment will be prorated.

Potential Payments upon Termination or Change in Control

The following table shows the payments and benefits our named executive officers would receive in connection with:

- retirement or a voluntary termination without good reason
- death
- disability and
- involuntary termination for reasons other than cause or voluntary termination for good reason, whether or not such termination follows a change in control.

If a named executive officer is terminated for cause, no additional benefits or payments are due to the named executive officer.

The information assumes the terminations and the change in control occurred on December 31, 2010. The values for the restricted stock units were determined by multiplying the number of units that vest by \$26.32, which was the closing price of PPL common stock on December 31, 2010.

The table does not include base salary and short-term incentive awards, to the extent earned due to employment through December 31, 2010. The table excludes compensation and benefits provided under plans or arrangements that do not discriminate in favor of the named executive officers and that are generally available to all salaried employees. Because the amounts payable to the named executive officers would not constitute excess parachute payments under Internal Revenue Code Section 280G that trigger excise taxes under Internal Revenue Code Section 4999, the table does not include any tax gross-up payments for the named executive officers. The table also excludes the named executive officers' benefits under the E.ON U.S. LLC Retirement Plan, the LG&E Energy Corp. Supplemental Executive Retirement Plan, the E.ON U.S. LLC Nonqualified Savings Plan and the LG&E Energy Corp. Nonqualified Savings Plan. See the Pension Benefits in 2010 table and the Nonqualified Deferred Compensation in 2010 table, and accompanying narratives, for a description of the named executive officers' accumulated benefits under our defined benefit pension plans and our nonqualified deferred compensation plans.

For additional information regarding the termination-related payments and benefits provided by Messrs. Staffieri's and McCall's employment and severance agreements and the other named executive

officers' retention and severance agreements, please refer to the Employment-Related Arrangements section.

<u>Name</u>	<u>Retirement or Voluntary Termination without Good Reason (\$)</u>	<u>Death (\$)</u>	<u>Disability (\$)</u>	<u>Involuntary Termination Not for Cause or Voluntary Termination with Good Reason (\$)</u>
Staffieri				
Severance payable in cash	0	0	0	4,752,964(1)
Other separation benefits	0	48,420(3)	0(4)	207,535(2)
Restricted stock units	0	88,764(5)	88,764(5)	0
Total	0	137,184	88,764	4,960,499
Rives				
Severance payable in cash	0	0	0	1,858,584(1)
Other separation benefits	0	0	0	111,874(2)
Restricted stock units	0	25,914(5)	25,914(5)	0
Total	0	25,914	25,914	1,970,458
McCall				
Severance payable in cash	0	0	0	2,611,466(1)
Other separation benefits	0	365,500(6)	365,500(6)	144,351(2)
Restricted stock units	0	63,519(5)	63,519(5)	0
Total	0	429,019	429,019	2,755,817
Hermann				
Severance payable in cash	0	0	0	1,462,559(1)
Other separation benefits	0	0	0	84,896(2)
Restricted stock units	0	20,387(5)	20,387(5)	0
Total	0	20,387	20,387	1,547,455
Thompson				
Severance payable in cash	0	0	0	1,734,798(1)
Other separation benefits	0	0	0	106,354(2)
Restricted stock units	0	24,182(5)	24,182(5)	0
Total	0	24,182	24,182	1,841,152

- (1) Each of the named executive officers has an employment and severance agreement, or a retention and severance agreement, with our Parent under which he is entitled to cash severance equal to 2.99 times base salary and short-term incentive if employment is terminated by us for any reason other than for cause or by the executive for "good reason" as that term is defined in his agreement. For Mr. Staffieri and Mr. McCall, the short-term incentive amount used for determining the cash severance amount was the actual 2010 short-term incentive payment. For the other named executive officers, the short-term incentive amount reflects 2010 target short-term incentive, in accordance with their agreements.
- (2) Under the terms of each named executive officer's severance agreement, the executive is eligible for continued medical and dental benefits, life insurance premiums, disability coverage and outplacement services. The amounts shown as "Other separation benefits" are the estimated present values of these benefits.
- (3) If Mr. Staffieri's employment is terminated as a result of death, for a period of 36 months, our Parent would at its expense continue on behalf of Mr. Staffieri's dependents and beneficiaries (to the same extent provided to the dependents and beneficiaries prior to his death) the life insurance,

medical, dental and hospitalization benefits under such plans offered by our Parent to active employees.

- (4) If Mr. Staffieri's employment is terminated as a result of disability, he would receive until age 65 a benefit equal to 60 percent of his base salary, less 100 percent of the social security disability benefit and any amounts payable pursuant to the terms of a disability insurance policy or similar arrangement which our Parent maintains during the term. It is anticipated that the disability insurance policy would cover this payment in full and thus there would not be an additional payment.
- (5) Restricted stock units granted to each named executive officer pursuant to his Retention Agreement would be prorated for completed months employed during the one year vesting schedule for Mr. McCall (December 1, 2010 - December 1, 2011) or the two year vesting schedule for the other named executive officers (December 1, 2010 - December 1, 2012). Thus the values shown in the table above reflect 1/12th the value of Mr. McCall's full award and 1/24th the value of the other named executive officers' full awards as of December 31, 2010. The value was determined based on the closing price of PPL common stock on the New York Stock Exchange of \$26.32 on December 31, 2010.
- (6) If Mr. McCall's employment is terminated as a result of death or disability, he would receive a cash payment equal to his 2010 short-term incentive payment.

Director Compensation

The board of directors consists of the named executive officers, as well as Paul A. Farr, PPL executive vice president and chief financial officer, and William H. Spence, PPL executive vice president and chief operating officer. The directors received no compensation for board service.

Narrative Disclosure of our Compensation Policies and Practices as They Relate to Risk Management

Our senior management has reviewed our policies and practices of compensating our employees, including the non-executive officers, as they relate to risk management practices and risk-taking incentives. The senior management reviewed a description of the types of risks that may exist in certain compensation arrangements, each component of compensation for employees, the mix of fixed and "at-risk" incentive compensation and the goals used for incentive compensation, in addition to considering the risk profile of our business. Based upon this review, we concluded that our compensation policies and practices for all our employees do not create risks that are reasonably likely to have a material adverse effect on us.

Compensation Committee Interlocks and Insider Participation

We are wholly owned by our Parent, and our board of directors is comprised solely of our five named executive officers and two executive officers of PPL. We have no compensation committee or other board committee performing equivalent functions. Prior to the acquisition, as discussed in the Compensation Discussion and Analysis, the E.ON AG Board of Management set compensation for our named executive officers. The E.ON AG Board of Management consulted with Mr. Staffieri as well as with the E.ON AG chairman of the board, chief executive officer and president and the E.ON AG senior vice president of group corporate officer resources in setting compensation. After the acquisition, the PPL Compensation, Governance and Nominating Committee, a committee of independent directors, assumed oversight of Mr. Staffieri's compensation. Compensation for the other named executive officers after the acquisition was reviewed by the PPL vice president-human resources and services, the PPL chief executive officer and the PPL Corporate Leadership Council.

TRANSACTIONS WITH RELATED PERSONS

We have in place a number of established policies and procedures to identify potential conflicts of interest arising out of financial transactions, arrangements or relations between the Company and any related persons. The conflict of interest provisions of our Code of Business Conduct and/or applicable principles and personnel provisions of its Authority Limits Policy apply to any transaction in which the Company or a subsidiary is a participant and covered persons has a direct or indirect material interest. A covered person includes not only our directors and executive officers, but others related to them by certain family relationships. Employees of the Company who are also executive officers of PPL are also covered under PPL's related-person policy.

Under our policies and procedures, each such related-person transaction must be reviewed and approved or ratified by the General Counsel, other than any personnel matters or transaction involving an officer, which must be approved by the Chairman and a designated PPL officer. We collect information about potential related-person transactions in annual questionnaires completed by directors and executive officers. Transactions involving non-compliance with established policies are reported to the Board, as applicable. The Board can review and consider the relevant facts and circumstances and determine whether to approve, deny or ratify the related-person transaction. Transactions falling within the definition of PPL's related-party policy are further reviewed by PPL's Office of General Counsel for determination as to reporting to PPL's Board or its Compensation, Governance and Nominating Committee, as applicable.

No event has occurred since January 1, 2010 that would be required to be reported by the Company pursuant to Item 404(a) of Regulation S-K promulgated by the SEC.

THE EXCHANGE OFFERS

Purpose and Effect of the Exchange Offers

The Outstanding Bonds were issued on November 16, 2010 and sold to the initial purchasers pursuant to a purchase agreement in transactions not requiring registration under the Securities Act. The initial purchasers subsequently sold the Outstanding Bonds to qualified institutional buyers (as defined in Rule 144A under the Securities Act) in reliance on Rule 144A, and to persons in offshore transactions in reliance on Regulation S under the Securities Act.

We entered into a registration rights agreement with representatives of the initial purchasers of the Outstanding Bonds in which we agreed, under certain circumstances, to file a registration statement relating to offers to exchange the Outstanding Bonds for Exchange Bonds and to use commercially reasonable efforts to cause such registration statement to be declared effective under the Securities Act no later than 270 days after the original issue date of the Outstanding Bonds and to pay liquidated damages as described below if we do not consummate the Exchange Offers within 315 days after the issue date of the Outstanding Bonds. The Exchange Bonds will have terms identical in all material respects to the Outstanding Bonds of the related series, except that the Exchange Bonds will not contain certain terms with respect to transfer restrictions, registration rights and liquidated damages for failure to observe certain obligations in the registration rights agreement.

Under the circumstances set forth below, we will use commercially reasonable efforts to cause the SEC to declare effective a shelf registration statement with respect to the resale of the Outstanding Bonds within the time periods specified in the registration rights agreement and keep the statement effective for one year from the original issue date of the Outstanding Bonds, or such shorter period as described in the registration rights agreement. These circumstances include:

- if a change in law or in applicable interpretations of the staff of the SEC does not permit us to effect a registered exchange offer;
- if a registered exchange offer is not consummated within 315 days after the date of issuance of the Outstanding Bonds;
- any initial purchaser of the Outstanding Bonds so requests with respect to Bonds not eligible to be exchanged for Exchange Bonds in the Exchange Offer and held by it following consummation of the Exchange Offer; or
- any holder notifies us during the 20 business days following consummation of the Exchange Offer that it was not eligible to participate in the Exchange Offer or any holder who participates in the Exchange Offer does not receive freely tradeable Exchange Bonds in the Exchange Offer.

Except for certain circumstances specified in the registration rights agreement, we will pay liquidated damages if:

- neither a registration statement relating to offers to exchange the Outstanding Bonds for Exchange Bonds nor a shelf registration statement with respect to the resale of the Outstanding Bonds (if required) is filed by us within the applicable time periods specified above;
- neither the Exchange Offer registration statement nor a shelf registration statement (if required) is declared effective by the SEC within the applicable time periods specified above;
- the Exchange Offer is not consummated within 315 days after the initial issuance of the Outstanding Bonds (or if the 315th day is not a business day, by the first business day thereafter); or
- after the Exchange Offer registration statement or the shelf registration statement, as the case may be, is declared effective, such registration statement thereafter ceases to be effective or

usable (subject to certain exceptions) in connection with resales of Outstanding Bonds or Exchange Bonds as provided in and during the periods specified in the registration rights agreement.

We sometimes refer to an event referred to in the first through fourth bullet items above as a Registration Default.

Liquidated damages, if payable, will be payable on the Outstanding Bonds at a rate of 0.25% per annum for the first 90 days from and including the date on which any Registration Default occurs, and such liquidated damages rate shall increase by an additional 0.25% per annum thereafter; *provided, however*, that the liquidated damages rate on the Outstanding Bonds will not at any time exceed 0.50% per annum. Liquidated damages will cease to accrue on and after the date on which all Registration Defaults have been cured. Any such liquidated damages payable will be payable on interest payment dates in addition to interest payable from time to time on the Outstanding Bonds and Exchange Bonds.

If you wish to exchange your Outstanding Bonds for Exchange Bonds in any of the Exchange Offers, you will be required to make the following written representations:

- you are not our affiliate within the meaning of Rule 405 of the Securities Act;
- you have no arrangement or understanding with any person to participate in a distribution (within the meaning of the Securities Act) of the Exchange Bonds in violation of the provisions of the Securities Act;
- you are not engaged in, and do not intend to engage in, a distribution of the Exchange Bonds; and
- you are acquiring the Exchange Bonds in the ordinary course of your business.

Each broker-dealer that receives Exchange Bonds for its own account in exchange for Outstanding Bonds, where the broker-dealer acquired the Outstanding Bonds as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Bonds and that it did not purchase its Outstanding Bonds from us or any of our affiliates. See “Plan of Distribution.”

Resale of Exchange Bonds

We have not requested, and do not intend to request, an interpretation by the staff of the SEC as to whether the Exchange Bonds issued pursuant to this Exchange Offer in exchange for the Outstanding Bonds may be offered for sale, resold or otherwise transferred by any holder without compliance with the registration and prospectus delivery provisions of the Securities Act. Instead, based on interpretations by the SEC set forth in no-action letters issued to third parties, we believe that you may resell or otherwise transfer Exchange Bonds issued in the Exchange Offers without complying with the registration and prospectus delivery provisions of the Securities Act if:

- you are acquiring the Exchange Bonds in the ordinary course of your business;
- you have no arrangements or understanding with any person to participate in the distribution of the Exchange Bonds within the meaning of the Securities Act;
- you are not our “affiliate,” as defined in Rule 405 of the Securities Act; and
- you are not engaged in, and do not intend to engage in, a distribution of the Exchange Bonds.

If you are our affiliate, or are engaging in, or intend to engage in, or have any arrangement or understanding with any person to participate in, a distribution of the Exchange Bonds, or are not acquiring the Exchange Bonds in the ordinary course of your business:

- you cannot rely on the position of the SEC set forth in *Morgan Stanley & Co. Incorporated* (available June 5, 1991) and *Exxon Capital Holdings Corporation* (available May 13, 1988), as interpreted in the SEC's letter to Shearman & Sterling, (available July 2, 1993), or similar no-action letters; and
- in the absence of an exception from the position stated immediately above, you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale of the Exchange Bonds.

This prospectus may be used for an offer to resell or transfer the Exchange Bonds only as specifically set forth in this prospectus. With regard to broker-dealers, only broker-dealers that acquired the Outstanding Bonds as a result of market-making activities or other trading activities may participate in the Exchange Offers. Each broker-dealer that receives Exchange Bonds for its own account in exchange for Outstanding Bonds, where such Outstanding Bonds were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the Exchange Bonds. Read "Plan of Distribution" for more details regarding the transfer of Exchange Bonds.

Our belief that the Exchange Bonds may be offered for resale without compliance with the registration or prospectus delivery provisions of the Securities Act is based on interpretations of the SEC for other exchange offers that the SEC expressed in some of its no-action letters to other issuers in exchange offers like ours. We have not sought a no-action letter in connection with the Exchange Offers, and we cannot guarantee that the SEC would make a similar decision about our Exchange Offers. If our belief is wrong, or if you cannot truthfully make the representations mentioned above, and you transfer any Exchange Bond issued to you in the Exchange Offers without meeting the registration and prospectus delivery requirements of the Securities Act, or without an exemption from such requirements, you could incur liability under the Securities Act. We are not indemnifying you for any such liability.

Terms of the Exchange Offers

On the terms and subject to the conditions set forth in this prospectus and in the accompanying letters of transmittal, we will accept for exchange in the Exchange Offers any Outstanding Bonds that are validly tendered and not validly withdrawn prior to the Expiration Date. Outstanding Bonds may only be tendered in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess of \$2,000, and any untendered Outstanding Bonds must also be in a minimum denomination of \$2,000. We will issue Exchange Bonds in principal amount identical to Outstanding Bonds surrendered in the Exchange Offers.

The form and terms of the Exchange Bonds will be identical in all material respects to the form and terms of the Outstanding Bonds of the related series except the Exchange Bonds will be registered under the Securities Act, will not bear legends restricting their transfer and will not provide for any payment of liquidated damages upon our failure to fulfill our obligations under the registration rights agreement to complete the Exchange Offers, or file, and cause to be effective, a shelf registration statement, if required thereby, within the specified time period. The Exchange Bonds will evidence the same debt as the Outstanding Bonds of the related series. The Exchange Bonds will be issued under and entitled to the benefits of the Indenture. For a description of the Indenture, see "Description of the Exchange Bonds."

No interest will be paid in connection with the exchange. The Exchange Bonds will bear interest from the last Interest Payment Date (as defined under “Description of the Exchange Bonds—Maturity; Interest”) on the Outstanding Bonds surrendered in the Exchange Offers. Accordingly, the holders of Outstanding Bonds that are accepted for exchange will not receive accrued but unpaid interest on Outstanding Bonds at the time of tender. Rather, that interest will be payable on the Exchange Bonds delivered in exchange for the Outstanding Bonds on the first Interest Payment Date after the Expiration Date (as defined below under “—Expiration Date, Extensions and Amendments”).

The Exchange Offers are not conditioned upon any minimum aggregate principal amount of Outstanding Bonds being tendered for exchange.

As of the date of this prospectus, \$250 million aggregate principal amount of the 1.625% First Mortgage Bonds due 2015, \$500 million aggregate principal amount of the 3.250% First Mortgage Bonds due 2020 and \$750 million aggregate principal amount of the 5.125% First Mortgage Bonds due 2040 are outstanding. This prospectus and the letters of transmittal are being sent to all registered holders of Outstanding Bonds. There will be no fixed record date for determining registered holders of Outstanding Bonds entitled to participate in the Exchange Offers. We intend to conduct the Exchange Offers in accordance with the provisions of the registration rights agreement, the applicable requirements of the Securities Act and the Exchange Act, and the rules and regulations of the SEC. Outstanding Bonds that are not tendered for exchange in the Exchange Offers will remain outstanding and continue to accrue interest and will be entitled to the rights and benefits such holders have under the Indenture relating to such holders’ series of Outstanding Bonds except we will not have any further obligation to you to provide for the registration of the Outstanding Bonds under the registration rights agreement.

We will be deemed to have accepted for exchange properly tendered Outstanding Bonds when we have given written notice of the acceptance to the exchange agent. The exchange agent will act as agent for the tendering holders for the purposes of receiving the Exchange Bonds from us and delivering Exchange Bonds to holders. Subject to the terms of the registration rights agreement, we expressly reserve the right to amend or terminate the Exchange Offers and to refuse to accept Exchange Bonds upon the occurrence of any of the conditions specified below under “—Conditions to the Exchange Offers.”

If you tender your Outstanding Bonds in the Exchange Offers, you will not be required to pay brokerage commissions or fees or, subject to the instructions in the letter of transmittal, transfer taxes with respect to the exchange of Outstanding Bonds. We will pay all charges and expenses, other than certain applicable taxes described below in connection with the Exchange Offers. It is important that you read “—Fees and Expenses” below for more details regarding fees and expenses incurred in the Exchange Offers.

If you are a broker-dealer and receive Exchange Bonds for your own account in exchange for Outstanding Bonds that you acquired as a result of market-making activities or other trading activities, you must acknowledge that you will deliver this prospectus in connection with any resale of the Exchange Bonds and that you did not purchase your Outstanding Bonds from us or any of our affiliates. Read “Plan of Distribution” for more details regarding the transfer of Exchange Bonds.

We make no recommendation to you as to whether you should tender or refrain from tendering all or any portion of your Outstanding Bonds into these Exchange Offers. In addition, no one has been authorized to make this recommendation. You must make your own decision whether to tender into these Exchange Offers and, if so, the aggregate amount of Outstanding Bonds to tender after reading this prospectus and the letter of transmittal and consulting with your advisors, if any, based on your financial position and requirements.

Expiration Date, Extensions and Amendments

The Exchange Offers expire at 5:00 p.m., New York City time, on June 30, 2011, which we refer to as the “Expiration Date.” However, if we, in our sole discretion, extend the period of time for which the Exchange Offers are open, the term “Expiration Date” will mean the latest date to which we shall have extended the expiration of the Exchange Offers.

To extend the period of time during which the Exchange Offers are open, we will notify the exchange agent of any extension by written notice, followed by notification by press release or other public announcement to the registered holders of the Outstanding Bonds no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date. During any extension, all Outstanding Bonds previously tendered will remain subject to this Exchange Offer unless validly withdrawn.

We also reserve the right, in our sole discretion:

- to delay accepting for exchange any Outstanding Bonds (only in the case that we amend or extend the Exchange Offers);
- to extend the Expiration Date and retain all Outstanding Bonds tendered in the Exchange Offers, subject to your right to withdraw your tendered Outstanding Bonds as described under “—Withdrawal Rights”;
- to terminate any of the Exchange Offers if we determine that any of the conditions set forth below under “—Conditions to the Exchange Offers” have not been satisfied; and
- to amend the terms of any of the Exchange Offers in any manner or waive any condition to the Exchange Offers.

Any delay in acceptance, extension, termination or amendment will be followed as promptly as practicable by oral or written notice to the registered holders of the Outstanding Bonds. If we amend any of the Exchange Offers in a manner that we determine to constitute a material change, we will promptly disclose the amendment in a manner reasonably calculated to inform the holders of applicable Outstanding Bonds of that amendment, and we will extend such Exchange Offer to the extent required by law.

In the event we terminate the Exchange Offers, all Outstanding Bonds previously tendered and not accepted for payment will be returned promptly to the tendering holders.

Conditions to the Exchange Offers

Despite any other term of the Exchange Offers, we will not be required to accept for exchange, or to issue Exchange Bonds in exchange for, any Outstanding Bonds and we may terminate or amend any of the Exchange Offers as provided in this prospectus prior to the Expiration Date if in our reasonable judgment:

- the Exchange Offers or the making of any exchange by a holder violates any applicable law or interpretation of the SEC; or
- any action or proceeding has been instituted or threatened in writing in any court or by or before any governmental agency with respect to the Exchange Offers that, in our judgment, would reasonably be expected to impair our ability to proceed with the Exchange Offers.

In addition, we will not be obligated to accept for exchange the Outstanding Bonds of any holder that has not made to us:

- the representations described under “—Purpose and Effect of the Exchange Offers”; or

- any other representations as may be reasonably necessary under applicable SEC rules, regulations or interpretations to make available to us an appropriate form for registration of the Exchange Bonds under the Securities Act.

We expressly reserve the right at any time or at various times to extend the period of time during which the Exchange Offers are open. Consequently, we may delay acceptance of any Outstanding Bonds by giving oral or written notice of such extension to the holders. We will return any Outstanding Bonds that we do not accept for exchange for any reason without expense to the tendering holder promptly after the expiration or termination of the Exchange Offers. We also expressly reserve the right to amend or terminate any of the Exchange Offers and to reject for exchange any Outstanding Bonds not previously accepted for exchange, if we determine that any of the conditions of the Exchange Offers specified above have not been satisfied. We will give oral or written notice of any extension, amendment, non-acceptance or termination to the holders of the Outstanding Bonds as promptly as practicable. In the case of any extension, such notice will be issued no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date.

We reserve the right to waive any defects, irregularities or conditions to the exchange as to particular Outstanding Bonds. These conditions are for our sole benefit, and we may assert them regardless of the circumstances that may give rise to them or waive them in whole or in part at any or at various times prior to the expiration of the Exchange Offers in our sole discretion. If we fail at any time to exercise any of the foregoing rights, this failure will not constitute a waiver of such right. Each such right will be deemed an ongoing right that we may assert at any time or at various times prior to the expiration of the Exchange Offers.

In addition, we will not accept for exchange any Outstanding Bonds tendered, and will not issue Exchange Bonds in exchange for any such Outstanding Bonds, if at such time any stop order is threatened or in effect with respect to the registration statement of which this prospectus constitutes a part or the qualification of the Indenture under the Trust Indenture Act of 1939, as amended.

Procedures for Tendering Outstanding Bonds

To tender your Outstanding Bonds in the Exchange Offers, you must comply with either of the following:

- complete, sign and date the letter of transmittal, or a facsimile of the letter of transmittal, have the signature(s) on the letter of transmittal guaranteed if required by the letter of transmittal and mail or deliver such letter of transmittal or facsimile thereof to the exchange agent at the address set forth below under “—Exchange Agent” prior to the Expiration Date; or
- comply with DTC’s Automated Tender Offer Program procedures described below.

In addition:

- the exchange agent must receive certificates for Outstanding Bonds along with the letter of transmittal prior to the expiration of the Exchange Offers;
- the exchange agent must receive a timely confirmation of book-entry transfer of Outstanding Bonds into the exchange agent’s account at DTC according to the procedures for book-entry transfer described below and a properly transmitted Agent’s Message (defined below) prior to the expiration of the Exchange Offers; or
- you must comply with the guaranteed delivery procedures described below.

The term “*Agent’s Message*” means a message transmitted by DTC, received by the exchange agent and forming part of the book-entry confirmation, which states that:

- DTC has received an express acknowledgment from a participant in its Automated Tender Offer Program that is tendering Outstanding Bonds that are the subject of the book-entry confirmation;
- the participant has received and agrees to be bound by the terms of the letter of transmittal or, in the case of an Agent’s Message relating to guaranteed delivery, that such participant has received and agrees to be bound by the notice of guaranteed delivery; and
- we may enforce that agreement against such participant.

DTC is referred to herein as a “book-entry transfer facility.”

Your tender, if not withdrawn prior to the expiration of the Exchange Offers, constitutes an agreement between us and you upon the terms and subject to the conditions described in this prospectus and in the letter of transmittal.

The method of delivery of Outstanding Bonds, letters of transmittal and all other required documents to the exchange agent is at your election and risk. Delivery of such documents will be deemed made only when actually received by the exchange agent. We recommend that instead of delivery by mail, you use an overnight or hand delivery service, properly insured. If you determine to make delivery by mail, we suggest that you use properly insured, registered mail with return receipt requested. In all cases, you should allow sufficient time to assure timely delivery to the exchange agent before the expiration of the Exchange Offers. Letters of transmittal and certificates representing Outstanding Bonds should be sent only to the exchange agent, and not to us or to any book-entry transfer facility. No alternative, conditional or contingent tenders of Outstanding Bonds will be accepted. You may request that your broker, dealer, commercial bank, trust company or nominee effect the above transactions for you.

If you are a beneficial owner whose Outstanding Bonds are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your Outstanding Bonds, you should promptly contact the registered holder and instruct the registered holder to tender on your behalf. If you wish to tender the Outstanding Bonds yourself, you must, prior to completing and executing the letter of transmittal and delivering your Outstanding Bonds, either:

- make appropriate arrangements to register ownership of the Outstanding Bonds in your name; or
- obtain a properly completed bond power from the registered holder of Outstanding Bonds.

The transfer of registered ownership may take considerable time and may not be able to be completed prior to the expiration of the Exchange Offers.

Signatures on the letter of transmittal or a notice of withdrawal (as described below in “—Withdrawal Rights”), as the case may be, must be guaranteed by a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc., a commercial bank or trust company having an office or correspondent in the US or another “eligible guarantor institution” within the meaning of Rule 17A(d)-15 under the Exchange Act unless the Outstanding Bonds surrendered for exchange are tendered:

- by a registered holder of the Outstanding Bonds who has not completed the box entitled “Special Registration Instructions” or “Special Delivery Instructions” on the letter of transmittal; or
- for the account of an eligible guarantor institution.

If the letter of transmittal is signed by a person other than the registered holder of any Outstanding Bonds listed on the Outstanding Bonds, such Outstanding Bonds must be endorsed or accompanied by a properly completed bond power. The bond power must be signed by the registered holder as the registered holder's name appears on the Outstanding Bonds, and an eligible guarantor institution must guarantee the signature on the bond power.

If the letter of transmittal, any certificates representing Outstanding Bonds or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, those persons should also indicate when signing and, unless waived by us, they should also submit evidence satisfactory to us of their authority to so act.

The exchange agent and DTC have confirmed that any financial institution that is a participant in DTC's system may use DTC's Automated Tender Offer Program to tender Outstanding Bonds. Participants in the program may, instead of physically completing and signing the letter of transmittal and delivering it to the exchange agent, electronically transmit their acceptance of Outstanding Bonds for exchange by causing DTC to transfer the Outstanding Bonds to the exchange agent in accordance with DTC's Automated Tender Offer Program procedures for transfer. DTC will then send an Agent's Message to the exchange agent.

Book-Entry Delivery Procedures

Promptly after the date of this prospectus, the exchange agent will establish an account with respect to the Outstanding Bonds at DTC, as the book-entry transfer facility, for purposes of the Exchange Offers. Any financial institution that is a participant in the book-entry transfer facility's system may make book-entry delivery of the Outstanding Bonds by causing the book-entry transfer facility to transfer those Outstanding Bonds into the exchange agent's account at the facility in accordance with the facility's procedures for such transfer. To be timely, book-entry delivery of Outstanding Bonds requires receipt of a confirmation of a book-entry transfer, or a "book-entry confirmation," prior to the Expiration Date.

In addition, in order to receive Exchange Bonds for tendered Outstanding Bonds, an Agent's Message in connection with a book-entry transfer into the exchange agent's account at the book-entry transfer facility or the letter of transmittal or a manually signed facsimile thereof, together with any required signature guarantees and any other required documents must be delivered or transmitted to and received by the exchange agent at its address set forth on the cover page of the letter of transmittal prior to the expiration of the Exchange Offers. Holders of Outstanding Bonds who are unable to deliver confirmation of the book-entry tender of their Outstanding Bonds into the exchange agent's account at the book-entry transfer facility or an Agent's Message or a letter of transmittal or a manually signed facsimile thereof in lieu thereof and all other documents required by the letter of transmittal to the exchange agent prior to the expiration of the Exchange Offers must tender their Outstanding Bonds according to the guaranteed delivery procedures described below. Tender will not be deemed made until such documents are received by the exchange agent. Delivery of documents to the book-entry transfer facility does not constitute delivery to the exchange agent.

Guaranteed Delivery Procedures

If you wish to tender your Outstanding Bonds but your Outstanding Bonds are not immediately available or you cannot deliver your Outstanding Bonds, the letter of transmittal or any other required documents to the exchange agent or comply with the procedures under DTC's Automatic Tender Offer Program in the case of Outstanding Bonds, prior to the Expiration Date, you may still tender if:

- the tender is made through an eligible guarantor institution;

- prior to the Expiration Date, the exchange agent receives from such eligible guarantor institution either a properly completed and duly executed notice of guaranteed delivery, by facsimile transmission, mail, or hand delivery or a properly transmitted Agent's Message and notice of guaranteed delivery, that (1) sets forth your name and address, the certificate number(s) of such Outstanding Bonds and the principal amount of Outstanding Bonds tendered; (2) states that the tender is being made thereby; and (3) guarantees that, within three New York Stock Exchange trading days after the Expiration Date, the letter of transmittal, or facsimile thereof, together with the Outstanding Bonds or a book-entry confirmation (including an Agent's Message), and any other documents required by the letter of transmittal, will be deposited by the eligible guarantor institution with, or transmitted by the eligible guarantor to, the exchange agent; and
- the exchange agent receives the properly completed and executed letter of transmittal or facsimile thereof, with any required signature guarantees, as well as certificate(s) representing all tendered Outstanding Bonds in proper form for transfer or a book-entry confirmation of transfer of the Outstanding Bonds (including an Agent's Message) into the exchange agent's account at DTC and all other documents required by the letter of transmittal within three New York Stock Exchange trading days after the Expiration Date.

Upon request, the exchange agent will send to you a notice of guaranteed delivery if you wish to tender your Outstanding Bonds according to the guaranteed delivery procedures.

Acceptance of Outstanding Bonds for Exchange

In all cases, we will promptly issue Exchange Bonds of the applicable series for Outstanding Bonds that we have accepted for exchange under the Exchange Offers only after the exchange agent timely receives:

- Outstanding Bonds or a timely book-entry confirmation of such Outstanding Bonds into the exchange agent's account at the book-entry transfer facility; and
- a properly completed and duly executed letter of transmittal and all other required documents or a properly transmitted Agent's Message.

In addition, each broker-dealer that is to receive Exchange Bonds for its own account in exchange for Outstanding Bonds must represent that such Outstanding Bonds were acquired by that broker-dealer as a result of market-making activities or other trading activities and must acknowledge that it will deliver a prospectus that meets the requirements of the Securities Act in connection with any resale of the Exchange Bonds. The letters of transmittal state that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. See "Plan of Distribution."

We will interpret the terms and conditions of the Exchange Offers, including the letters of transmittal and the instructions to the letters of transmittal, and will resolve all questions as to the validity, form, eligibility, including time of receipt, and acceptance of Outstanding Bonds tendered for exchange. Our determinations in this regard will be final and binding on all parties. We reserve the absolute right to reject any and all tenders of any particular Outstanding Bonds not properly tendered or to not accept any particular Outstanding Bonds if the acceptance might, in our or our counsel's judgment, be unlawful. We also reserve the absolute right to waive any defects or irregularities as to any particular Outstanding Bonds prior to the expiration of the Exchange Offers.

Unless waived, any defects or irregularities in connection with tenders of Outstanding Bonds for exchange must be cured within such reasonable period of time as we determine. Neither the Company, the exchange agent nor any other person will be under any duty to give notification of any defect or irregularity with respect to any tender of Outstanding Bonds for exchange, nor will any of them incur any liability for any failure to give notification. Any certificates representing Outstanding Bonds

received by the exchange agent that are not properly tendered and as to which the irregularities have not been cured or waived will be returned by the exchange agent to the tendering holder, unless otherwise provided in the letter of transmittal, promptly after the expiration or termination of the Exchange Offers.

Withdrawal Rights

Except as otherwise provided in this prospectus, you may withdraw your tender of Outstanding Bonds at any time prior to 5:00 p.m., New York City time, on the Expiration Date.

For a withdrawal to be effective:

- the exchange agent must receive a written notice, which may be by telegram, telex, facsimile or letter, of withdrawal at its address set forth below under “—Exchange Agent”; or
- you must comply with the appropriate procedures of DTC’s Automated Tender Offer Program system for such withdrawal.

Any notice of withdrawal must:

- specify the name of the person who tendered the Outstanding Bonds to be withdrawn;
- identify the Outstanding Bonds to be withdrawn, including the certificate numbers and principal amount of the Outstanding Bonds; and
- where certificates for Outstanding Bonds have been transmitted, specify the name in which such Outstanding Bonds were registered, if different from that of the withdrawing holder.

If certificates for Outstanding Bonds have been delivered or otherwise identified to the exchange agent, then, prior to the release of such certificates, you must also submit:

- the serial numbers of the particular certificates to be withdrawn; and
- a signed notice of withdrawal with signatures guaranteed by an eligible institution unless you are an eligible guarantor institution.

If Outstanding Bonds have been tendered pursuant to the procedures for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at the book-entry transfer facility to be credited with the withdrawn Outstanding Bonds and otherwise comply with the procedures of the facility. We will determine all questions as to the validity, form and eligibility, including time of receipt of notices of withdrawal, and our determination will be final and binding on all parties. Any Outstanding Bonds so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the Exchange Offers. Any Outstanding Bonds that have been tendered for exchange but that are not exchanged for any reason will be returned to their holder, without cost to the holder, or, in the case of book-entry transfer, the Outstanding Bonds will be credited to an account at the book-entry transfer facility, promptly after withdrawal, rejection of tender or termination of the Exchange Offers. Properly withdrawn Outstanding Bonds may be retendered by following the procedures described under “—Procedures for Tendering Outstanding Bonds” above at any time prior to the expiration of the Exchange Offers.

Exchange Agent

The Bank of New York Mellon has been appointed as the exchange agent for the Exchange Offers. The Bank of New York Mellon also acts as trustee under the Indenture. You should direct all executed letters of transmittal and all questions and requests for assistance with respect to accepting or withdrawing from the Exchange Offers, requests for additional copies of this prospectus or of the letter

of transmittal and requests for notices of guaranteed delivery to the exchange agent addressed as follows:

By Mail, Hand or Courier

The Bank of New York Mellon
c/o The Bank of New York Mellon Corporation
Corporate Trust—Reorganization Unit
480 Washington Boulevard—27th Floor
Jersey City, New Jersey 07310
Attn: David Mauer—Processor

*By Facsimile Transmission
(eligible institutions only)*

(212) 298-1915
To Confirm by Telephone
(212) 815-3687

If you deliver the letter of transmittal to an address other than the one set forth above or transmit instructions via facsimile to a number other than the one set forth above, that delivery or those instructions will not be effective.

Fees and Expenses

The registration rights agreement provides that we will bear all expenses in connection with the performance of our obligations relating to the registration of the Exchange Bonds and the conduct of the Exchange Offers. These expenses include registration and filing fees, accounting and legal fees and printing costs, among others. We will pay the exchange agent reasonable and customary fees for its services and reasonable out-of-pocket expenses. We will also reimburse brokerage houses and other custodians, nominees and fiduciaries for customary mailing and handling expenses incurred by them in forwarding this prospectus and related documents to their clients that are holders of Outstanding Bonds and for handling or tendering for such clients.

We have not retained any dealer-manager in connection with the Exchange Offers and will not pay any fee or commission to any broker, dealer, nominee or other person for soliciting tenders of Outstanding Bonds pursuant to the Exchange Offers.

Accounting Treatment

We will record the Exchange Bonds in our accounting records at the same carrying value as the Outstanding Bonds, which is the aggregate principal amount as reflected in our accounting records on the date of exchanges. Accordingly, we will not recognize any gain or loss for accounting purposes upon the consummation of the Exchange Offers. We will record the costs of the Exchange Offers as incurred.

Transfer Taxes

We will pay all transfer taxes, if any, applicable to the exchanges of Outstanding Bonds under the Exchange Offers. The tendering holder, however, will be required to pay any transfer taxes, whether imposed on the registered holder or any other person, if:

- certificates representing Outstanding Bonds for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be issued in the name of, any person other than the registered holder of Outstanding Bonds tendered;
- tendered Outstanding Bonds are registered in the name of any person other than the person signing the letter of transmittal; or
- a transfer tax is imposed for any reason other than the exchange of Outstanding Bonds under the Exchange Offers.

If satisfactory evidence of payment of such taxes is not submitted with the letter of transmittal, the amount of such transfer taxes will be billed to that tendering holder.

Holders who tender their Outstanding Bonds for exchange will not be required to pay any transfer taxes. However, holders who instruct us to register Exchange Bonds in the name of, or request that Outstanding Bonds not tendered or not accepted in the Exchange Offers be returned to, a person other than the registered tendering holder will be required to pay any applicable transfer tax.

Consequences of Failure to Exchange

If you do not exchange your Outstanding Bonds for Exchange Bonds under the Exchange Offers, your Outstanding Bonds will remain subject to the restrictions on transfer of such Outstanding Bonds:

- as set forth in the legend printed on the Outstanding Bonds as a consequence of the issuance of the Outstanding Bonds pursuant to the exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws; and
- as otherwise set forth in the offering memorandum distributed in connection with the private offerings of the Outstanding Bonds.

In general, you may not offer or sell your Outstanding Bonds unless they are registered under the Securities Act or if the offer or sale is exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, we do not intend to register resales of the Outstanding Bonds under the Securities Act.

Other

Participating in the Exchange Offers is voluntary, and you should carefully consider whether to accept. You are urged to consult your financial and tax advisors in making your own decision on what action to take.

We may in the future seek to acquire untendered Outstanding Bonds in open market or privately negotiated transactions, through subsequent exchange offers or otherwise. We have no present plans to acquire any Outstanding Bonds that are not tendered in the Exchange Offers or to file a registration statement to permit resales of any untendered Outstanding Bonds.

DESCRIPTION OF THE EXCHANGE BONDS

The following summary description sets forth certain terms and provisions of the Exchange Bonds. Because this description is a summary, it does not describe every aspect of the Exchange Bonds or the Mortgage (as defined below) under which the Exchange Bonds will be issued, and which is filed as an exhibit to the registration statement of which this prospectus is a part. The Mortgage and its associated documents contain the full legal text of the matters described in this section. This summary is subject to and qualified in its entirety by reference to all of the provisions of the Exchange Bonds and the Mortgage, including definitions of certain terms used in the Mortgage. We also include references in parentheses to certain sections of the Mortgage. Whenever we refer to particular sections or defined terms of the Mortgage in this prospectus, such sections or defined terms are incorporated by reference herein.

General

The form and terms of the Exchange Bonds are identical in all material respects to the form and terms of the Outstanding Bonds except the Exchange Bonds will:

- be registered under the Securities Act;
- not be subject to the restrictions on transfer applicable to the Outstanding Bonds (except for the limited restrictions described under “—Form; Transfers and Exchanges”);
- not be entitled to any registration rights that are applicable to the Outstanding Bonds under the registration rights agreement, including any right to liquidated damages; and
- bear different CUSIP numbers.

We will issue each series of the Exchange Bonds under our indenture, dated as of October 1, 2010 (as such indenture may be amended and supplemented from time to time, the Mortgage), to The Bank of New York Mellon, as Trustee. The Mortgage effectively does not limit the aggregate principal amount of bonds or other debt securities that may be issued thereunder, subject to meeting certain conditions to issuance, including those described below under “Issuance of Additional Mortgage Securities.” The Exchange Bonds and all other debt securities issued previously or hereafter issued under the Mortgage are collectively referred to herein as “Mortgage Securities.” The Mortgage constitutes a first mortgage lien, subject to Permitted Liens and exceptions and exclusions as described below, on substantially all of our real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity. (See “—Security; Lien of the Mortgage” below.) As of the date of this prospectus, in addition to the Outstanding Bonds, approximately \$351 million of first mortgage bonds are issued and outstanding under the Mortgage and have been pledged to secure pollution control revenue bonds issued by various counties in Kentucky on our behalf.

The Exchange Bonds will be issued in fully registered form only, without coupons. The Exchange Bonds will be initially represented by one or more fully registered global securities deposited with the Trustee, as custodian for DTC, as depository, and registered in the name of DTC or DTC’s nominee. A beneficial interest in a Global Security will be shown on, and transfers or exchanges thereof will be effected only through, records maintained by DTC and its participants, as described below under “—Book-Entry Only Issuance—The Depository Trust Company.” The authorized denominations of the Exchange Bonds will be \$2,000 and any larger amount that is an integral multiple of \$1,000. Except in limited circumstances described below, the Exchange Bonds will not be exchangeable for Bonds in definitive certificated form.

The 2015 Exchange Bonds will be issued as part of the same series of debt securities under the Indenture as the 2015 Outstanding Bonds. The 2020 Exchange Bonds will be issued as part of the same

series of debt securities under the Indenture as the 2020 Outstanding Bonds. The 2040 Exchange Bonds will be issued as part of the same series of debt securities under the Indenture as the 2040 Outstanding Bonds. We may, without the consent of the holders of the applicable series of Bonds, increase the principal amount of any series of Bonds and issue additional bonds of the applicable series having the same ranking, interest rate, maturity and other terms (other than the date of issuance and, in some circumstances, the initial interest accrual date and initial interest payment date) as the Exchange Bonds, but do not intend to reopen a series unless, for U.S. federal income tax purposes, such additional bonds are issued in a “qualified reopening” within the meaning of the Internal Revenue Code of 1986, as amended. Any such additional bonds would, together with the Exchange Bonds of the applicable series offered by this prospectus and any Outstanding Bonds of the related series, constitute a single series of securities under the Mortgage and may be treated as a single class for all purposes under the Mortgage, including, without limitation, voting waivers and amendments.

Maturity; Interest

The 2015 Exchange Bonds will mature on November 1, 2015 and will bear interest from May 1, 2011 (the last Interest Payment Date on which interest was paid on the Outstanding Bonds of the same series), at a rate of 1.625% per annum. The 2020 Bonds will mature on November 1, 2020 and will bear interest from May 1, 2011 (the last Interest Payment Date on which interest was paid on the Outstanding Bonds of the same series), at a rate of 3.250% per annum. The 2040 Bonds will mature on November 1, 2040 and will bear interest from May 1, 2011 (the last Interest Payment Date on which interest was paid on the Outstanding Bonds of the same series), at a rate of 5.125% per annum. Interest will be payable on each series of Bonds on May 1 and November 1 of each year, commencing on November 1, 2011, and at maturity (whether at the applicable stated maturity date, upon redemption or acceleration, or otherwise). Subject to certain exceptions, the Mortgage provides for the payment of interest on an Interest Payment Date only to persons in whose names the Exchange Bonds are registered at the close of business on the Regular Record Date, which will be the April 15 and October 15 (whether or not a Business Day), as the case may be, immediately preceding the applicable Interest Payment Date; except that interest payable at Maturity will be paid to the person to whom principal is paid.

Interest on the Exchange Bonds will be calculated on the basis of a 360-day year of twelve 30-day months, and with respect to any period less than a full calendar month, on the basis of the actual number of days elapsed during the period.

Payment

So long as the Exchange Bonds are registered in the name of DTC, as depository for the Exchange Bonds as described herein under “—Book-Entry Only Issuance—The Depository Trust Company” or DTC’s nominee, payments on the Exchange Bonds will be made as described therein.

If we default in paying interest on an Exchange Bond, we will pay such defaulted interest either

- to holders as of a special record date between 10 and 15 days before the proposed payment; or
- in any other lawful manner of payment that is consistent with the requirements of any securities exchange on which the Exchange Bonds may be listed for trading. (See Section 307.)

We will pay principal of and interest and premium, if any, on the Exchange Bonds at Maturity upon presentation of the Exchange Bonds at the corporate trust office of The Bank of New York Mellon in New York, New York, as our Paying Agent. In our discretion, we may change the place of payment on the Exchange Bonds, and we may remove any Paying Agent and may appoint one or more additional Paying Agents (including us or any of our affiliates). (See Section 702.)

If any Interest Payment Date, Redemption Date or Maturity of an Exchange Bond falls on a day that is not a Business Day, the required payment of principal, premium, if any, and/or interest will be made on the next succeeding Business Day as if made on the date such payment was due, and no interest will accrue on such payment for the period from and after such Interest Payment Date, Redemption Date or Maturity, as the case may be, to the date of such payment on the next succeeding Business Day.

“*Business Day*” means any day, other than a Saturday or Sunday, that is not a day on which banking institutions or trust companies in The City of New York, New York, or other city in which a paying agent for such Bond is located, are generally authorized or required by law, regulation or executive order to remain closed. (See Section 116.)

Form; Transfers; Exchanges

So long as the Exchange Bonds are registered in the name of DTC, as depository for the Exchange Bonds as described herein under “—Book-Entry Only Issuance—The Depository Trust Company” or DTC’s nominee, transfers and exchanges of beneficial interest in the Exchange Bonds will be made as described therein. In the event that the book-entry only system is discontinued, and the Exchange Bonds are issued in certificated form, you may exchange or transfer Exchange Bonds at the corporate trust office of the Trustee.

You may have your Exchange Bonds divided into Exchange Bonds of smaller denominations (of at least \$2,000 and any larger amount that is an integral multiple of \$1,000) or combined into Exchange Bonds of larger denominations, as long as the total principal amount is not changed. (See Section 305.)

There will be no service charge for any transfer or exchange of the Exchange Bonds, but you may be required to pay a sum sufficient to cover any tax or other governmental charge payable in connection therewith. We may block the transfer or exchange of (1) Exchange Bonds during a period of 15 days prior to giving any notice of redemption or (2) any Exchange Bond selected for redemption in whole or in part, except the unredeemed portion of any Exchange Bond being redeemed in part. (See Section 305.)

The Trustee acts as our agent for registering Exchange Bonds in the names of holders and transferring the Exchange Bonds. We may appoint another agent (including one of our affiliates) or act as our own agent for this purpose. The entity performing the role of maintaining the list of registered holders is called the “Security Registrar.” It will also perform transfers. In our discretion, we may change the place for registration of transfer of the Exchange Bonds and may designate a different entity as the Security Registrar, including us or one of our affiliates. (See Sections 305 and 702.)

Redemption

We may, at our option, redeem the 2015 Exchange Bonds, in whole at any time or in part from time to time, at a redemption price equal to the greater of (1) 100% of the principal amount of the 2015 Exchange Bonds to be so redeemed; or (2) as determined by the Quotation Agent, the sum of the present values of the remaining scheduled payments of principal and interest on the 2015 Exchange Bonds to be so redeemed (not including any portion of such payments of interest accrued to the date of redemption) discounted to the Redemption Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate, plus 10 basis points; plus, in either case, accrued and unpaid interest on the principal amount of the 2015 Exchange Bonds to be so redeemed to the Redemption Date.

We may, at our option, redeem the 2020 Exchange Bonds, in whole at any time or in part from time to time. If the 2020 Exchange Bonds are redeemed before August 1, 2020 (the date that is three months prior to the stated maturity of the 2020 Exchange Bonds), the 2020 Exchange Bonds will be

redeemed by us at a redemption price equal to the greater of (1) 100% of the principal amount of the 2020 Exchange Bonds to be so redeemed; or (2) as determined by the Quotation Agent, the sum of the present values of the remaining scheduled payments of principal and interest on the 2020 Exchange Bonds to be so redeemed (not including any portion of such payments of interest accrued to the date of redemption) discounted to the Redemption Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate, plus 15 basis points; plus, in either case, accrued and unpaid interest on the principal amount of the 2020 Exchange Bonds to be so redeemed to the Redemption Date. If the 2020 Exchange Bonds are redeemed on or after August 1, 2020, the 2020 Exchange Bonds will be redeemed by us at a redemption price equal to 100% of the principal amount of the 2020 Exchange Bonds to be so redeemed, plus accrued and unpaid interest on the principal amount of the 2020 Exchange Bonds to be so redeemed to the Redemption Date.

We may, at our option, redeem the 2040 Exchange Bonds, in whole at any time or in part from time to time. If the 2040 Exchange Bonds are redeemed before May 1, 2040 (the date that is six months prior to the stated maturity of the 2040 Exchange Bonds), the 2040 Exchange Bonds will be redeemed by us at a redemption price equal to the greater of (1) 100% of the principal amount of the 2040 Exchange Bonds to be so redeemed; or (2) as determined by the Quotation Agent, the sum of the present values of the remaining scheduled payments of principal and interest on the 2040 Exchange Bonds to be so redeemed (not including any portion of such payments of interest accrued to the date of redemption) discounted to the Redemption Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate, plus 20 basis points; plus, in either case, accrued and unpaid interest on the principal amount of the 2040 Exchange Bonds to be so redeemed to the Redemption Date. If the 2040 Exchange Bonds are redeemed on or after May 1, 2040, the 2040 Exchange Bonds will be redeemed by us at a redemption price equal to 100% of the principal amount of the 2040 Exchange Bonds to be so redeemed, plus accrued and unpaid interest on the principal amount of the 2040 Exchange Bonds to be so redeemed to the Redemption Date.

“Adjusted Treasury Rate” means, with respect to any Redemption Date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that Redemption Date.

“Comparable Treasury Issue” means the United States Treasury security selected by the Quotation Agent as having an actual or interpolated maturity comparable to the remaining term of the applicable series of Exchange Bonds to be redeemed to the applicable stated maturity date that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such applicable series of Exchange Bonds being redeemed.

“Comparable Treasury Price” means, with respect to any Redemption Date:

- the average of five Reference Treasury Dealer Quotations for that Redemption Date, after excluding the highest and lowest Reference Treasury Dealer Quotations; or
- if the Quotation Agent obtains fewer than five Reference Treasury Dealer Quotations, the average of all of those quotations received.

“Quotation Agent” means one of the Reference Treasury Dealers appointed by us.

“Reference Treasury Dealer” means:

- each of Credit Suisse Securities (USA) LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated and their respective successors, unless any of them ceases to be a primary U.S. Government securities dealer in the United States, in which case we will substitute another Primary Treasury Dealer; and

- any other Primary Treasury Dealers selected by us (after consultation with the Quotation Agent).

“*Reference Treasury Dealer Quotations*” means, with respect to each Reference Treasury Dealer and any Redemption Date, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount), as provided to the Quotation Agent by that Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding that Redemption Date.

The Exchange Bonds will not be subject to a sinking fund or other mandatory redemption provisions and will not be repayable at the option of the holder prior to the applicable stated maturity date.

The Exchange Bonds will be redeemable upon notice of redemption to each holder of Exchange Bonds to be redeemed by mail between 30 days and 60 days prior to the Redemption Date. If less than all of the Exchange Bonds are to be redeemed, the Trustee will select the Exchange Bonds or portions thereof to be redeemed. In the absence of any provision for selection, the Trustee will choose a method of random selection that it deems fair and appropriate. (See Sections 503 and 504.)

We may make any redemption at our option conditional upon the receipt by the Paying Agent, on or prior to the date fixed for redemption, of money sufficient to pay the redemption price. If the Paying Agent has not received such money by the date fixed for redemption, we will not be required to redeem such Exchange Bonds. (See Section 504.)

If money sufficient to pay the redemption price has been received by the Paying Agent, Exchange Bonds called for redemption will cease to bear interest on the Redemption Date. We will pay the redemption price and any accrued interest once you surrender the Exchange Bond for redemption. (See Section 505.) If only part of an Exchange Bond is redeemed, the Trustee will deliver to you a new Exchange Bond of the same series for the remaining portion without charge. (See Section 506.)

We may redeem, in whole or in part, one series of Exchange Bonds without redeeming the other series.

Security; Lien of the Mortgage

General

Except as described below under this heading and under “—Issuance of Additional Mortgage Securities,” and subject to the exceptions described under “—Satisfaction and Discharge,” all Mortgage Securities, including the Exchange Bonds, will be secured, equally and ratably, by the lien of the Mortgage, which constitutes, subject to Permitted Liens as described below, a first mortgage lien on substantially all of our real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity (other than property duly released from the lien of the Mortgage in accordance with the provisions thereof and other than Excepted Property, as described below). We sometimes refer to our property that is subject to the lien of the Mortgage as “Mortgaged Property.”

We may obtain the release of property from the lien of the Mortgage from time to time, upon the bases provided for such release in the Mortgage. See “—Release of Property.”

We may enter into supplemental indentures with the Trustee, without the consent of the holders, in order to subject additional property (including property that would otherwise be excepted from such lien) to the lien of the Mortgage. (See Section 1401.) This property would constitute Property Additions and would be available as a basis for the issuance of Mortgage Securities. See “—Issuance of Additional Mortgage Securities.”

The Mortgage provides that after-acquired property (other than Excepted Property) will be subject to the lien of the Mortgage. (See Granting Clause Second.) However, in the case of consolidation or merger (whether or not we are the surviving company) or transfer of the Mortgaged Property as or substantially as an entirety, the Mortgage will not be required to be a lien upon any of the properties either owned or subsequently acquired by the successor company except properties acquired from us in or as a result of such transfer, as well as improvements, extensions and additions (as defined in the Mortgage) to such properties and renewals, replacements and substitutions of or for any part or parts thereof. See Section 1303 and “—Consolidation, Merger and Conveyance of Assets as an Entirety.”

Excepted Property. The lien of the Mortgage does not cover, among other things, the following types of property: property located outside of Kentucky and not specifically subjected or required to be subjected to the lien of the Mortgage; property not used by us in our electric generation, transmission and distribution business; cash and securities not paid, deposited or held under the Mortgage or required so to be; contracts, leases and other agreements of all kinds, contract rights, bills, notes and other instruments, revenues, accounts receivable, claims, demands and judgments; governmental and other licenses, permits, franchises, consents and allowances; intellectual property rights and other general intangibles; vehicles, movable equipment, aircraft and vessels; all goods, stock in trade, wares, merchandise and inventory held for the purpose of sale or lease in the ordinary course of business; materials, supplies, inventory and other personal property consumable in the operation of our business; fuel; tools and equipment; furniture and furnishings; computers and data processing, telecommunications and other facilities used primarily for administrative or clerical purposes or otherwise not used in connection with the operation or maintenance of electric generation, transmission and distribution facilities; coal, ore, gas, oil and other minerals and timber rights; electric energy and capacity, gas, steam, water and other products generated, produced, manufactured, purchased or otherwise acquired; real property and facilities used primarily for the production or gathering of natural gas; property which has been released from the lien of the Mortgage; and leasehold interests. We sometimes refer to our property not covered by the lien of the Mortgage as “Excepted Property.” (See Granting Clauses.) Properties held by any of our subsidiaries, as well as properties leased from others, would not be subject to the lien of the Mortgage.

Permitted Liens. The lien of the Mortgage is subject to Permitted Liens described in the Mortgage. Such Permitted Liens include liens existing at the execution date of the Mortgage, purchase money liens and other liens placed or otherwise existing on property acquired by us after the execution date of the Mortgage at the time we acquire it, tax liens and other governmental charges which are not delinquent or which are being contested in good faith, mechanics’, construction and materialmen’s liens, certain judgment liens, easements, reservations and rights of others (including governmental entities) in, and defects of title to, our property, certain leases and leasehold interests, liens to secure public obligations, rights of others to take minerals, timber, electric energy or capacity, gas, water, steam or other products produced by us or by others on our property, rights and interests of Persons other than us arising out of agreements relating to the common ownership or joint use of property, and liens on the interests of such Persons in such property and liens which have been bonded or for which other security arrangements have been made. (See Granting Clauses and Section 101.)

The Mortgage also provides that the Trustee will have a lien, prior to the lien on behalf of the holders of the Mortgage Securities, upon the Mortgaged Property as security for our payment of its reasonable compensation and expenses and for indemnity against certain liabilities. (See Section 1107.) Any such lien would be a Permitted Lien under the Mortgage.

Issuance of Additional Mortgage Securities

The maximum principal amount of Mortgage Securities that may be authenticated and delivered under the Mortgage is subject to the issuance restrictions described below; *provided, however*, that the maximum principal amount of Mortgage Securities outstanding at any one time shall not exceed One

Quintillion Dollars (\$1,000,000,000,000,000), which amount may be changed by supplemental indenture. (See Section 301.) Mortgage Securities of any series may be issued from time to time on the basis of, and in an aggregate principal amount not exceeding:

- 66⅔% of the Cost or Fair Value to the Company (whichever is less) of Property Additions (as described below) which do not constitute Funded Property (generally, Property Additions which have been made the basis of the authentication and delivery of Mortgage Securities, the release of Mortgaged Property or the withdrawal of cash, which have been substituted for retired Funded Property or which have been used for other specified purposes) after certain deductions and additions, primarily including adjustments to offset property retirements;
- the aggregate principal amount of Retired Securities (as described below); or
- an amount of cash deposited with the Trustee. (See Article Four.)

Property Additions generally include any property which is owned by us and is subject to the lien of the Mortgage except (with certain exceptions) goodwill, going concern value rights or intangible property, or any property the acquisition or construction of which is properly chargeable to one of our operating expense accounts in accordance with U.S. generally accepted accounting principles. (See Section 104.)

Retired Securities means, generally, Mortgage Securities which are no longer outstanding under the Mortgage, which have not been retired by the application of Funded Cash and which have not been used as the basis for the authentication and delivery of Mortgage Securities, the release of property or the withdrawal of cash.

We issued the Outstanding Bonds on the basis of property additions. The Exchange Bonds will be issued in exchange for Outstanding Bonds, with no additional property being required. At February 28, 2011, approximately \$1.2 billion of Property Additions were available to us to be used as the basis for the authentication and delivery of Mortgage Securities in addition to the Outstanding Bonds (or the Exchange Bonds). (See Article Four.)

Release of Property

Unless an Event of Default has occurred and is continuing, we may obtain the release from the lien of the Mortgage of any Mortgaged Property, except for cash held by the Trustee, upon delivery to the Trustee of an amount in cash equal to the amount, if any, by which sixty-six and two-thirds percent (66⅔%) of the Cost of the property to be released (or, if less, the Fair Value to us of such property at the time it became Funded Property) exceeds the aggregate of:

- an amount equal to 66⅔% of the aggregate principal amount of obligations secured by Purchase Money Liens upon the property to be released and delivered to the Trustee;
- an amount equal to 66⅔% of the Cost or Fair Value to us (whichever is less) of certified Property Additions not constituting Funded Property after certain deductions and additions, primarily including adjustments to offset property retirements (except that such adjustments need not be made if such Property Additions were acquired or made within the 90-day period preceding the release);
- the aggregate principal amount of Mortgage Securities we would be entitled to issue on the basis of Retired Securities (with such entitlement being waived by operation of such release);
- the aggregate principal amount of Mortgage Securities delivered to the Trustee (with such Mortgage Securities to be canceled by the Trustee);
- any amount of cash and/or an amount equal to 66⅔% of the aggregate principal amount of obligations secured by Purchase Money Liens upon the property released delivered to the

trustee or other holder of a lien prior to the lien of the Mortgage, subject to certain limitations described in the Mortgage; and

- any taxes and expenses incidental to any sale, exchange, dedication or other disposition of the property to be released.

(See Section 803.)

As used in the Mortgage, the term “Purchase Money Lien” means, generally, a lien on the property being released which is retained by the transferor of such property or granted to one or more other persons in connection with the transfer or release thereof, or granted to or held by a trustee or agent for any such persons, and may include liens which cover property in addition to the property being released and/or which secure indebtedness in addition to indebtedness to the transferor of such property. (See Section 101.)

Unless an Event of Default has occurred and is continuing, property which is not Funded Property may generally be released from the lien of the Mortgage without depositing any cash or property with the Trustee as long as (a) the aggregate amount of Cost or Fair Value to us (whichever is less) of all Property Additions which do not constitute Funded Property (excluding the property to be released) after certain deductions and additions, primarily including adjustments to offset property retirements, is not less than zero or (b) the Cost or Fair Value (whichever is less) of property to be released does not exceed the aggregate amount of the Cost or Fair Value to us (whichever is less) of Property Additions acquired or made within the 90-day period preceding the release. (See Section 804.)

The Mortgage provides simplified procedures for the release of minor properties and property taken by eminent domain, and provides for dispositions of certain obsolete property and grants or surrender of certain rights without any release or consent by the Trustee. (See Sections 805, 807 and 808.)

If we retain any interest in any property released from the lien of the Mortgage, the Mortgage will not become a lien on such property or such interest therein or any improvements, extensions or additions to such property or renewals, replacements or substitutions of or for such property or any part or parts thereof. (See Section 809.)

Withdrawal of Cash

Unless an Event of Default has occurred and is continuing, and subject to certain limitations, cash held by the Trustee may, generally, (1) be withdrawn by us (a) to the extent of sixty-six and two-thirds percent (66⅔%) of the Cost or Fair Value to us (whichever is less) of Property Additions not constituting Funded Property, after certain deductions and additions, primarily including adjustments to offset retirements (except that such adjustments need not be made if such Property Additions were acquired or made within the 90-day period preceding the withdrawal) or (b) in an amount equal to the aggregate principal amount of Mortgage Securities that we would be entitled to issue on the basis of Retired Securities (with the entitlement to such issuance being waived by operation of such withdrawal) or (c) in an amount equal to the aggregate principal amount of any outstanding Mortgage Securities delivered to the Trustee; or (2) upon our request, be applied to (a) the purchase of Mortgage Securities in a manner and at a price approved by us or (b) the payment (or provision for payment) at stated maturity of any Mortgage Securities or the redemption (or provision for payment) of any Mortgage Securities which are redeemable (see Section 806); *provided, however*, that cash deposited with the Trustee as the basis for the authentication and delivery of Mortgage Securities may, in addition, be withdrawn in an amount not exceeding the aggregate principal amount of cash delivered to the Trustee for such purpose. (See Section 404.)

Events of Default

An “Event of Default” occurs under the Mortgage if

- we do not pay any interest on any Mortgage Securities within 30 days of the due date;
- we do not pay principal or premium, if any, on any Mortgage Securities on the due date;
- we remain in breach of any other covenant (excluding covenants specifically dealt with elsewhere in this section) in respect of any Mortgage Securities for 90 days after we receive a written notice of default stating we are in breach and requiring remedy of the breach; the notice must be sent by either the Trustee or holders of 25% of the principal amount of outstanding Mortgage Securities; the Trustee or such holders can agree to extend the 90-day period and such an agreement to extend will be automatically deemed to occur if we initiate corrective action within such 90-day period and we are diligently pursuing such action to correct the default; or
- we file for bankruptcy or certain other events in bankruptcy, insolvency, receivership or reorganization occur.

(See Section 1001.)

Remedies

Acceleration of Maturity

If an Event of Default occurs and is continuing, then either the Trustee or the holders of not less than 25% in principal amount of the outstanding Mortgage Securities may declare the principal amount of all of the Mortgage Securities to be due and payable immediately. (See Section 1002.)

Rescission of Acceleration

After the declaration of acceleration has been made and before the Trustee has obtained a judgment or decree for payment of the money due, such declaration and its consequences will be rescinded and annulled, if

- we pay or deposit with the Trustee a sum sufficient to pay:
 - all overdue interest;
 - the principal of and premium, if any, which have become due otherwise than by such declaration of acceleration and interest thereon;
 - interest on overdue interest to the extent lawful; and
 - all amounts due to the Trustee under the Mortgage; and
- all Events of Default, other than the nonpayment of the principal which has become due solely by such declaration of acceleration, have been cured or waived as provided in the Mortgage.

(See Section 1002.)

For more information as to waiver of defaults, see “—Waiver of Default and of Compliance” below.

Appointment of Receiver and Other Remedies

Subject to the Mortgage, under certain circumstances and to the extent permitted by law, if an Event of Default occurs and is continuing, the Trustee has the power to appoint a receiver of the Mortgaged Property, and is entitled to all other remedies available to mortgagees and secured parties under the Uniform Commercial Code or any other applicable law. (See Section 1016.)

Control by Holders; Limitations

Subject to the Mortgage, if an Event of Default occurs and is continuing, the holders of a majority in principal amount of the outstanding Mortgage Securities will have the right to

- direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or
- exercise any trust or power conferred on the Trustee.

The rights of holders to make direction are subject to the following limitations:

- the holders' directions may not conflict with any law or the Mortgage; and
- the holders' directions may not involve the Trustee in personal liability where the Trustee believes indemnity is not adequate.

The Trustee may also take any other action it deems proper which is not inconsistent with the holders' direction. (See Sections 1012 and 1103.)

In addition, the Mortgage provides that no holder of any Mortgage Security will have any right to institute any proceeding, judicial or otherwise, with respect to the Mortgage for the appointment of a receiver or for any other remedy thereunder unless

- that holder has previously given the Trustee written notice of a continuing Event of Default;
- the holders of 25% in aggregate principal amount of the outstanding Mortgage Securities have made written request to the Trustee to institute proceedings in respect of that Event of Default and have offered the Trustee reasonable indemnity against costs, expenses and liabilities incurred in complying with such request; and
- for 60 days after receipt of such notice, request and offer of indemnity, the Trustee has failed to institute any such proceeding and no direction inconsistent with such request has been given to the Trustee during such 60-day period by the holders of a majority in aggregate principal amount of outstanding Mortgage Securities.

Furthermore, no holder will be entitled to institute any such action if and to the extent that such action would disturb or prejudice the rights of other holders. (See Sections 1007 and 1103.)

However, each holder has an absolute and unconditional right to receive payment when due and to bring a suit to enforce that right. (See Section 1008.)

Notice of Default

The Trustee is required to give the holders of the Mortgage Securities notice of any default under the Mortgage to the extent required by the Trust Indenture Act, unless such default has been cured or waived; except that in the case of an Event of Default of the character specified in the third bullet point under “—Events of Default” (regarding a breach of certain covenants continuing for 90 days after the receipt of a written notice of default), no such notice shall be given to such holders until at least 60 days after the occurrence thereof. (See Section 1102.) The Trust Indenture Act currently permits the Trustee to withhold notices of default (except for certain payment defaults) if the Trustee in good faith determines the withholding of such notice to be in the interests of the holders.

We will furnish the Trustee with an annual statement as to our compliance with the conditions and covenants in the Mortgage. (See Section 709.)

Waiver of Default and of Compliance

The holders of a majority in aggregate principal amount of the outstanding Mortgage Securities may waive, on behalf of the holders of all outstanding Mortgage Securities, any past default under the Mortgage, except a default in the payment of principal, premium or interest, or with respect to compliance with certain provisions of the Mortgage that cannot be amended without the consent of the holder of each outstanding Mortgage Security affected. (See Section 1013.)

Compliance with certain covenants in the Mortgage or otherwise provided with respect to Mortgage Securities may be waived by the holders of a majority in aggregate principal amount of the affected Mortgage Securities, considered as one class. (See Section 710.)

Consolidation, Merger and Conveyance of Assets as an Entirety

Subject to the provisions described below, we have agreed to preserve our corporate existence. (See Section 704.)

We have agreed not to consolidate with or merge with or into any other entity or convey, transfer or lease the Mortgaged Property as or substantially as an entirety to any entity unless

- the entity formed by such consolidation or into which we merge, or the entity which acquires or which leases the Mortgaged Property substantially as an entirety, is an entity organized and existing under the laws of the United States of America or any State or Territory thereof or the District of Columbia, and
- expressly assumes, by supplemental indenture, the due and punctual payment of the principal of, and premium and interest on, all the outstanding Mortgage Securities and the performance of all of our covenants under the Mortgage, and
- such entity confirms the lien of the Mortgage on the Mortgaged Property;
- in the case of a lease, such lease is made expressly subject to termination by (i) us or by the Trustee and (ii) the purchaser of the property so leased at any sale thereof, at any time during the continuance of an Event of Default; and
- immediately after giving effect to such transaction, no Event of Default, and no event which after notice or lapse of time or both would become an Event of Default, will have occurred and be continuing.

(See Section 1301.)

In the case of the conveyance or other transfer of the Mortgaged Property as or substantially as an entirety to any other person, upon the satisfaction of all the conditions described above we would be released and discharged from all obligations under the Mortgage and on the Mortgage Securities then outstanding unless we elect to waive such release and discharge. (See Section 1304.)

The Mortgage does not prevent or restrict:

- any consolidation or merger after the consummation of which we would be the surviving or resulting entity; or
- any conveyance or other transfer, or lease, of any part of the Mortgaged Property which does not constitute the entirety or substantially the entirety thereof.

If following a conveyance or other transfer, or lease, of any part of the Mortgaged Property, the fair value of the Mortgaged Property retained by the Company exceeds an amount equal to three-halves ($\frac{3}{2}$) of the aggregate principal amount of all outstanding Mortgage Securities, then the part of the Mortgaged Property so conveyed, transferred or leased shall be deemed not to constitute the

entirety or substantially the entirety of the Mortgaged Property. This fair value will be determined within 90 days of the conveyance or transfer by an independent expert that we select and that is approved by the Trustee.

(See Sections 1305 and 1306.)

Agreement to Provide Information

So long as any Exchange Bonds are outstanding under the Mortgage, during such periods as we are not subject to the periodic reporting requirements of Section 13 or 15(d) of the Exchange Act, we shall make available to holders of the Exchange Bonds by means of posting on our website or other similar means:

- (a) as soon as reasonably available and in any event within 120 days after the end of each fiscal year, our audited balance sheet, income statement and cash flow statement for such fiscal year prepared in accordance with United States generally accepted accounting principles (with notes to such financial statements), together with an audit report thereon by an independent accounting firm of established national reputation, and a management's narrative analysis of the results of operations explaining the reasons for material changes in the amount of revenue and expense items between the most recent fiscal year presented and the fiscal year immediately preceding it, as described in Instruction I(2)(a) of Form 10-K; and
- (b) as soon as reasonably available and in any event within 60 days after the end of each of the first three fiscal quarters of each fiscal year, our unaudited balance sheet, unaudited income statement and unaudited cash flow statement for such fiscal quarter prepared in accordance with United States generally accepted accounting principles (with notes to such financial statements) and a management's narrative analysis of the results of operations explaining the reasons for material changes in the amount of revenue and expense items between the most recent fiscal year-to-date period presented and the corresponding year-to-date period in the preceding fiscal year, as described in Instruction H(2)(a) to Form 10-Q.

If we are unable, for any reason, to post the financial statements on our website as described above we shall furnish the financial statements to the Trustee, who has agreed, at our expense, to furnish them to the holders of the Exchange Bonds.

Modification of Mortgage

Without Holder Consent. Without the consent of any holders of Mortgage Securities, we and the Trustee may enter into one or more supplemental indentures for any of the following purposes:

- to evidence the succession of another entity to us;
- to add one or more covenants or other provisions for the benefit of the holders of all or any series or tranche of Mortgage Securities, or to surrender any right or power conferred upon us;
- to correct or amplify the description of any property at any time subject to the lien of the Mortgage; or to better to assure, convey and confirm unto the Trustee any property subject or required to be subjected to the lien of the Mortgage; or to subject to the lien of the Mortgage additional property (including property of others), to specify any additional Permitted Liens with respect to such additional property and to modify the provisions in the Mortgage for dispositions of certain types of property without release in order to specify any additional items with respect to such additional property;
- to add any additional Events of Default, which may be stated to remain in effect only so long as the Mortgage Securities of any one more particular series remains outstanding;

- to change or eliminate any provision of the Mortgage or to add any new provision to the Mortgage that does not adversely affect the interests of the holders in any material respect;
- to establish the form or terms of any series or tranche of Mortgage Securities;
- to provide for the issuance of bearer securities;
- to evidence and provide for the acceptance of appointment of a successor Trustee or by a co-trustee or separate trustee;
- to provide for the procedures required to permit the utilization of a noncertificated system of registration for any series or tranche of Mortgage Securities;
- to change any place or places where
 - we may pay principal, premium and interest,
 - Mortgage Securities may be surrendered for transfer or exchange, and
 - notices and demands to or upon us may be served;
- to amend and restate the Mortgage as originally executed, and as amended from time to time, with such additions, deletions and other changes that do not adversely affect the interest of the holders in any material respect;
- to cure any ambiguity, defect or inconsistency or to make any other changes that do not adversely affect the interests of the holders in any material respect; or
- to increase or decrease the maximum principal amount of Mortgage Securities that may be outstanding at any time.

In addition, if the Trust Indenture Act is amended after the date of the Mortgage so as to require changes to the Mortgage or so as to permit changes to, or the elimination of, provisions which, at the date of the Mortgage or at any time thereafter, were required by the Trust Indenture Act to be contained in the Mortgage, the Mortgage will be deemed to have been amended so as to conform to such amendment or to effect such changes or elimination, and we and the Trustee may, without the consent of any holders, enter into one or more supplemental indentures to effect or evidence such amendment.

(See Section 1401.)

With Holder Consent. Except as provided above, the consent of the holders of at least a majority in aggregate principal amount of the Mortgage Securities of all outstanding series, considered as one class, is generally required for the purpose of adding to, or changing or eliminating any of the provisions of, the Mortgage pursuant to a supplemental indenture. However, if less than all of the series of outstanding Mortgage Securities are directly affected by a proposed supplemental indenture, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding Mortgage Securities of all directly affected series, considered as one class. Moreover, if the Mortgage Securities of any series have been issued in more than one tranche and if the proposed supplemental indenture directly affects the rights of the holders of Mortgage Securities of one or more, but less than all, of such tranches, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding Mortgage Securities of all directly affected tranches, considered as one class.

However, no amendment or modification may, without the consent of the holder of each outstanding Mortgage Security directly affected thereby,

- change the stated maturity of the principal or interest on any Mortgage Security (other than pursuant to the terms thereof), or reduce the principal amount, interest or premium payable (or

the method of calculating such rates) or change the currency in which any Mortgage Security is payable, or impair the right to bring suit to enforce any payment;

- create any lien (not otherwise permitted by the Mortgage) ranking prior to the lien of the Mortgage with respect to all or substantially all of the Mortgaged Property, or terminate the lien of the Mortgage on all or substantially all of the Mortgaged Property (other than in accordance with the terms of the Mortgage), or deprive any holder of the benefits of the security of the lien of the Mortgage;
- reduce the percentages of holders whose consent is required for any supplemental indenture or waiver of compliance with any provision of the Mortgage or of any default thereunder and its consequences, or reduce the requirements for quorum and voting under the Mortgage; or
- modify certain of the provisions of the Mortgage relating to supplemental indentures, waivers of certain covenants and waivers of past defaults with respect to Mortgage Securities.

A supplemental indenture which changes, modifies or eliminates any provision of the Mortgage expressly included solely for the benefit of holders of Mortgage Securities of one or more particular series or tranches will be deemed not to affect the rights under the Mortgage of the holders of Mortgage Securities of any other series or tranche.

(See Section 1402.)

Satisfaction and Discharge

Any Mortgage Securities or any portion thereof will be deemed to have been paid and no longer outstanding for purposes of the Mortgage and, at our election, our entire indebtedness with respect to those securities will be satisfied and discharged, if there shall have been irrevocably deposited with the Trustee or any Paying Agent (other than the Company), in trust:

- money sufficient, or
- in the case of a deposit made prior to the maturity of such Mortgage Securities, non-redeemable Eligible Obligations (as defined in the Mortgage) sufficient, or
- a combination of the items listed in the preceding two bullet points, which in total are sufficient,

to pay when due the principal of, and any premium, and interest due and to become due on such Mortgage Securities or portions of such Mortgage Securities on and prior to their maturity.

(See Section 901.)

Our right to cause our entire indebtedness in respect of the Mortgage Securities of any series to be deemed to be satisfied and discharged as described above will be subject to the satisfaction of any conditions specified in the instrument creating such series.

The Mortgage will be deemed satisfied and discharged when no Mortgage Securities remain outstanding and when we have paid all other sums payable by us under the Mortgage. (See Section 902.)

All moneys we pay to the Trustee or any Paying Agent on Exchange Bonds that remain unclaimed at the end of two years after payments have become due may be paid to or upon our order. Thereafter, the holder of such Exchange Bond may look only to us for payment. (See Section 703.)

Duties of the Trustee; Resignation and Removal of the Trustee; Deemed Resignation

The Trustee will have, and will be subject to, all the duties and responsibilities specified with respect to an indenture trustee under the Trust Indenture Act. Subject to these provisions, the Trustee

will be under no obligation to exercise any of the powers vested in it by the Mortgage at the request of any holder of Mortgage Securities, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The Trustee will not be required to expend or risk its own funds or otherwise incur financial liability in the performance of its duties if the Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The Trustee may resign at any time by giving written notice to us.

The Trustee may also be removed by act of the holders of a majority in principal amount of the then outstanding Mortgage Securities of any series.

No resignation or removal of the Trustee and no appointment of a successor trustee will become effective until the acceptance of appointment by a successor trustee in accordance with the requirements of the Mortgage.

Under certain circumstances, we may appoint a successor trustee and if the successor accepts, the Trustee will be deemed to have resigned.

(See Section 1110.)

Notices

Notices to holders of the Exchange Bonds will be given by mail to the addresses of the holders as they may appear in the Security Register. (See Section 109.)

Title

The Company, the Trustee, and any agent of the Company or the Trustee, will treat the person or entity in whose name the Exchange Bonds are registered as the absolute owner of those Exchange Bonds (whether or not such Exchange Bonds may be overdue) for the purpose of making payments and for all other purposes irrespective of notice to the contrary. (See Section 308.)

Evidence to be Furnished to the Trustee

Compliance with Mortgage provisions is evidenced by written statements of our officers or persons selected or paid by us. In certain cases, opinions of counsel and certifications of an engineer, accountant, appraiser or other expert (who in some cases must be independent) must be furnished. In addition, the Mortgage requires us to give to the Trustee, not less than annually, a brief statement as to our compliance with the conditions and covenants under the Mortgage.

Miscellaneous Provisions

The Mortgage provides that certain Mortgage Securities, including those for which payment or redemption money has been deposited or set aside in trust as described under “—Satisfaction and Discharge” above, will not be deemed to be “outstanding” in determining whether the holders of the requisite principal amount of the outstanding Mortgage Securities have given or taken any demand, direction, consent or other action under the Mortgage as of any date, or are present at a meeting of holders for quorum purposes. (See Section 101.)

We will be entitled to set any day as a record date for the purpose of determining the holders of outstanding Mortgage Securities of any series entitled to give or take any demand, direction, consent or other action under the Mortgage, in the manner and subject to the limitations provided in the Mortgage. In certain circumstances, the Trustee also will be entitled to set a record date for action by holders. If such a record date is set for any action to be taken by holders of particular Mortgage Securities, such action may be taken only by persons who are holders of such Mortgage Securities on the record date. (See Section 107.)

Governing Law

The Mortgage and the Mortgage Securities provide that they are to be governed by and construed in accordance with the laws of the State of New York except where the Trust Indenture Act is applicable or where otherwise required by law. (See Section 115.) The effectiveness of the lien of the Mortgage, and the perfection and priority thereof, will be governed by Kentucky law.

Regarding the Trustee

The Trustee under the Mortgage is the Bank of New York Mellon. In addition to acting as Trustee, BNYM also maintains various banking and trust relationships with us and some of our affiliates.

Book-Entry Only Issuance—The Depository Trust Company

DTC will act as the initial securities depository for the Exchange Bonds. The Exchange Bonds issued in exchange for Outstanding Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued with respect to each \$500 million of principal amount of Exchange Bonds, and an additional certificate will be issued with respect to any remaining principal amount of Exchange Bonds. The global bonds will be deposited with the Trustee as custodian for DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for its participants, or Direct Participants, and also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation, or DTCC. DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly. The rules that apply to DTC and those using its system are on file with the SEC. More information about DTC can be found at www.dtcc.com.

Purchases of the Exchange Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Exchange Bonds on DTC's records. The ownership interest of each actual purchaser, or beneficial owner, is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from DTC of their purchases, but beneficial owners should receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which they entered into the transaction. Transfers of ownership interests on the Exchange Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in Exchange Bonds, except in the event that use of the book-entry system for the Exchange Bonds is discontinued.

To facilitate subsequent transfers, all Exchange Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be

requested by an authorized representative of DTC. The deposit of the Exchange Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the Exchange Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the Exchange Bonds are credited, which may or may not be the beneficial owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Notices will be sent to DTC.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Exchange Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns the voting or consenting rights of Cede & Co. to those Direct Participants to whose accounts the Exchange Bonds are credited on the record date. We believe that these arrangements will enable the beneficial owners to exercise rights equivalent in substance to the rights that can be directly exercised by a registered holder of the Exchange Bonds.

Payments of principal and interest on the Exchange Bonds will be made to Cede & Co. (or such other nominee of DTC). DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from us or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by participants to beneficial owners will be governed by standing instructions and customary practices and will be the responsibility of such participant and not of DTC, the Trustee or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of the principal and interest to Cede & Co. (or such other nominee of DTC) is the responsibility of the Company or the Trustee. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the beneficial owners is the responsibility of Direct and Indirect Participants.

A beneficial owner will not be entitled to receive physical delivery of the Exchange Bonds. Accordingly, each beneficial owner must rely on the procedures of DTC to exercise any rights under the Exchange Bonds.

DTC may discontinue providing its services as securities depository with respect to the Exchange Bonds at any time by giving us or the Trustee reasonable notice. In the event no successor securities depository is obtained, certificates for the Exchange Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable; however, we do not take any responsibility for the accuracy of this information.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

The following discussion summarizes material U.S. federal income tax considerations to U.S. Holders and Non-U.S. Holders (each, as defined below) of the acquisition, ownership and disposition of the Exchange Bonds acquired pursuant to the Exchange Offers. It is included herein for general information purposes only. The discussion set forth below is limited to holders who hold the Exchange Bonds as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended, and does not address all tax considerations that may be relevant to investors in light of their personal investment circumstances or that may be relevant to certain types of investors subject to special rules (for example, financial institutions, tax-exempt organizations, insurance companies, regulated investment companies, persons that are broker-dealers, traders in securities who elect the mark to market method of tax accounting for their securities, U.S. Holders that have a functional currency other than the U.S. dollar, certain former U.S. citizens or long-term residents, retirement plans, real estate investment trusts, foreign governments, international organizations, controlled foreign corporations, passive foreign investment companies, investors in partnerships or other pass-through entities or persons holding the Exchange Bonds as part of a “straddle,” “hedge,” “conversion transaction” or other integrated transaction).

In addition, this discussion does not address the effect of U.S. federal alternative minimum tax, gift or estate tax laws, or any state, local or foreign tax laws. Furthermore, the discussion below is based upon provisions of the Internal Revenue Code, the legislative history thereof, U.S. Treasury regulations thereunder and administrative rulings and judicial decisions thereunder as of the date hereof. Such authorities may be repealed, revoked or modified (including changes in effective dates, and possibly with retroactive effect) so as to result in U.S. federal income tax considerations different from those discussed below. We have not sought any rulings from the Internal Revenue Service with respect to the statements and conclusions made in the following discussion, and there can be no assurance that the IRS will agree with such statements and conclusions or that a court will not sustain any challenge by the IRS in the event of litigation.

For purposes of the following discussion, the term “U.S. Holder” means a beneficial owner of the Exchange Bonds that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the U.S.;
- a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if (i) a U.S. court is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (ii) the trust has a valid election in place to be treated as a United States person.

For purposes of the following discussion, the term “Non-U.S. Holder” means a beneficial owner of the Exchange Bonds (other than a partnership or an entity or arrangement treated as a partnership for U.S. federal income tax purposes) that is not a U.S. Holder for U.S. federal income tax purposes.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes is a beneficial owner of a Bond, the U.S. federal income tax treatment of a partner in the partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships and partners in such partnerships should consult their own tax advisors about the tax consequences of the ownership and disposition of the Exchange Bonds.

THIS DISCUSSION OF MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS IS NOT INTENDED, AND SHOULD NOT BE CONSTRUED, TO BE TAX OR LEGAL ADVICE TO ANY PARTICULAR INVESTOR IN OR HOLDER OF THE EXCHANGE BONDS. HOLDERS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSIDERATIONS ARISING UNDER THE LAWS OF ANY STATE, LOCAL OR FOREIGN TAXING JURISDICTION OR ANY APPLICABLE TAX TREATIES, AND THE POSSIBLE EFFECT OF CHANGES IN APPLICABLE TAX LAW.

The Exchange Offers

The exchange of Outstanding Bonds for Exchange Bonds pursuant to the Exchange Offers will not constitute a taxable event for U.S. federal income tax purposes. As a result:

- a holder will not recognize taxable gain or loss as a result of the exchange of its Outstanding Bonds for the Exchange Bonds pursuant to the Exchange Offers;
- the holding period of the Exchange Bonds will include the holding period of the Outstanding Bonds surrendered in exchange therefor; and
- a holder's adjusted tax basis in the Exchange Bonds will be the same as the holder's adjusted tax basis in the Outstanding Bonds surrendered therefor.

Effect of Certain Additional Payments

In certain circumstances (for example, see "Description of the Exchange Bonds—Redemption") we may be obligated to pay amounts on the Exchange Bonds that are in excess of stated interest or principal on the Exchange Bonds. These potential payments may implicate the provisions of the treasury regulations relating to "contingent payment debt instruments." One or more contingencies will not cause the Exchange Bonds to be treated as a contingent payment debt instrument if, as of the issue date, each such contingency is considered remote or incidental or, in certain circumstances, it is significantly more likely than not that none of the contingencies will occur. We believe that the potential for additional payments on the Exchange Bonds should not cause the Exchange Bonds to be treated as contingent payment debt instruments under the treasury regulations relating to contingent payment debt instruments. Our determination is binding on a holder unless such a holder discloses its contrary position in the manner required by applicable Treasury Regulations. However, the IRS may take a different position, which could require a holder to accrue income on its Exchange Bonds in excess of stated interest, and to treat any income realized on the taxable disposition of an Exchange Bond as ordinary income rather than capital gain. The remainder of this discussion assumes that the Exchange Bonds will not be treated as contingent payment debt instruments. Holders should consult their own tax advisors regarding the possible application of the contingent payment debt instrument rules to the Exchange Bonds.

U.S. Holders

Stated Interest

The Exchange Bonds will be issued without any original issue discount for U.S. federal income tax purposes. Accordingly, stated interest on the Exchange Bonds will be included in income by a U.S. Holder as ordinary income as such interest is received or accrued in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

Sale, Taxable Exchange, Redemption or Other Taxable Disposition of the Exchange Bonds

Upon a sale, taxable exchange, redemption (including any optional redemption) or other taxable disposition of an Exchange Bond, a U.S. Holder generally will recognize gain or loss equal to the difference between the amount realized on the disposition, other than amounts attributable to accrued but unpaid interest not yet taken into income which will be taxed as ordinary income, and the U.S. Holder's adjusted tax basis in the Exchange Bond. A U.S. Holder's adjusted tax basis in an Exchange Bond generally will equal the purchase price of the Outstanding Bond exchanged for the Exchange Bond. Any gain or loss generally will constitute capital gain or loss and will be long-term capital gain or loss if the U.S. Holder has held the Exchange Bond for longer than 12 months. Long-term capital gain, in the case of non-corporate taxpayers, is eligible for preferential rates of taxation. Under current law, the deductibility of capital losses is subject to limitations.

Medicare Tax

For taxable years beginning after December 31, 2012, a U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's "net investment income" (in the case of individuals) or "undistributed net investment income" (in the case of estates and trusts) for the relevant taxable year and (2) the excess of the U.S. Holder's "modified adjusted gross income" (in the case of individuals) or "adjusted gross income" (in the case of estates and trusts) for the taxable year over a certain threshold (which in the case of individuals will be between \$125,000 and \$250,000, depending on the individual's circumstances). A U.S. Holder's net investment income generally will include its interest income on the Exchange Bonds and its net gains from the disposition of the Exchange Bonds, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). U.S. Holders that are individuals, estates or trusts should consult their own tax advisors regarding the applicability of the Medicare tax to their income and gains in respect of the Exchange Bonds.

Information Reporting and Backup Withholding

Under the Internal Revenue Code, U.S. Holders may be subject, under certain circumstances, to information reporting and "backup withholding" with respect to cash payments in respect of principal, interest and the gross proceeds from dispositions of the Exchange Bonds, unless the U.S. Holder is an exempt recipient. Backup withholding applies only if the U.S. Holder fails to furnish its social security or other taxpayer identification number to the Paying Agent and to comply with certain certification procedures or otherwise fails to establish an exemption from backup withholding. Backup withholding is not an additional tax. Any amount withheld from a payment to a U.S. Holder under the backup withholding rules is allowable as a credit (and may entitle such holder to a refund) against such U.S. Holder's U.S. federal income tax liability, provided that the required information is furnished to the IRS in a timely manner. Certain persons are exempt from backup withholding. U.S. Holders should consult their own tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining such exemption.

Non-U.S. Holders

Stated Interest

Subject to the discussion of backup withholding below, payments of interest on the Exchange Bonds to a Non-U.S. Holder generally will not be subject to U.S. withholding tax provided that (1) the Non-U.S. Holder does not actually or constructively own 10% or more of the total combined voting power of all classes of our voting stock, (2) the Non-U.S. Holder is not (a) a controlled foreign corporation that is related to us through actual or deemed stock ownership or (b) a bank receiving

interest on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, (3) such interest is not effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States, and (4) either (a) the Non-U.S. Holder provides its name and address on an IRS Form W-8BEN (or other applicable form) and certifies, under penalties of perjury, that it is not a United States person as defined under the Internal Revenue Code or (b) a securities clearing organization, bank or other financial institution holding the Exchange Bonds on the Non-U.S. Holder's behalf certifies, under penalties of perjury, that it has received a properly executed IRS Form W-8BEN from the Non-U.S. Holder and it provides the withholding agent with a copy.

If a Non-U.S. Holder cannot satisfy the requirements in the preceding paragraph, payments of interest made to such Non-U.S. Holder will be subject to U.S. federal withholding tax, currently at a rate of 30%, unless such Non-U.S. Holder (1) timely provides the withholding agent with a properly executed IRS Form W-8BEN (or other applicable form) claiming an exemption from or reduction in withholding under the benefit of an applicable income tax treaty or IRS Form W-8ECI (or other applicable form) certifying that interest paid on the Exchange Bonds is not subject to U.S. federal withholding tax because it is effectively connected with such Non-U.S. Holder's conduct of a trade or business in the United States, or (2) otherwise properly establishes an exemption from withholding taxes.

If interest on the Exchange Bonds is effectively connected with the conduct by a Non-U.S. Holder of a trade or business within the United States (and, if certain tax treaties apply, is attributable to a U.S. permanent establishment maintained by the Non-U.S. Holder), such interest will be subject to U.S. federal income tax on a net income basis at the rate applicable to United States persons generally (and a Non-U.S. Holder that is treated as a corporation for U.S. federal income tax purposes may also be subject to a branch profits tax equal to 30% of its effectively connected earnings and profits, subject to certain adjustments, unless such holder qualifies for a lower rate under an applicable income tax treaty). If interest is subject to U.S. federal income tax on a net income basis in accordance with these rules, such payments will not be subject to U.S. federal withholding tax so long as the relevant Non-U.S. Holder timely provides the withholding agent with the appropriate documentation.

Sale, Taxable Exchange, Redemption or Other Taxable Disposition of the Exchange Bonds

Subject to the discussion of backup withholding below, any gain realized by a Non-U.S. Holder on the sale, taxable exchange, redemption or other taxable disposition of the Exchange Bonds generally will not be subject to U.S. federal income tax, unless (1) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States (and, if certain tax treaties apply, is attributable to a U.S. permanent establishment maintained by the Non-U.S. Holder), in which case such gain will be taxed on a net income basis in the same manner as interest that is effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States (and a Non-U.S. Holder that is treated as a corporation for U.S. federal income tax purposes may also be subject to the branch profits tax as described above) or (2) the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of disposition and certain other conditions are satisfied, in which case the Non-U.S. Holder will be subject to a tax, currently at a rate of 30%, on the excess, if any, of such gain plus all other U.S. source capital gains recognized during the same taxable year over the Non-U.S. Holder's U.S. source capital losses recognized during such taxable year.

Information Reporting and Backup Withholding

A Non-U.S. Holder may be subject to annual information reporting and U.S. federal backup withholding on payments of interest and proceeds of a sale or other disposition of the Exchange Bonds unless such Non-U.S. Holder provides the certification described above under "Non-U.S.

Holders—*Stated Interest*” or otherwise establishes an exemption from backup withholding. Backup withholding is not an additional tax and will be refunded or allowed as a credit against the Non-U.S. Holder’s U.S. federal income tax liability (if any), provided the required information is furnished to the IRS in a timely manner. In any event, we generally will be required to file information returns with the IRS reporting our payments on the Exchange Bonds. Copies of the information returns may also be made available to the tax authorities in the country in which a Non-U.S. Holder resides under the provisions of an applicable income tax treaty.

Non-U.S. Holders should consult their own tax advisors regarding the application of the information reporting and backup withholding rules in their particular situations, the availability of an exemption therefrom and the procedure for obtaining such an exemption, if available.

Recently Enacted Legislation

Recently enacted legislation regarding foreign account tax compliance, effective for payments made after December 31, 2012, imposes a withholding tax of 30% on interest and gross proceeds from the disposition of certain debt instruments paid to certain foreign entities unless various information reporting and certain other requirements are satisfied. However, the withholding tax will not be imposed on payments pursuant to obligations outstanding as of March 18, 2012. In addition, certain account information with respect to U.S. Holders who hold the Exchange Bonds through certain foreign financial institutions may be reportable to the IRS. Investors should consult with their own tax advisors regarding the possible implications of this recently enacted legislation to them.

THE PRECEDING DISCUSSION IS FOR GENERAL INFORMATION PURPOSES ONLY AND IS NOT TAX ADVICE. ACCORDINGLY, EACH HOLDER OF AN EXCHANGE BOND SHOULD CONSULT ITS OWN TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO IT OF ACQUIRING, OWNING AND DISPOSING OF THE EXCHANGE BONDS ACQUIRED PURSUANT TO THE TERMS OF THE EXCHANGE OFFERS, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL OR FOREIGN TAX LAWS, AND OF ANY PROPOSED CHANGES IN APPLICABLE LAW.

PLAN OF DISTRIBUTION

Each broker-dealer that receives Exchange Bonds for its own account pursuant to the Exchange Offers must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Bonds. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of Exchange Bonds received in exchange for Outstanding Bonds where such Outstanding Bonds were acquired as a result of market-making activities or other trading activities. We have agreed that, for a period of 180 days after the Expiration Date, we will make this prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. In addition, all dealers effecting transactions in the Exchange Bonds may be required to deliver a prospectus.

We will not receive any proceeds from any sale of Exchange Bonds by broker-dealers. Exchange Bonds received by broker-dealers for their own account pursuant to the Exchange Offers may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the Exchange Bonds or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or at negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer and/or the purchasers of any such Exchange Bonds. Any broker-dealer that resells Exchange Bonds that were received by it for its own account pursuant to the Exchange Offers and any broker or dealer that participates in a distribution of such Exchange Bonds may be deemed to be an “underwriter” within the meaning of the Securities Act, and any profit on any such resale of Exchange Bonds and any commission or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that, by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an “underwriter” within the meaning of the Securities Act.

For a period of 180 days after the Expiration Date, we will promptly send additional copies of this prospectus and any amendment or supplement to this prospectus to any broker-dealer that requests such documents in the letter of transmittal. Subject to certain limitations set forth in the registration rights agreement, we have agreed to pay all expenses incident to the Exchange Offers (including the expenses of one counsel for the holders of the Outstanding Bonds) other than commissions or concessions of any brokers or dealers and will indemnify you (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act.

LEGAL MATTERS

The validity of the Exchange Bonds has been passed upon for us by Dewey & LeBoeuf LLP, New York, New York and John R. McCall, Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer to the Company and Stoll Keenon Ogden PLLC. As to matters involving the law of the Commonwealths of Kentucky and Virginia and the State of Tennessee, Dewey & LeBoeuf will rely upon the opinions of Mr. McCall and Stoll Keenon Ogden PLLC.

EXPERTS

Our financial statements as of December 31, 2010 and 2009 and for the periods from January 1, 2010 to October 31, 2010, and November 1, 2010 to December 31, 2010, and for each of the two years in the period ended December 31, 2009 included in this prospectus have been so included in reliance on the reports of PricewaterhouseCoopers LLP, independent registered public accounting firm, given the authority of said firm as experts in auditing and accounting.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form S-4 under the Securities Act with respect to the Exchange Bonds. This prospectus, which forms a part of the registration statement, does not contain all of the information set forth in the registration statement. For further information with respect to us and the Exchange Bonds, reference is made to the registration statement. Statements contained in this prospectus as to the contents of any contract or other document are not complete.

We have agreed to make certain information available to holders of the Bonds, as described under “Description of the Exchange Bonds—Agreement to Provide Information.”

The Company is not currently subject to the informational requirements of the Exchange Act. As a result of the offering of the Exchange Bonds, we will become subject to the informational requirements of the Exchange Act and, in accordance therewith, will file reports and other information with the SEC. These reports and other information can be inspected and copied at the public reference room maintained by the SEC at 100 F Street, N.E., Room 1580, Washington D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also read and copy these SEC filings by visiting the SEC’s website at <http://www.sec.gov>.

You may request additional copies of our reports or copies of our other SEC filings at no cost by writing or telephoning us at the following address:

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507
Attention: Corporate Secretary
Telephone: (502) 627-2000

Kentucky Utilities Company
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Kentucky Utilities Company
FINANCIAL STATEMENTS
As of December 31, 2010 and 2009,
and for the Years Ended December 31, 2010, 2009 and 2008

Index of Abbreviations

AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CATR	Clean Air Transport Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
CMRG	Carbon Management Research Group
Company	Kentucky Utilities Company
CT	Combustion Turbine
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EEL	Electric Energy, Inc.
EKPC	East Kentucky Power Cooperative, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC and Subsidiaries
EPA	U.S. Environmental Protection Agency
EPAAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
GAAP	U.S. Generally Accepted Accounting Principles
GAC	Group Annuity Contract
GHG	Greenhouse Gas
Gwh	Gigawatt hours or one thousand Mwh
IBEW	International Brotherhood of Electrical Workers
IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
IRS	Internal Revenue Service
KCCS	Kentucky Consortium for Carbon Storage
KDAQ	Kentucky Division for Air Quality
Kentucky Commission	Kentucky Public Service Commission
KIUC	Kentucky Industrial Utility Consumers, Inc.
KU	Kentucky Utilities Company
kWh	Kilowatt hours
LG&E	Louisville Gas and Electric Company
LIBOR	London Interbank Offered Rate
LKE	LG&E and KU Energy LLC and Subsidiaries (formerly E.ON U.S. LLC and Subsidiaries)
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British thermal units
Moody's	Moody's Investor Services, Inc.
MVA	Megavolt-ampere
Mw	Megawatts
Mwh	Megawatt hours

NAAQS	National Ambient Air Quality Standards
NERC	North American Electric Reliability Corporation
NO2	Nitrogen Dioxide
NOV	Notice of Violation
NOx	Nitrogen Oxide
OATT	Open Access Transmission Tariff
OMU	Owensboro Municipal Utilities
OVEC	Ohio Valley Electric Corporation
PPL	PPL Corporation
Predecessor	The Company during the time period prior to November 1, 2010
PUHCA 2005	Public Utility Holding Company Act of 2005
RSG	Revenue Sufficiency Guarantee
S&P	Standard & Poor's Rating Service
SCR	Selective Catalytic Reduction
SERC	SERC Reliability Corporation
Servco	LG&E and KU Services Company (formerly E.ON U.S. Services Inc.)
SIP	State Implementation Plan
SO2	Sulfur Dioxide
SPP	Southwest Power Pool, Inc
Successor	The Company during the time period after October 31, 2010
TC1	Trimble County Unit 1
TC2	Trimble County Unit 2
TVA	Tennessee Valley Authority
Utilities	KU and LG&E
VDT	Value Delivery Team Process
Virginia Commission	Virginia State Corporation Commission

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Report of Independent Registered Public Accounting Firm

To Stockholder of Kentucky Utilities Company

In our opinion, the accompanying balance sheet and the related statements of income, retained earnings, comprehensive income, cash flows, and capitalization present fairly, in all material respects, the financial position of Kentucky Utilities Company (Predecessor Company) at December 31, 2009 and the results of its operations and its cash flows for the period from January 1, 2010 to October 31, 2010 and for each of the two years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, on November 1, 2010, PPL Corporation completed its acquisition of LG&E and KU Energy LLC and its subsidiaries. The push-down basis of accounting was used at the acquisition date.

PricewaterhouseCoopers LLP

Louisville, Kentucky
February 25, 2011

*PricewaterhouseCoopers LLP, 500 West Main Street, Ste. 1800, Louisville, KY 40202-2941
T: (502) 589 6100, F: (502) 585 7875, www.pwc.com/us*



Report of Independent Registered Public Accounting Firm

To Stockholder of Kentucky Utilities Company

In our opinion, the accompanying balance sheet and the related statements of income, retained earnings, comprehensive income, cash flows, and capitalization present fairly, in all material respects, the financial position of Kentucky Utilities Company (Successor Company) at December 31, 2010 and the results of its operations and its cash flows for the period from November 1, 2010 to December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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Kentucky Utilities Company
Statements of Income
(millions)

	Successor	Predecessor		
	November 1 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31	
			2009	2008
Operating revenues (Note 15)	\$263	\$1,248	\$1,355	\$1,405
Operating expenses:				
Fuel for electric generation	78	417	434	513
Power purchased (Notes 13 and 15)	28	147	199	221
Other operation and maintenance expenses	66	280	320	275
Depreciation and amortization	26	119	133	136
Total operating expenses	198	963	1,086	1,145
Operating income	65	285	269	260
Equity in earnings of unconsolidated venture (Note 1)	—	3	1	30
Interest expense (Notes 11 and 12)	8	6	6	14
Interest expense to affiliated companies (Notes 11, 12 and 15)	2	62	69	58
Other income (expense)—net	—	(2)	5	8
Income before income taxes	55	218	200	226
Income tax expense (Note 10)	20	78	67	68
Net income	<u>\$ 35</u>	<u>\$ 140</u>	<u>\$ 133</u>	<u>\$ 158</u>

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

Kentucky Utilities Company
Statements of Retained Earnings
(millions)

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31,	
			2009	2008
Balance at beginning of period	\$ 1,418	\$1,328	\$1,195	\$1,037
Effect of PPL acquisition	(1,418)	—	—	—
Balance at November 1, 2010	—	1,328	1,195	1,037
Net income	35	140	133	158
Cash dividends declared (Note 15)	—	(50)	—	—
Balance at end of period	<u>\$ 35</u>	<u>\$1,418</u>	<u>\$1,328</u>	<u>\$1,195</u>

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

Kentucky Utilities Company
Statements of Comprehensive Income
(millions)

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009 2008	
Net income	\$35	\$140	\$133	\$158
Equity investee's other comprehensive loss, net of tax expense of \$0, \$1, \$0 and \$0, respectively (Note 1) . .	<u>—</u>	<u>(2)</u>	<u>—</u>	<u>—</u>
Comprehensive income	<u>\$35</u>	<u>\$138</u>	<u>\$133</u>	<u>\$158</u>

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

Kentucky Utilities Company
Balance Sheets
(millions)

	<u>Successor</u> <u>December 31,</u> <u>2010</u>	<u>Predecessor</u> <u>December 31,</u> <u>2009</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 3	\$ 2
Accounts receivable (less allowance for doubtful accounts: 2010, \$6; 2009, \$3):		
Customer	90	79
Affiliated companies	12	9
Other	20	18
Unbilled revenues	89	76
Fuel, materials and supplies:		
Fuel (predominantly coal)	95	98
Other materials and supplies	41	39
Other intangible assets	22	—
Regulatory assets (Note 3)	9	32
Prepayments and other current assets	15	13
Total current assets	<u>396</u>	<u>366</u>
Investment in unconsolidated venture (Note 1)	<u>30</u>	<u>12</u>
Property, plant and equipment:		
Regulated utility plant—electric	3,630	4,892
Accumulated depreciation	(14)	(1,838)
Net regulated utility plant	3,616	3,054
Construction work in progress	955	1,257
Property, plant and equipment—net	<u>4,571</u>	<u>4,311</u>
Deferred debits and other assets:		
Regulatory assets (Notes 3 and 9):		
Pension benefits	117	105
Other regulatory assets	105	117
Goodwill (Notes 2 and 7)	607	—
Other intangibles assets (Notes 2 and 7)	175	—
Cash surrender value of key man life insurance	39	38
Other assets	19	7
Total deferred debits and other assets	<u>1,062</u>	<u>267</u>
Total assets	<u>\$6,059</u>	<u>\$ 4,956</u>

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

Kentucky Utilities Company
Balance Sheets (Continued)
(millions)

	<u>Successor</u> <u>December 31,</u> <u>2010</u>	<u>Predecessor</u> <u>December 31,</u> <u>2009</u>
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt (Note 11)	\$ —	\$ 228
Current portion of long-term debt to affiliated company (Notes 11 and 15)	—	33
Notes payable to affiliated companies (Notes 12 and 15)	10	45
Accounts payable	67	107
Accounts payable to affiliated companies (Note 15)	45	88
Accrued taxes	25	14
Customer deposits	23	22
Regulatory liabilities (Note 3)	41	4
Accrued interest	8	1
Employee accruals	15	13
Other current liabilities	18	14
Total current liabilities	<u>252</u>	<u>569</u>
Long-term debt:		
Long-term bonds (Note 11)	1,841	123
Long-term debt to affiliated company (Notes 11 and 15)	—	1,298
Total long-term debt	<u>1,841</u>	<u>1,421</u>
Deferred credits and other liabilities:		
Deferred income taxes (Note 10)	376	336
Accumulated provision for pensions (Note 9)	113	160
Investment tax credits (Note 10)	104	104
Asset retirement obligations (Notes 3 and 4)	54	34
Regulatory liabilities (Note 3):		
Accumulated cost of removal of utility plant	348	335
Other regulatory liabilities	186	25
Other liabilities	94	20
Total deferred credits and other liabilities	<u>\$1,275</u>	<u>\$ 1,014</u>
Equity:		
Common stock, without par value—authorized 80,000,000 shares, outstanding 37,817,878 shares	\$ 308	\$ 308
Additional paid-in capital	2,348	316
Retained earnings:		
Retained earnings	35	1,318
Undistributed earnings from unconsolidated venture	—	10
Total equity	<u>2,691</u>	<u>1,952</u>
Total liabilities and equity	<u>\$6,059</u>	<u>\$ 4,956</u>

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

Kentucky Utilities Company
Statements of Cash Flows
(millions)

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009 2008	
Cash flows from operating activities:				
Net income	\$ 35	\$ 140	\$ 133	\$ 158
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	26	119	133	136
Deferred income taxes—net	4	23	50	(13)
Investment tax credits (Note 10)	—	—	24	25
Provision for pension and postretirement benefits	5	13	26	10
Other—net	2	(3)	—	1
Change in current assets and liabilities:				
Accounts receivable	(15)	13	11	13
Unbilled revenues	(32)	19	(15)	(1)
Fuel, materials and supplies	(5)	(6)	(28)	(33)
Regulatory assets	(2)	19	—	—
Other current assets	9	(9)	(3)	(1)
Accounts payable	9	(17)	(32)	2
Accounts payable to affiliated companies	(41)	46	29	7
Accrued taxes	15	(5)	6	8
Regulatory liabilities	12	3	—	—
Other current liabilities	(2)	2	2	(3)
Pension and postretirement funding (Note 9)	(2)	(18)	(20)	(5)
Storm restoration regulatory asset (Note 3)	—	—	(57)	(2)
Other regulatory assets	1	8	—	—
Other regulatory liabilities	—	(10)	—	—
Other—net	(1)	7	(6)	(10)
Net cash provided by (used in) operating activities	<u>28</u>	<u>344</u>	<u>253</u>	<u>292</u>
Cash flows from investing activities:				
Construction expenditures	(87)	(292)	(516)	(686)
Purchases of assets from affiliate	—	(48)	—	(10)
Change in restricted cash	—	—	9	1
Net cash provided by (used in) investing activities	<u>(87)</u>	<u>(340)</u>	<u>(507)</u>	<u>(695)</u>
Cash flows from financing activities:				
Issuance of bonds (Note 11)	1,489	—	—	77
Short-term borrowings from affiliated company—net (Note 12)	(83)	48	29	(7)
Other borrowings from affiliated companies (Note 11)	1,331	—	150	250
Repayments on other borrowings from affiliated companies (Note 11)	(1,331)	—	—	—
Repayments to E.ON affiliate (Note 11)	(1,331)	—	—	—
Debt issuance costs	(17)	—	—	—
Retirement of pollution control bonds	—	—	—	(60)
Acquisition of outstanding bonds	—	—	—	(80)
Reissuance of reacquired bonds	—	—	—	63
Retirement of reacquired bonds	—	—	—	17
Payment of dividends	—	(50)	—	—
Capital contribution (Note 15)	—	—	75	145
Net cash provided by (used in) financing activities	<u>58</u>	<u>(2)</u>	<u>254</u>	<u>405</u>
Change in cash and cash equivalents	(1)	2	—	2
Cash and cash equivalents at beginning of period	4	2	2	—
Cash and cash equivalents at end of period	<u>\$ 3</u>	<u>\$ 4</u>	<u>\$ 2</u>	<u>\$ 2</u>
Supplemental disclosures of cash flow information:				
Cash paid (received) during the year for:				
Interest—net of amount capitalized	\$ 22	\$ 62	\$ 70	\$ 66
Income taxes—net	(12)	74	(9)	46

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

Kentucky Utilities Company
Statements of Capitalization
(millions)

	<u>Successor</u> <u>December 31,</u> <u>2010</u>	<u>Predecessor</u> <u>December 31,</u> <u>2009</u>
Long-term debt (Note 11):		
Pollution control series:		
Mercer Co. 2000 Series A, due May 1, 2023, variable %	\$ 13	\$ 13
Carroll Co. 2007 Series A, due February 1, 2026, 5.75%	18	18
Carroll Co. 2002 Series A, due February 1, 2032, variable %	21	21
Carroll Co. 2002 Series B, due February 1, 2032, variable %	2	2
Muhlenberg Co. 2002 Series A, due February 1, 2032, variable %	2	2
Mercer Co. 2002 Series A, due February 1, 2032, variable %	8	8
Carroll Co. 2008 Series A, due February 1, 2032, variable %	78	78
Carroll Co. 2002 Series C, due October 1, 2032, variable %	96	96
Carroll Co. 2006 Series B, due October 1, 2034, variable %	54	54
Trimble Co. 2007 Series A, due March 1, 2037, 6.0%	9	9
Carroll Co. 2004 Series A, due October 1, 2034, variable %	<u>50</u>	<u>50</u>
Total pollution control series	<u>351</u>	<u>351</u>
First mortgage bonds:		
First mortgage bond 2015 Series, due November 1, 2015, 1.625%	250	—
First mortgage bond 2020 Series, due November 1, 2020, 3.25%	500	—
First mortgage bond 2040 Series, due November 1, 2040, 5.125%	<u>750</u>	<u>—</u>
Total first mortgage bonds	<u>\$1,500</u>	<u>\$ —</u>

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

Kentucky Utilities Company
Statements of Capitalization (Continued)
(millions)

	<u>Successor</u> <u>December 31,</u> <u>2010</u>	<u>Predecessor</u> <u>December 31,</u> <u>2009</u>
Long-term debt to affiliated company:		
Due November 24, 2010, 4.24%, unsecured	\$ —	\$ 33
Due January 16, 2012, 4.39%, unsecured	—	50
Due April 30, 2013, 4.55%, unsecured	—	100
Due August 15, 2013, 5.31%, unsecured	—	75
Due December 19, 2014, 5.45%, unsecured	—	100
Due July 8, 2015, 4.735%, unsecured	—	50
Due December 21, 2015, 5.36%, unsecured	—	75
Due October 25, 2016, 5.675%, unsecured	—	50
Due April 24, 2017, 5.28%, unsecured	—	50
Due June 20, 2017, 5.98%, unsecured	—	50
Due July 25, 2018, 6.16%, unsecured	—	50
Due August 27, 2018, 5.645%, unsecured	—	50
Due December 17, 2018, 7.035%, unsecured	—	75
Due July 29, 2019, 4.81%, unsecured	—	50
Due October 25, 2019, 5.71%, unsecured	—	70
Due November 25, 2019, 4.445%, unsecured	—	50
Due February 7, 2022, 5.69%, unsecured	—	53
Due May 22, 2023, 5.85%, unsecured	—	75
Due September 14, 2028, 5.96%, unsecured	—	100
Due June 23, 2036, 6.33%, unsecured	—	50
Due March 30, 2037, 5.86%, unsecured	—	75
Total long-term debt to affiliated company	<u>—</u>	<u>1,331</u>
Total long-term debt outstanding	1,851	1,682
Purchase accounting adjustments and discounts	(10)	—
Less current portion of long-term debt	<u>—</u>	<u>261</u>
Long-term debt	<u>1,841</u>	<u>1,421</u>
Common equity:		
Common stock, without par value—authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in-capital	2,348	316
Retained earnings:		
Retained earnings	35	1,318
Undistributed subsidiary earnings	<u>—</u>	<u>10</u>
Total retained earnings	<u>35</u>	<u>1,328</u>
Total common equity	<u>2,691</u>	<u>1,952</u>
Total capitalization	<u>\$4,532</u>	<u>\$3,373</u>

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

Kentucky Utilities Company
Notes to Financial Statements

Note 1—Summary of Significant Accounting Policies

General

Terms and abbreviations are explained in the index of abbreviations. Dollars are in millions unless otherwise noted.

Business

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electric service to approximately 514,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in five counties in southwestern Virginia and less than ten customers in Tennessee. KU's service area covers approximately 6,600 noncontiguous square miles. Approximately 98% of the electricity generated by KU is produced by its coal-fired electric generating stations. The remainder is generated by natural gas and oil fueled CTs and a hydroelectric power plant. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

On November 1, 2010, KU became an indirect wholly owned subsidiary of PPL, when PPL acquired all of the outstanding limited liability company interests in the Company's direct parent, LKE, from E.ON US Investments Corp. LKE, a Kentucky limited liability company, also owns the affiliate, LG&E, a regulated utility engaged in the generation, transmission, distribution and sale of electric energy and distribution and sale of natural gas in Kentucky. Following the acquisition, the Company's business has not changed. KU and LG&E are continuing as subsidiaries of LKE, which is now an intermediary holding company in the PPL group of companies.

Headquartered in Allentown, Pennsylvania, PPL is an energy and utility holding company that was incorporated in 1994. Through its subsidiaries, PPL owns or controls about 19,000 megawatts of generating capacity in the U.S., sells energy in key U.S. markets and delivers electricity and natural gas to about 5.3 million customers in the U.S. and the U.K.

Basis of Accounting

KU's basis of accounting incorporates the business combinations guidance of the FASB ASC as of the date of the acquisition, which requires the recognition and measurement of identifiable assets acquired and liabilities assumed at fair value as of the acquisition date. KU's financial statements and accompanying footnotes have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor covers the time period prior to November 1, 2010. Successor covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL accounting policies, which are discussed below, and the cost basis of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Predecessor period are not comparable to the Successor period.

Despite the separate presentation, the core operations of the Company have not changed. See Note 2, Acquisition by PPL, for information regarding the acquisition and the purchase accounting adjustments.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 1—Summary of Significant Accounting Policies (Continued)

Changes in Classification

Certain reclassification entries have been made to the Predecessor's previous years' financial statements to conform to the 2010 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows. These reclassifications mainly consist of those necessary to identify amounts for prior periods that are separately disclosed in the financial statements.

Regulatory Accounting

KU is a cost-based rate-regulated utility. As a result, the financial statements reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise be charged to expense. Likewise, regulatory liabilities may be recognized for obligations expected to be returned through future regulated customer rates. The effect of such transactions or events would otherwise be reflected as income, or, in certain cases, regulatory liabilities are recorded based on the understanding with the regulator that current rates are being set to recover costs that are expected to be incurred in the future. The regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. Offsetting regulatory assets or liabilities for fair value purchase accounting adjustments have also been recorded to eliminate any ratemaking impact of the fair value adjustments. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC, Kentucky Commission, Virginia Commission or the Tennessee Regulatory Authority. See Note 3, Rates and Regulatory Matters, for additional detail regarding regulatory assets and liabilities.

Management's Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported assets and liabilities, the disclosure of contingent 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.

Derivative Financial Instruments

KU enters into energy trading contracts to manage price risk and to maximize the value of power sales from the physical assets it owns. The energy trading contracts are non-hedging derivatives and the change in value is recognized in earnings on a mark-to-market basis. The Predecessor and Successor presentation are both appropriate under GAAP. The Predecessor and Successor determine the classification of energy trading contracts based on the settlement date of the individual contracts. Energy trading contracts classified as current are recognized in "Prepayments and other current assets" or "Other current liabilities" on the Balance Sheets. Energy trading contracts classified as non-current are recognized in "Other assets" or "Other liabilities" on the Balance Sheets. Cash inflows and outflows related to derivative instruments are included as a component of operating activity on the Statements of Cash Flows, due to the underlying nature of the hedged items.

The Company does not net collateral against derivative instruments.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 1—Summary of Significant Accounting Policies (Continued)

See Note 5, Derivative Financial Instruments, and Note 6, Fair Value Measurements, for further information on derivative instruments.

Revenue and Accounts Receivable

The operating revenues line item in the Statements of Income contains revenues from the following:

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009 2008	
Residential	\$106	\$ 440	\$ 480	\$ 462
Industrial and commercial	117	588	637	636
Municipals	15	88	91	92
Other retail	20	114	118	108
Wholesale	5	18	29	107
	\$263	\$1,248	\$1,355	\$1,405

Revenue Recognition

Revenues are recorded based on service rendered to customers through month-end. Operating revenues are recorded based on energy deliveries through the end of the calendar month. Unbilled retail revenues result because customers' meters are read and bills are rendered throughout the month, rather than all being read at the end of the month. Unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh by the estimated average cents per kWh.

Accounts Receivable

Accounts receivable are reported in the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts.

Allowance for Doubtful Accounts

The allowance for doubtful accounts included in "Accounts receivable—customer" is based on the ratio of the amounts charged-off during the last twelve months to the retail revenues billed over the same period, multiplied by the retail revenues billed over the last four months. Accounts with no payment activity are charged-off after four months, although collection efforts continue thereafter. The allowance for doubtful accounts included in "Accounts receivable—other" is composed of accounts aged more than four months. Accounts are written off as management determines them uncollectible.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 1—Summary of Significant Accounting Policies (Continued)

The changes in the allowance for doubtful accounts were:

	Successor	Predecessor		
	December 31, 2010	October 31, 2010	December 31, 2009	December 31, 2008
Balance at beginning of period(a)	\$—	\$ 3	\$ 3	\$ 2
Charged to income	1	(6)	(4)	(2)
Charged to balance sheets	5	6	4	3
Balance at end of period	<u>\$ 6</u>	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 3</u>

(a) Successor beginning of period reflects revaluation of accounts receivable due to purchase accounting.

Cash

Cash Equivalents

All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Restricted Cash

Bank deposits and other cash equivalents that are restricted by agreement or that have been clearly designated for a specific purpose are classified as restricted cash. The change in restricted cash is reported as an investing activity on the Statements of Cash Flows. On the Balance Sheets, restricted cash is included in “Prepayments and other current assets”. For KU, the December 31, 2010, balance of restricted cash was less than \$1 million.

Fair Value Measurements

KU values certain financial assets and liabilities at fair value. Generally, the most significant fair value measurements relate to derivative assets and liabilities, investments in securities including investments in the pension and postretirement benefit plans and cash and cash equivalents. KU uses, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques) and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions that market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

KU prioritizes fair value measurements for disclosure by grouping them into one of three levels in the fair value hierarchy. The highest priority is given to measurements using level 1 inputs. The appropriate level assigned to a fair value measurement is based on the lowest level input that is

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 1—Summary of Significant Accounting Policies (Continued)

significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are as follows:

- Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2—Other inputs that are directly or indirectly observable in the marketplace.
- Level 3—Unobservable inputs which are supported by little or no market activity.

Assessing the significance of a particular input requires judgment that considers factors specific to the asset or liability. As such, KU's assessment of the significance of a particular input may affect how the assets and liabilities are classified within the fair value hierarchy. See Note 5, Derivatives Financial Instruments, and Note 6, Fair Value Measurements, for further information on fair value measurements.

Investments

Equity Method Investment

KU's equity method investment, included in "Investment in unconsolidated venture" on the Balance Sheets, consists of its investment in EEI. KU owns 20% of the common stock of EEI, which owns and operates a 1,002 Mw summer capacity coal-fired plant and a 74 Mw summer capacity natural gas facility in southern Illinois. Through a power marketer affiliated with its majority owner, EEI sells its output to third parties. Although KU holds investment interest in EEI, it is not the primary beneficiary and is therefore not consolidated into the Company's financial statements. KU's investment in EEI is accounted for under the equity method of accounting and as of December 31, 2010 and 2009, totaled \$30 million and \$12 million, respectively. KU's direct exposure to loss as a result of its involvement with EEI is generally limited to the value of its investment. See Note 2, Acquisition by PPL, for further discussion regarding purchase accounting adjustments recognized for KU's investment in EEI.

The results of operations and financial position of EEI, KU's equity method investment, are summarized below.

Condensed income statement information for the years ended December 31 is as follows:

	<u>2010</u> <u>(unaudited)</u>	<u>2009</u>	<u>2008</u>
Net sales	\$343	\$297	\$514
Net income	16	10	142
KU's equity in earnings of EEI	3	1	30

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 1—Summary of Significant Accounting Policies (Continued)

Condensed balance sheet information as of December 31 is as follows:

	<u>2010</u> <u>(unaudited)</u>	<u>2009</u>
Current assets	\$ 62	\$ 84
Long-lived assets	181	178
Total assets	<u>\$243</u>	<u>\$262</u>
Current liabilities	\$113	\$166
Long-term liabilities	72	50
Equity	<u>58</u>	<u>46</u>
Total liabilities and equity	<u>\$243</u>	<u>\$262</u>

Cost Method Investment

KU's cost method investment, included in "Investments in unconsolidated venture" on the Balance Sheets, consists of the Company's investment in OVEC. KU and 11 other electric utilities are owners of OVEC, which is located in Piketon, Ohio. OVEC owns and operates two coal-fired power plants, Kyger Creek Station in Ohio and Clifty Creek Station in Indiana with combined nameplate generating capacities of 2,390 Mw. OVEC's power is currently supplied to KU and 13 other companies affiliated with the various owners. Pursuant to current contractual agreements, KU owns 2.5% of OVEC's common stock and is contractually entitled to 2.5% of OVEC's output. Based on nameplate generating capacity, this would be approximately 60 Mw.

As of December 31, 2010 and 2009, KU's investment in OVEC totaled less than \$1 million. KU is not the primary beneficiary of OVEC; therefore, it is not consolidated into the Company's financial statements and is accounted for under the cost method of accounting. The direct exposure to loss as a result of the Company's involvement with OVEC is generally limited to the value of its investment; however, KU may be conditionally responsible for a pro-rata share of certain OVEC obligations. See Note 2, Acquisition by PPL, and Note 13, Commitments and Contingencies, for further discussion regarding purchase accounting adjustments recognized, and KU's ownership interest and power purchase rights.

Long-Lived and Intangible Assets

Regulated Utility Plant

Regulated utility plant was stated at original cost for the Predecessor and adjusted to the net book value on November 1, 2010, the acquisition date, for the Successor. KU determined that fair value was equal to net book value at the acquisition date since KU's operations are conducted in a regulated environment. Original cost includes payroll-related costs such as taxes, fringe benefits and administrative and general costs. Construction work in progress has been included in the rate base for determining retail customer rates. KU has not recorded significant allowance for funds used during construction in accordance with FERC.

The cost of plant retired or disposed of in the normal course of business is deducted from plant accounts and such cost is charged to the reserve for depreciation. When complete operating units are

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 1—Summary of Significant Accounting Policies (Continued)

disposed of, appropriate adjustments are made to the reserve for depreciation and gains and losses, if any, are recognized.

Capitalized Software Cost

Included in “Property, plant and equipment” on the Balance Sheets are capitalized costs of software projects that were developed or obtained for internal use. These capitalized costs are amortized ratably over the expected lives of the projects when they become operational, generally not to exceed five years. Following are capitalized software costs and the accumulated amortization:

Successor		Predecessor	
December 31, 2010		December 31, 2009	
Carrying Amount	Accumulated Amortization(a)	Carrying Amount	Accumulated Amortization
\$40	\$1	\$52	\$13

(a) The accumulated amortization as of November 1, 2010, was netted against the carrying amount of the software as the fair value was determined to be equal to net book value for property, plant and equipment.

Amortization expense of capitalized software costs was as follows:

Successor	Predecessor		
November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31,	
		2009	2008
\$1	\$6	\$6	\$5

The amortization of capitalized software is included in “Depreciation and amortization” on the Statements of Income.

Depreciation and Amortization

Depreciation is provided on the straight-line method over the estimated service lives of depreciable plant. The amounts provided as a percentage of depreciable plant were approximately:

Year	Percentage
2010	4.1%
2009	2.6%
2008	3.0%

Of the amount provided for depreciation, the following were related to the retirement, removal and disposal costs of long lived assets:

Year	Percentage
2010	0.6%
2009	0.4%
2008	0.5%

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 1—Summary of Significant Accounting Policies (Continued)

Goodwill, Intangible Assets and Asset Impairment

KU performs a quarterly review to determine if an impairment analyses is required for long-lived assets that are subject to depreciation or amortization. This review identifies changes in circumstances indicating that a long-lived asset's carrying value may not be recoverable. An impairment analysis will be performed if warranted, based on the review.

For a long-lived asset to be held and used, impairment exists when the carrying amount exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying amount to its fair value.

KU, as the result of PPL's acquisition of LKE, recorded the fair value of its coal contracts, emission allowances, EEI investment and OVEC power purchase contract. The difference between the fair value and the cost for these assets is being amortized over their useful lives based upon the pattern in which the economic benefits of the intangible assets are consumed or otherwise used. When determining the useful life of an intangible asset, including intangible assets that are renewed or extended, KU considers the expected use of the asset, the expected useful life of other assets to which the useful life of the intangible asset may relate and legal, regulatory, or contractual provisions that may limit the useful life. See Note 2, Acquisition by PPL, for methods used to determine the long-lived intangible assets' fair values. See Note 7, Goodwill and Intangible Assets, for the fair value amounts and amortization periods. The current intangible assets and long-term intangible assets are included in "Other intangible assets" on the Balance Sheets.

The Predecessor reported emission allowances in "Other materials and supplies" on the Balance Sheets. The emission allowances were not amortized; rather, they were expensed when consumed. The Predecessor did not recognize the coal contracts or the OVEC power purchase contract as these intangible assets were not derivatives.

In connection with PPL's acquisition of LKE, KU recorded goodwill on November 1, 2010. Goodwill represents the excess of the purchase price paid over the estimated fair value of the assets acquired and liabilities assumed in the acquisition of a business. Goodwill is tested annually for impairment during the fourth quarter and more frequently if management determines that a triggering event may have occurred that would more likely than not reduce the fair value of an operating unit below its carrying value. Goodwill impairment charges are not subject to rate recovery. See Note 7, Goodwill and Intangible Assets, for further discussion regarding the Company's goodwill and current test results.

Asset Retirement Obligations

KU recognizes various legal obligations associated with the retirement of long-lived assets as liabilities in the financial statements. Initially this obligation is measured at fair value. An equivalent amount is recorded as an increase in the value of the capitalized asset and allocated to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the Statements of Income, for changes in the obligation due to the passage of time. An offsetting regulatory asset is recognized to reverse the depreciation and accretion expense related to the ARO such that there is no income statement impact. The regulatory asset is relieved when the ARO has been settled. Estimated ARO costs and settlement dates, which affect the

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 1—Summary of Significant Accounting Policies (Continued)

carrying value of various AROs and the related assets, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the obligations. See Note 4, Asset Retirement Obligations, for further information on AROs.

Defined Benefits

KU employees benefit from both funded and unfunded retirement benefit plans. An asset or liability is recorded to recognize the funded status of all defined benefit plans with an offsetting entry to regulatory assets or regulatory liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets.

The expected return on plan assets is determined based on the current level of expected return on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the current asset allocation.

The discount rate used for pensions, postretirement and post-employment plans by the Predecessor was determined using the Mercer Yield Curve. The expected return on assets assumption was 7.75%. Gains and losses in excess of 10% of the greater of the plan's projected benefit obligation or market value of assets were amortized on a straight-line basis over the average future service period of active participants. The market-related value of assets was equal to the fair market value of the assets.

The discount rate used by the Successor was determined by the Towers Watson Yield Curve based on the individual plan cash flows. The expected return on assets was reduced from 7.75% to 7.25%. The amortization period for the recognition of gains and losses for retirement plans was changed to reflect the Successor's amortization policy. Under the Successor's method, gains and losses in excess of 10% but less than 30% of the greater of the plan's projected benefit obligation or market-related value of assets, are amortized on a straight-line basis over the average future service period of active participants. Gains and losses in excess of 30% of the plan's projected benefit obligation or market-related value of assets are amortized on a straight-line basis over a period equal to one-half of the average future service period of active participants. The market-related value of assets for the qualified retirement plans will be equal to a five year smoothed asset value. Gains and losses in excess of the expected return will be phased-in over a five-year period, prospectively from November 1, 2010.

See Note 9, Pension and Other Postretirement Benefit Plans, for further information.

Other

Loss Accruals

Potential losses are accrued when information is available that indicates it is "probable" that a loss has been incurred, given the likelihood of uncertain future events, and the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." KU continuously assesses potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events.

KU does not record the accrual of contingencies that might result in gains unless recovery is assured.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 1—Summary of Significant Accounting Policies (Continued)

Income Taxes

For the periods ended on or before October 31, 2010, KU was a subsidiary of E.ON U.S. and was part of E.ON U.S.'s direct parent's, E.ON US Investments Corp., consolidated U.S. federal income tax return. On November 1, 2010, KU became a part of PPL's consolidated U.S. federal income tax return.

Significant management judgment is required in developing KU's provision for income taxes primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

KU evaluates tax positions following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of KU.

Deferred income taxes reflect the net future tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes, as well as the tax effects of net operating losses and tax credit carryforwards.

KU records valuation allowances to reduce deferred tax assets to the amounts that are more likely than not to be realized. KU considers the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies in initially recording and subsequently reevaluating the need for valuation allowances. If KU determines that it is able to realize deferred tax assets in the future in excess of recorded net deferred tax assets, adjustments to the valuation allowances increase income by reducing tax expense in the period that such determination is made. Likewise, if KU determines that it is not able to realize all or part of net deferred tax assets in the future, adjustments to the valuation allowances would decrease income by increasing tax expense in the period that such determination is made.

The provision for KU's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the regulators. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included on the Balance Sheets in "Regulatory liabilities".

KU defers investment tax credits when the credits are utilized and amortizes the deferred amounts over the average lives of the related assets.

See Note 10, Income Taxes, for further discussion regarding income taxes.

Leases

KU evaluates whether arrangements entered into contain leases for accounting purposes.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 1—Summary of Significant Accounting Policies (Continued)

Materials and Supplies

Fuel and other materials and supplies inventories are accounted for using the average-cost method.

Fuel Costs

The cost of fuel for electric generation is charged to expense as used. See Note 3, Rates and Regulatory Matters, for a description of the FAC.

Debt

The Company's long-term debt includes \$228 million of pollution control bonds, which are subject to tender for purchase at the option of the holder and to mandatory tender for purchase on the occurrence of certain events. The Successor has classified these bonds as long term because the Company has the intent and ability to utilize its \$400 million credit facility, which matures in December 2014, to fund any mandatory purchases. Predecessor classified these bonds as current portion of long-term debt due to the tender for purchase provisions. The Predecessor presentation and the Successor presentation are both appropriate under GAAP. See Note 11, Long-Term Debt, and Note 12, Notes Payable and Other Short-Term Obligations, for more information on the Company's debt and credit facilities.

Unamortized Debt Expense

Debt expense is capitalized and amortized over the lives of the related bond issues using the straight line method, which approximates the effective interest method. Depending on the type of expense, the Successor capitalized debt expenses in long-term other regulatory assets or long-term other assets to align with the term of the debt the expenses were related. The Predecessor capitalized debt expenses in current or long-term other regulatory assets or other current or long-term other assets based on the amount of expense expected to be recovered within the next year through rate recovery. Both the Predecessor and the Successor amortize debt expenses over the lives of the related bond issues. The Predecessor presentation and the Successor presentation are both appropriate under regulatory practices and GAAP.

Recent Accounting Pronouncements

The following recent accounting pronouncement affected KU:

Fair Value Measurements

In January 2010, the FASB issued guidance related to fair value measurement disclosures requiring separate disclosure of amounts of significant transfers in and out of level 1 and level 2 fair value measurements and separate information about purchases, sales, issuances and settlements within level 3 measurements. This guidance is effective for the interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about the roll-forward of activity in level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. This guidance has no impact on the Company's results of operations, financial position, liquidity or disclosures.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 2—Acquisition by PPL

On November 1, 2010, PPL completed its acquisition of LKE and its subsidiaries. The push-down basis of accounting was used to record the fair value adjustments of assets and liabilities on LKE at the acquisition date. PPL paid a cash consideration for LKE and its subsidiaries of \$2,493 million as well as a capital contribution on November 1, 2010, of \$1,565 million; included within this was the consideration paid for KU of \$2,656 million. The allocation of the KU purchase price was based on the fair value of assets acquired and liabilities assumed.

The allocation of the purchase price to the fair value of assets acquired and liabilities assumed is as follows:

Current assets	\$ 364
Investments	30
Property, plant and equipment	4,531
Other intangible assets	178
Regulatory and other non-current assets	274
Current liabilities (excluding current portion of long-term debt)	(367)
Affiliated debt	(1,331)
Debt (current and non-current)	(352)
Other non-current liabilities	<u>(1,278)</u>
Net identifiable assets acquired	2,049
Goodwill	<u>607</u>
Total purchase price	<u>\$ 2,656</u>

Goodwill represents value paid for the rate regulated business of KU, which is located in a defined service area with a constructive regulatory environment, which provides for future investment, earnings and cash flow growth, as well as the talented and experienced workforce. KU's franchise values are being attributed to the going concern value of the business, and thus were recorded as goodwill rather than a separately identifiable intangible asset. None of the goodwill recognized is deductible for income tax purposes or included in regulated customer rates.

Adjustments to KU's assets and liabilities that contributed to goodwill were as follows:

The fair value adjustment on the EEI investment was calculated using the discounted cash flow valuation method. The result was an increase in KU's value of the investment in EEI; the fair value of EEI was calculated to be \$30 million and a fair value adjustment of \$18 million was recorded on KU. The fair value adjustment to EEI is amortized over the expected remaining useful life of plant and equipment at EEI, which is estimated to be over 20 years.

The pollution control bonds on KU had a fair value adjustment of \$1 million. All variable bonds were valued at par while the fixed rate bonds were valued with a yield curve based on average credit spreads for similar bonds.

As a result of the purchase accounting associated with the acquisition, the following items had a fair value adjustment but no effect on goodwill as the offset was either a regulatory asset or liability.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 2—Acquisition by PPL (Continued)

The regulatory asset or liability has been recorded to eliminate any ratemaking impact of the fair value adjustments:

- The value of OVEC was determined to be \$39 million based upon an announced transaction by another owner. KU's stock was valued at less than \$1 million and the power purchase agreement has been valued at \$39 million. An intangible asset was recorded with the offset to regulatory liability and will be amortized using the units of production method until the power purchase agreement ends in March 2026.
- KU recorded an emission allowance intangible asset and regulatory liability as the result of adjusting the fair value of the emission allowances at KU. The emission allowance intangible of \$9 million represents allocated and purchased SO₂ and NO_x emission allowances that are unused as of the valuation date or allocated for use in future years. KU had previously recorded emission allowances as other materials and supplies. To conform to PPL's accounting policy all emission allowances are now recorded as intangible assets. The emission allowance intangible asset is amortized as the emission allowances are consumed, which is expected to occur through 2040.
- KU recorded a coal contract intangible asset of \$145 million and non-current liability of \$22 million on the Balance Sheets. An offsetting regulatory asset was recorded for those contracts with unfavorable terms relative to market. An offsetting regulatory liability was recorded for those contracts that had favorable terms relative to market. All coal contracts held by KU, wherein it had entered into arrangements to buy amounts of coal at fixed prices from counterparties at a future date, were fair valued. The intangible assets and other liabilities, as well as the regulatory assets and liabilities, are being amortized over the same terms as the related contracts, which expire through 2016.

The fair value of intangible assets and liabilities (e.g. contracts that have favorable or unfavorable terms relative to market), including coal contracts and power purchase agreements, as well as emission allowances, have been reflected on the Balance Sheets with offsetting regulatory assets or liabilities. Prior to the acquisition, KU recovered the cost of the coal contracts, power purchases and emission allowances and this rate treatment will continue after the acquisition. As a result, management believes the regulatory assets and liabilities created to offset the fair value adjustments meet the recognition criteria established by existing accounting guidance and eliminate any ratemaking impact of the fair value adjustments. KU's customer rates will continue to reflect these items (e.g. coal, purchased power, emission allowances) at their original contracted prices.

KU also considered whether a separate fair value should be assigned to KU's rights to operate within its various electric service areas but concluded that these rights only provided the opportunity to earn a regulated return and barriers to market entry, which in management's judgment is not considered a separately identifiable intangible asset under applicable accounting guidance; rather, it is considered going-concern value, or goodwill.

Note 3—Rates and Regulatory Matters

The Company is subject to the jurisdiction of the FERC, Kentucky Commission, Virginia Commission and the Tennessee Regulatory Authority in virtually all matters related to electric utility regulation and as such, its accounting is subject to the regulated operations guidance of the FASB ASC.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 3—Rates and Regulatory Matters (Continued)

Given its position in the marketplace and the status of regulation in Kentucky and Virginia, there are no plans or intentions to discontinue the application of the regulated operations guidance of the FASB ASC.

KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and notes payable) including certain regulatory adjustments to exclude non-regulated investments and environmental compliance plans recovered separately through the ECR mechanism. No regulatory assets or regulatory liabilities recorded at the time base rates were determined were excluded from the return on capitalization utilized in the calculation of Kentucky base rates. Therefore, a return is earned on all Kentucky regulatory assets existing at the time base rates were determined, except where such regulatory assets were offset by associated liabilities and thus, have no net impact on capitalization.

As a result of purchase accounting, certain fair value amounts, reflecting contracts that have favorable or unfavorable terms relative to market, were recorded on the Balance Sheets with offsetting regulatory assets or liabilities. Prior to the acquisition, KU recovered in customer rates the cost of the coal contracts, power purchases and emission allowances and this rate treatment will continue after the recognition criteria established by existing accounting guidance and eliminate any ratemaking impact of the fair value adjustments. KU's customer rates will continue to reflect these items (e.g. coal, purchased power, emission allowances) at their original contracted prices.

KU's Virginia base rates are calculated based on a return on rate base. All regulatory assets and liabilities are excluded from the return on rate base utilized in the calculation of Virginia base rates.

KU's wholesale requirements rates for municipal customers are calculated based on annual updates to a rate formula that utilizes a return on rate base. All regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates.

2010 Purchase and Sale Agreement with PPL

On April 28, 2010, E.ON U.S. announced that a Purchase and Sale Agreement (the "Agreement") had been entered into among E.ON US Investments Corp., PPL and E.ON.

The transaction was subject to customary closing conditions, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Act, receipt of required regulatory approvals (including the FERC and state regulators in Kentucky, Virginia and Tennessee) and the absence of injunctions or restraints imposed by governmental entities.

Change of control and financing-related applications were filed on May 28, 2010 with the Kentucky Commission and on June 15, 2010 with the Virginia Commission and the Tennessee Regulatory Authority. An application with the FERC was filed on June 28, 2010. During the second quarter of 2010, a number of parties were granted intervenor status in the Kentucky Commission proceedings and data request filings and responses occurred. Early termination of the Hart-Scott-Rodino waiting period was received on August 2, 2010.

A hearing in the Kentucky Commission proceedings was held on September 8, 2010 at which time a unanimous settlement agreement was presented. In the settlement, KU committed that no base rate increases would take effect before January 1, 2013. The KU rate increases that took effect on August 1, 2010, were not impacted by the settlement. Under the terms of the settlement, KU retains the right to

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 3—Rates and Regulatory Matters (Continued)

seek approval for the deferral of “extraordinary and uncontrollable costs.” Interim rate adjustments will continue to be permissible during that period for existing fuel, environmental and demand-side management cost trackers. The agreement also substitutes an acquisition savings shared deferral mechanism for the requirement that the Utilities file a synergies plan with the Kentucky Commission. This mechanism, which will be in place until the earlier of five years or the first day of the year in which a base rate increase becomes effective, permits KU to earn up to a 10.75% return on equity. Any earnings above a 10.75% return on equity will be shared with customers on a 50%/50% basis. On September 30, 2010, the Kentucky Commission issued an Order approving the transfer of ownership of KU via the acquisition of E.ON U.S. by PPL, incorporating the terms of the submitted settlement. On October 19, 2010 and October 21, 2010, respectively, Orders approving the acquisition of E.ON U.S. by PPL were received from the Virginia Commission and the Tennessee Regulatory Authority. The Commissions’ Orders contained a number of other commitments with regard to operations, workforce, community involvement and other matters.

In mid-September 2010, KU and other applicants in the FERC change of control proceeding reached an agreement with the protesters, whereby such protests have been withdrawn. The agreement, which was filed for consideration with the FERC, includes various conditional commitments, such as a continuation of certain existing undertakings with protesters in prior cases, an agreement not to terminate certain KU municipal customer contracts prior to January 2017, an exclusion of any transaction-related costs from wholesale energy and tariff customer rates to the extent that KU has agreed not to seek the same transaction-related costs from retail customers and agreements to coordinate with protesters in certain open or ongoing matters. A FERC Order approving the transaction was received on October 26, 2010 and the transaction was completed November 1, 2010.

2010 Kentucky Rate Case

In January 2010, KU filed an application with the Kentucky Commission requesting an increase in electric base rates of approximately 12%, or \$135 million annually. In June 2010, KU and all of the intervenors, except the AG, agreed to stipulations providing for an increase in electric base rates of \$98 million annually and filed a request with the Kentucky Commission to approve such settlement. An Order in the proceeding was issued in July 2010, approving all the provisions in the stipulations, including a return on equity range of 9.75 - 10.75%. The new rates became effective on August 1, 2010.

Virginia Rate Case

In June 2009, KU filed an application with the Virginia Commission requesting an increase in electric base rates for its Virginia jurisdictional customers in an amount of \$12 million annually or approximately 21%. The proposed increase reflected a proposed rate of return on rate base of 8.586% based on a return on equity of 12%. During December 2009, KU and the Virginia Commission Staff agreed to a Stipulation and Recommendation authorizing base rate revenue increases of \$11 million annually and a return on rate base of 7.846% based on a 10.5% return on common equity. In March 2010, the Virginia Commission issued an Order approving the stipulation, with the increased rates to be put into effect as of April 1, 2010. As part of the stipulation, KU refunded \$1 million in interim rate amounts in excess of the ultimate approved rates.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 3—Rates and Regulatory Matters (Continued)

FERC Wholesale Rate Case

In September 2008, KU filed an application with the FERC for increases in electric base rates applicable to wholesale power sales contracts or interchange agreements involving, collectively, twelve Kentucky municipalities. The application requested a shift from an all-in stated unit charge rate to an unbundled formula rate, including an annual adjustment mechanism. In 2009, the FERC issued an Order approving a settlement among the parties in the case, incorporating increases of approximately 3% from prior rates and a return on equity of 11%. In May 2010, KU submitted to the FERC the proposed current annual adjustments to the formula rates which incorporated certain proposed increases. Updated rates, including certain further adjustments from a review process involving wholesale requirements customers, became effective as of July 1, 2010, subject to certain review procedures by the wholesale requirements customers and the FERC.

By mutual agreement, the parties' settlement of the 2008 application left outstanding the issue of whether KU must allocate to the municipal customers a portion of renewable resources it may be required to procure on behalf of its retail ratepayers. An Order was issued by the FERC in July 2010, indicating that KU is not required to allocate a portion of any renewable resources to the twelve municipalities, thus resolving the remaining issue.

2008 Kentucky Rate Case

In July 2008, KU filed an application with the Kentucky Commission requesting an increase in electric base rates. In January 2009, KU, the AG, the KIUC and all other parties to the rate case filed a settlement agreement with the Kentucky Commission, under which KU's electric base rates decreased by \$9 million annually. An Order approving the settlement agreement was received in February 2009. The new rates were implemented effective February 6, 2009.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 3—Rates and Regulatory Matters (Continued)

Regulatory Assets and Liabilities

The following regulatory assets and liabilities were included in the Balance Sheets as of December 31:

	<u>Successor</u>	<u>Predecessor</u>
	<u>2010</u>	<u>2009</u>
Current regulatory assets:		
ECR(a)	\$ —	\$ 28
FAC(a)	—	1
Coal contracts(b)	4	—
MISO exit(c)	—	2
Other(d)	5	1
Total current regulatory assets	<u>\$ 9</u>	<u>\$ 32</u>
Non-current regulatory assets:		
Pension and postretirement benefits(e)	\$117	\$105
Other non-current regulatory assets:		
Storm restoration(c)	57	59
ARO(f)	2	30
Unamortized loss on bonds(c)	12	12
Coal contracts(b)	14	—
MISO exit(a)	5	9
Unamortized debt expense	5	—
Other(d)	10	7
Subtotal other non-current regulatory assets	<u>105</u>	<u>117</u>
Total non-current regulatory assets	<u>\$222</u>	<u>\$222</u>
Current regulatory liabilities:		
Coal contracts	\$ 16	\$ —
ECR	12	—
FAC	2	—
DSM	5	3
Emission allowances	6	—
Other(g)	—	1
Total current regulatory liabilities	<u>\$ 41</u>	<u>\$ 4</u>

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 3—Rates and Regulatory Matters (Continued)

	<u>Successor</u> <u>2010</u>	<u>Predecessor</u> <u>2009</u>
Non-current regulatory liabilities:		
Accumulated cost of removal of utility plant	\$348	\$335
Other non-current regulatory liabilities:		
Coal contracts	126	—
OVEC power purchase contract	38	—
Deferred income taxes—net	6	9
Postretirement benefits	10	9
Other(g)	6	7
Subtotal other non-current regulatory liabilities	<u>186</u>	<u>25</u>
Total non-current regulatory liabilities	<u>\$534</u>	<u>\$360</u>

- (a) The FAC and ECR regulatory assets have separate recovery mechanisms with recovery within twelve months.
- (b) Offsetting regulatory asset for fair value purchase accounting adjustments. See Note 2, Acquisition by PPL, for information on the purchase accounting adjustments.
- (c) These regulatory assets are recovered through base rates.
- (d) Other regulatory assets include:
- The CMRG and KCCS contributions, an EKPC FERC transmission settlement agreement and rate case expenses, which are recovered through base rates.
 - The FERC jurisdictional portion of the EKPC FERC transmission settlement agreement included in current and non-current regulatory assets, recovered through the application of the annual OATT formula rate updates.
 - FERC jurisdictional pension expense, which will be requested in a future FERC rate case.
 - Offsetting regulatory asset for fair value purchase accounting adjustment for leases. See Note 2, Acquisition by PPL, for information on the purchase accounting adjustments.
 - The Virginia levelized fuel factor, which is a separate recovery mechanism with recovery within twelve months.
- (e) KU generally recovers this asset through pension expense included in the calculation of base rates.
- (f) When an asset with an ARO is retired, the related ARO regulatory asset will be offset against the associated ARO regulatory liability, ARO asset and ARO liability.
- (g) Other regulatory liabilities includes the emission allowance purchase accounting offset, MISO exit and a change in accounting method for FERC jurisdictional spare parts.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 3—Rates and Regulatory Matters (Continued)

ECR

KU recovers the costs of complying with the Federal Clean Air Act pursuant to Kentucky Revised Statute 278-183 as amended and those federal, state or local environmental requirements which apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal, through the ECR mechanism. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

The Kentucky Commission requires reviews of the past operations of the environmental surcharge for six-month and two-year billing periods to evaluate the related charges, credits and rates of return, as well as to provide for the roll-in of ECR amounts to base rates each two-year period. In December 2010, the Kentucky Commission initiated a six-month review of the Utilities' environmental surcharge for the billing period ending October 2010. An order is expected in the second quarter of 2011. Also, in December 2010, an Order was issued approving the charges and credits billed through the ECR during the six-month period ending April 2010, as well as approving billing adjustments for under-recovered costs and the rate of return on capital. In May 2010, an Order was issued approving the amounts billed through the ECR during the six-month period ending October 2009, and the rate of return on capital and allowing recovery of the under-recovery position in subsequent monthly filings. In December 2009, an Order was issued approving the charges and credits billed through the ECR during the two-year period ending April 2009, an increase in the jurisdictional revenue requirement, a base rate roll-in and a revised rate of return on capital. In July 2009, an Order was issued approving the charges and credits billed through the ECR during the six-month period ending October 2008, as well as approving billing adjustments for under-recovered costs and the rate of return on capital. In August 2008, an Order was issued approving the charges and credits billed through the ECR during the six-month periods ending April 2008 and October 2007, and the rate of return on capital. In March 2008, an Order was issued approving the charges and credits billed through the ECR during the six-month and two-year periods ending October 2006 and April 2007, respectively, as well as approving billing adjustments, roll-in adjustments to base rates, revisions to the monthly surcharge filing and the rates of return on capital.

In June 2009, the Company filed an application for a new ECR plan with the Kentucky Commission seeking approval to recover investments in environmental upgrades and operations and maintenance costs at the Company's generating facilities. During 2009, KU reached a unanimous settlement with all parties to the case and the Kentucky Commission issued an Order approving KU's application. Recovery on customer bills through the monthly ECR surcharge for these projects began with the February 2010 billing cycle. At December 31, 2009, the Company had a regulatory asset of \$28 million, which changed to a regulatory liability in the first quarter of 2010, as a result of these roll-in adjustments to base rates. At December 31, 2010, the regulatory liability balance was \$12 million.

In February 2009, the Kentucky Commission approved a settlement agreement in the rate case which provides for an authorized return on equity applicable to the ECR mechanism of 10.63% effective with the February 2009 expense month filing, which represents a slight increase over the previously authorized 10.50%. The 10.63% return on equity for the ECR mechanism was affirmed in the 2010 rate case.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 3—Rates and Regulatory Matters (Continued)

FAC

KU's retail rates contain an FAC, whereby increases and decreases in the cost of fuel for generation are reflected in the rates charged to retail customers. The FAC allows the Company to adjust billed amounts for the difference between the fuel cost component of base rates and the actual fuel cost, including transportation costs. Refunds to customers occur if the actual costs are below the embedded cost component. Additional charges to customers occur if the actual costs exceed the embedded cost component. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

The Kentucky Commission requires public hearings at six-month intervals to examine past fuel adjustments and at two-year intervals to review past operations of the fuel clause and transfer of the then current fuel adjustment charge or credit to the base charges. In December 2010, May 2010, November 2009, January 2009, June 2008 and January 2008, the Kentucky Commission issued Orders approving the charges and credits billed through the FAC for the six-month periods ending April 2010, August 2009, April 2009, April 2008, October 2007 and April 2007, respectively. In January 2009 the Kentucky Commission initiated routine examinations of the FAC for the two-year periods November 1, 2006 through October 31, 2008. The Kentucky Commission issued an Order in June 2009 approving the charges and credits billed through the FAC during the review periods.

KU also employs an FAC mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the coming year plus an adjustment for any over- or under-recovery of fuel expenses from the prior year. At December 31, 2010 and 2009, KU had a regulatory asset of \$5 million and less than \$1 million, respectively.

In February 2010, KU filed an application with the Virginia Commission seeking approval of a decrease in its fuel cost factor beginning with service rendered in April 2010. An Order was issued in April 2010, resulting in an agreed upon decrease of 23% from the fuel factor in effect for April 2009 through March 2010.

In February 2009, KU filed an application with the Virginia Commission seeking approval of a 29% increase in its fuel cost factor beginning with service rendered in April 2009. In February 2009, the Virginia Commission issued an Order allowing the requested change to become effective on an interim basis. The Virginia Staff testimony filed in April 2009 recommended a slight decrease in the factor filed by KU. The Company indicated the Virginia Staff proposal was acceptable. A hearing was held in May 2009, with general resolution of remaining issues. In May 2009, the Virginia Commission issued an Order approving the revised fuel factor, representing an increase of 24%, effective May 2009.

In February 2008, KU filed an application with the Virginia Commission seeking approval of a decrease in its fuel cost factor applicable during the billing period, April 2008 through March 2009. The Virginia Commission allowed the new rates to be in effect for the April 2008 customer billings. In April 2008, the Virginia Commission Staff recommended a change to the fuel factor KU filed in its application, to which KU agreed. Following a public hearing and an Order in May 2008, the recommended change became effective in June 2008, resulting in a decrease of 0.482 cents/kWh from the factor in effect for the April 2007 through March 2008 period.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 3—Rates and Regulatory Matters (Continued)

Coal Contracts

In November 2010, purchase accounting adjustments were recorded for the fair value of KU's coal contracts. Offsetting regulatory asset or liability for fair value purchase accounting adjustments eliminate any ratemaking impact of the fair value adjustments.

MISO

Following receipt of applicable FERC, Kentucky Commission and other regulatory Orders, related to proceedings that had been underway since July 2003, KU withdrew from the MISO effective September 1, 2006. Since the exit from the MISO, KU has been operating under a FERC approved OATT. KU now contracts with the TVA to act as its transmission reliability coordinator and SPP to function as its independent transmission operator, pursuant to FERC requirements. The contractual obligations with the TVA extend through August 2011 and with SPP through August 2012.

KU and the MISO agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, the Company paid \$20 million to the MISO and made related FERC compliance filings. The Company's payment of this exit fee was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. KU and the MISO resolved their dispute regarding the calculation of the exit fee and, in November 2007, filed an application with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties' recalculation of the exit fee and the approved agreement providing KU with recovery of \$4 million, of which \$1 million was immediately recovered in 2008, with the remainder to be recovered over the seven years from 2008 through 2014 for credits realized from other payments the MISO will receive, plus interest.

In accordance with Kentucky Commission Orders approving the MISO exit, KU established a regulatory asset for the MISO exit fee, net of former MISO administrative charges collected via base rates through the base rate case test year ended April 30, 2008. The net MISO exit fee is subject to adjustment for possible future MISO credits and a regulatory liability for certain revenues associated with former MISO administrative charges, which were collected via base rates until February 6, 2009. The approved 2008 base rate case settlement provided for MISO administrative charges collected through base rates from May 1, 2008 to February 6, 2009, and any future adjustments to the MISO exit fee, to be established as a regulatory liability until the amounts can be amortized in future base rate cases. This regulatory liability balance as of October 31, 2009, was included in the base rate case application filed on January 29, 2010. MISO exit fee credit amounts subsequent to October 31, 2009, will continue to accumulate as a regulatory liability until they can be amortized in future base rate cases.

In November 2008, the FERC issued Orders in industry-wide proceedings relating to MISO RSG calculation and resettlement procedures. RSG charges are amounts assessed to various participants active in the MISO trading market which generally seek to compensate for uneconomic generation dispatch due to regional transmission or power market operational considerations, with some customer classes eligible for payments, while others may bear charges. The FERC Orders approved two requests for significantly altered formulas and principles, each of which the FERC applied differently to calculate RSG charges for various historical and future periods. Based upon the 2008 FERC Orders, the Company established a reserve during the fourth quarter of 2008 of less than \$1 million relating to potential RSG resettlement costs for the period ended December 31, 2008. However, in May 2009,

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 3—Rates and Regulatory Matters (Continued)

after a portion of the resettlement payments had been made, the FERC issued an Order on the requests for rehearing on one November 2008 Order which changed the effective date and reduced almost all of the previously accrued RSG resettlement costs. Therefore, these costs were reversed and a receivable was established for amounts already paid of less than \$1 million. The MISO began refunding the amounts to the Company in June 2009 with full repayment by September 2009. In June 2009, the FERC issued an Order in the rate mismatch RSG proceeding, stating it will not require resettlements of the rate mismatch calculation from April 1, 2005 to November 4, 2007. An accrual had previously been recorded in 2008 for the rate mismatch issue for the time period April 25, 2006 to August 9, 2007, but no accrual had been recorded for the time period November 5, 2007 to November 9, 2008 based on the prior Order. Accordingly, the accrual for the former time period was reversed and an accrual for the latter time period was recorded in June 2009, with a net effect of \$1 million of expense, substantially all of which was paid by September 2009.

In August 2009, the FERC determined that the MISO had failed to demonstrate that its proposed exemptions to real-time RSG charges were just and reasonable. In November 2009, the MISO made a compliance filing incorporating the rulings of the FERC Orders and a related task force, with a primary open issue being whether certain of the tariff changes are applied prospectively only or retroactively to approximately January 6, 2009.

In November 2009, the Utilities filed an application with the FERC to approve certain independent transmission operator arrangements to be effective upon the expiration of their current contract with SPP in September 2010. The application sought authority for KU and LG&E to function after such date as the administrators of their own OATT for most purposes. However, due to the lack of FERC approval for such an approach and the approaching expiration of the SPP contract, the Utilities determined the approach was no longer reasonably achievable without unacceptable delay and uncertainty. In July 2010, the Utilities entered into a new agreement with SPP to provide independent transmission operator services for a specified, limited time and removed its application for authority of administering its own OATT. The TVA, which currently acts as reliability coordinator, has also been retained under the existing service contract. The new agreement extends TVA services to August 2011 with no alterations or changes to the party's duties or responsibilities.

In August 2010, the FERC issued three Orders accepting most facets of several MISO RSG compliance filings. The FERC ordered the MISO to issue refunds for RSG charges that were imposed by the MISO on the assumption that there were rate mismatches for the period beginning November 5, 2007 through the present. There is no financial statement impact to the Company from this Order, as the MISO had anticipated that the FERC would require these refunds and had preemptively included them in the resettlements paid in 2009. The FERC denied the MISO's proposal to exempt certain resources from RSG charges, effective prospectively. The FERC accepted portions and rejected portions of the MISO's proposed RSG rate Redesign Proposal, which will be effective when the software is ready for implementation subject to further compliance filings. The impact of the Redesign Proposal on the Company cannot be estimated at this time.

Pension and Postretirement Benefits

KU accounts for pension and postretirement benefits in accordance with the compensation—retirement benefits guidance of the FASB ASC. This guidance requires employers to recognize the over-funded or under-funded status of a defined benefit pension and postretirement plan as an asset or

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 3—Rates and Regulatory Matters (Continued)

liability on the Balance Sheets and to recognize through other comprehensive income the changes in the funded status in the year in which the changes occur. Under the regulated operations guidance of the FASB ASC, KU can defer recoverable costs that would otherwise be charged to expense or equity by non-regulated entities. Current rate recovery in Kentucky and Virginia is based on the compensation—retirement benefits guidance of the FASB ASC. Regulators have been clear and consistent with their historical treatment of such rate recovery; therefore, the Company has recorded a regulatory asset representing the change in funded status of its pension plan that is expected to be recovered and a regulatory liability representing the change in funded status of its postretirement benefit plan. The regulatory asset and liability will be adjusted annually as prior service cost and actuarial gains and losses are recognized in net periodic benefit cost.

Storm Restoration

In January 2009, a significant ice storm passed through KU's service area causing approximately 199,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 44,000 customer outages. An application was filed with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset and defer for future recovery approximately \$62 million in incremental operation and maintenance expenses related to the storm restoration. In September 2009, the Kentucky Commission issued an Order allowing the establishment of a regulatory asset of up to \$62 million based on actual costs for storm damages and service restoration due to the January and February 2009 storms. In September 2009, a regulatory asset of \$57 million was established for actual costs incurred and approval was received in KU's 2010 base rate case to recover this asset over a ten year period beginning August 1, 2010.

In September 2008, high winds from the remnants of Hurricane Ike passed through the service area causing significant outages and system damage. In October 2008, an application was filed with the Kentucky Commission requesting approval to establish regulatory assets and defer for future recovery approximately \$3 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the establishment a regulatory asset of up to \$3 million based on actual costs for storm damages and service restoration due to Hurricane Ike. In December 2008, a regulatory asset of \$2 million was established for actual costs incurred and KU received approval in its 2010 base rate case to recover this asset over a ten year period, beginning August 1, 2010.

Unamortized Loss on Bonds

The costs of early extinguishment of debt, including call premiums, legal and other expenses, and any unamortized balance of debt expense are amortized using the straight-line method, which approximates the effective interest method, over the life of either the replacement debt (in the case of refinancing) or the original life of the extinguished debt.

CMRG and KCCS Contributions

In July 2008, KU and LG&E, along with Duke Energy Kentucky, Inc. and Kentucky Power Company, filed an application with the Kentucky Commission requesting approval to establish regulatory assets related to contributions to the CMRG for the development of technologies for reducing carbon dioxide emissions and the KCCS to study the feasibility of geologic storage of carbon dioxide. The filing companies proposed that these contributions be treated as regulatory assets to be

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 3—Rates and Regulatory Matters (Continued)

deferred until recovery is provided in the next base rate case of each company, at which time the regulatory assets will be amortized over the life of each project: four years with respect to the KCCS and ten years with respect to the CMRG. KU and LG&E jointly agreed to provide \$2 million over two years to the KCCS and up to \$2 million over ten years to the CMRG. In October 2008, an Order approving the establishment of the requested regulatory assets was received. KU received approval from the Kentucky Commission in the Company's 2010 Kentucky base rate case to recover these regulatory assets over the requested period beginning August 1, 2010.

Rate Case Expenses

KU incurred \$1 million in expenses related to the development and support of the 2008 Kentucky base rate case. The Kentucky Commission approved the establishment of a regulatory asset for these expenses and authorized amortization over three years beginning in March 2009.

KU incurred \$2 million in expenses related to the development and support of the 2010 Kentucky base rate case. The Kentucky Commission approved the establishment of a regulatory asset for these expenses and authorized amortization over three years beginning in August 2010.

FERC Jurisdictional Pension Costs

Other regulatory assets include pension costs of \$5 million incurred by the Company and allocated to its FERC jurisdictional ratepayers. The Company will seek recovery of this asset in the next FERC rate proceeding.

Deferred Storm Costs

Based on an Order from the Kentucky Commission in June 2004, KU reclassified from maintenance expense to a regulatory asset \$4 million related to costs not reimbursed from the 2003 ice storm. These costs were amortized through June 2009. KU earned a return of these amortized costs, which were included in jurisdictional operating expenses.

DSM

DSM consists of energy efficiency programs which are intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information to become better managers of their energy usage and prepare for potential future legislation governing energy efficiency. KU's rates contain a DSM provision which includes a rate mechanism that provides for concurrent recovery of DSM costs and provides an incentive for implementing DSM programs. The provision allows KU to recover revenues from lost sales associated with the DSM programs based on program plan engineering estimates and post-implementation evaluations.

In July 2007, KU and LG&E filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs. The total annual budget for these programs is approximately \$26 million. In March 2008, the Kentucky Commission issued an Order approving the application, with minor modifications. KU and LG&E filed revised tariffs in April 2008, under authority of this Order, which were effective in May 2008.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 3—Rates and Regulatory Matters (Continued)

Emission Allowances

In November 2010, purchase accounting adjustments were recorded for the fair market value of KU's SO₂, NOx ozone season and NOx annual emission allowances. Offsetting regulatory assets or liabilities for fair value purchase accounting adjustments eliminate any ratemaking impact of the fair value adjustments. KU is granted SO₂ emission allowances through 2040 and NOx ozone season and NOx annual emission allowances through 2011.

Accumulated Cost of Removal of Utility Plant

As of December 31, 2010 and 2009, KU segregated the cost of removal, previously embedded in accumulated depreciation, of \$348 million and \$335 million, respectively, in accordance with FERC Order No. 631. For reporting purposes on the Balance Sheets, KU presented this cost of removal as a "Regulatory liability" pursuant to the regulated operations guidance of the FASB ASC.

OVEC Power Purchase Contract

In November 2010, purchase accounting adjustments were recorded for the fair value of the power purchase agreement between KU and OVEC. Offsetting regulatory liability for fair value purchase accounting adjustment eliminate any ratemaking impact of the fair value adjustments.

Deferred Income Taxes—Net

These regulatory liabilities represent the future revenue impact from the reversal of deferred income taxes required for unamortized investment tax credits, the allowance for funds used during construction and deferred taxes provided at rates in excess of currently enacted rates.

Other Regulatory Matters

Kentucky Commission Report on Storms

In November 2009, the Kentucky Commission issued a report following review and analysis of the effects and utility response to the September 2008 wind storm and the January 2009 ice storm and possible utility industry preventative measures relating thereto. The report suggested a number of proposed or recommended preventative or responsive measures, including consideration of selective *hardening of facilities*, altered vegetation management programs, enhanced customer outage communications and similar measures. In March 2010, the Utilities filed a joint response reporting on their actions with respect to such recommendations. The response indicated implementation or completion of substantially all of the recommendations, including, among other matters, on-going reviews of system hardening and vegetation management procedures, certain test or pilot programs in such areas and fielding of enhanced operational and customer outage-related systems.

Wind Power Agreements

In August 2009, KU and LG&E filed a notice of intent with the Kentucky Commission indicating their intent to file an application for approval of wind power purchase contracts and cost recovery mechanisms. The contracts were executed in August 2009 and were contingent upon KU and LG&E receiving acceptable regulatory approvals. Pursuant to the proposed 20-year contracts, KU and LG&E would jointly purchase respective assigned portions of the output of two Illinois wind farms totaling an

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 3—Rates and Regulatory Matters (Continued)

aggregate 109.5 Mw. In September 2009, the Utilities filed an application and supporting testimony with the Kentucky Commission. In October 2009, the Kentucky Commission issued an Order denying the Utilities' request to establish a surcharge for recovery of the costs of purchasing wind power. The Kentucky Commission stated that such recovery constitutes a general rate adjustment and is subject to the regulations of a base rate case. The Kentucky Commission Order provided for the request for approval of the wind power agreements to proceed independently from the request to recover the costs thereof via surcharges. In November 2009, KU and LG&E filed for rehearing of the Kentucky Commission's Order and requested that the matters of approval of the contract and recovery of the costs thereof remain the subject of the same proceeding. During December 2009, the Kentucky Commission issued data requests on this matter. In March 2010, the Utilities delivered notices of termination under provisions of the wind power contracts. The Utilities also filed a motion with the Kentucky Commission noting the termination of the contracts and seeking withdrawal of their application in the related regulatory proceeding. In April 2010, the Kentucky Commission issued an Order allowing the Utilities to withdraw their pending application.

Trimble County Asset Purchase and Depreciation

In July 2009, the Utilities notified the Kentucky Commission of the proposed sale from the Utilities of certain ownership interests in certain existing Trimble County generating station assets which were anticipated to provide joint or common use in support of the jointly-owned TC2 generating unit under construction at the station. The undivided ownership interests sold provide KU an ownership interest in these common assets proportional to its interest in TC2 and the assets' role in supporting both TC1 and TC2. In December 2009, the Utilities completed the sale transaction at a price of \$48 million, representing the current net book value of the assets multiplied by the proportional interest being sold.

In August 2009, the Utilities jointly filed an application with the Kentucky Commission to approve new depreciation rates for applicable jointly-owned TC2-related generating, pollution control and other plant equipment and assets. During December 2009, the Kentucky Commission extended the data discovery process through January 2010 and authorized the Utilities on an interim basis to begin using the depreciation rates for TC2 as proposed in the application. In March 2010, the Kentucky Commission issued a final Order approving the use of the proposed depreciation rates on a permanent basis.

TC2 CCN Application and Transmission Matters

An application for a CCN for construction of TC2 was approved by the Kentucky Commission in November 2005. CCNs for two transmission lines associated with TC2 were issued by the Kentucky Commission in September 2005 and May 2006. All regulatory approvals and rights of way for one transmission line have been obtained.

KU's and LG&E's CCN for a transmission line associated with the TC2 construction has been challenged by certain property owners in Hardin County, Kentucky. Certain proceedings relating to CCN challenging and federal historic preservation permit requirements have concluded with outcomes in the Utilities' favor.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 3—Rates and Regulatory Matters (Continued)

Completion of the transmission lines are also subject to standard construction permit, environmental authorization and real property or easement acquisition procedures. Certain Hardin County landowners have raised challenges to the transmission line in some of these forums as well.

With respect to the remaining on-going dispute, KU obtained various successful rulings during 2008 at the Hardin County Circuit Court confirming its condemnation rights. In August 2008, several landowners appealed such rulings to the Kentucky Court of Appeals and received a temporary stay preventing KU from accessing their properties. In May 2010, the Kentucky Court of Appeals issued an Order affirming the Hardin Circuit Court's finding that KU had the right to condemn easements on the properties. In May 2010, the landowners filed a petition for reconsideration with the Court of Appeals. In July 2010, the Court of Appeals denied that petition. In August, 2010, the landowners filed for discretionary review of that denial by the Kentucky Supreme Court.

Settlement discussions with the Hardin County property owners involved in the appeals of the condemnation proceedings have been unsuccessful to date. During the fourth quarter of 2008, KU and LG&E entered into settlements with certain Meade County landowners and obtained dismissals of prior litigation they brought challenging the same transmission line.

As a result of the aforementioned unresolved litigation delays encountered in obtaining access to certain properties in Hardin County, KU obtained easements to allow construction of temporary transmission facilities, bypassing those properties while the litigated issues are resolved. In September 2009, the Kentucky Commission issued an Order stating that a CCN was necessary for two segments of the proposed temporary facilities. In December 2009, the Kentucky Commission granted the CCNs for the relevant segments and the property owners have filed various motions to intervene, stay and appeal certain elements of the Kentucky Commission's recent orders. In January 2010, in respect of two of such proceedings, the Franklin County circuit court issued Orders denying the property owners' request for a stay of construction and upholding the prior Kentucky Commission denial of their intervenor status.

Consistent with the regulatory authorizations and the favorable outcome of the legal proceedings, the Utilities completed construction activities on the permanent transmission line easements. During 2010, the Utilities placed the transmission line into operation. While the Utilities are not currently able to predict the ultimate outcome and possible financial effects of the remaining legal proceedings, the Utilities do not believe the matter involves relevant or continuing risks to operations.

Utility Competition in Virginia

The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave customers the ability to choose their electric supplier and capped electric rates through December 2010. KU subsequently received a legislative exemption from the customer choice requirements of this law. In April 2007, however, the Virginia General Assembly amended the Virginia Electric Utility Restructuring Act, thereby terminating this competitive market and commencing re-regulation of utility rates. The new act ended the cap on rates at the end of 2008. Pursuant to this legislation, the Virginia Commission adopted regulations revising the rules governing utility rate increase applications. As of January 2009, a hybrid model of regulation is being applied in Virginia. Under this model, utility rates are reviewed every two years. KU's exemption from the requirements of the Virginia Electric Utility Restructuring Act in 1999, however, discharges the Company from the requirements of the new hybrid model of regulation. In lieu of submitting an annual information filing,

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 3—Rates and Regulatory Matters (Continued)

the Company has the option of requesting a change in base rates to recover prudently incurred costs by filing a traditional base rate case. KU is also subject to other utility regulations in Virginia, including, but not limited to, the recovery of prudently incurred fuel costs through an annual fuel factor charge and the submission of integrated resource plans.

Market-Based Rate Authority

In July 2006, the FERC issued an Order in KU's market-based rate proceeding accepting the Company's further proposal to address certain market power issues the FERC claimed would arise upon an exit from the MISO. In particular, the Company received permission to sell power at market-based rates at the interface of balancing areas in which it may be deemed to have market power, subject to a restriction that such power will not be collusively re-sold back into such balancing areas. However, restrictions exist on sales by KU of power at market-based rates in the KU and LG&E and Big Rivers Electric Company balancing areas. In June 2007, the FERC issued Order No. 697 implementing certain reforms to market-based rate regulations, including restrictions similar to those previously in place for the Company's power sales at balancing area interfaces. In December 2008, the FERC issued Order No. 697-B potentially placing additional restrictions on certain power sales involving areas where market power is deemed to exist. As a condition of receiving and retaining market-based rate authority, KU must comply with applicable affiliate restrictions set forth in the FERC regulation. During September 2008, the Company submitted a regular triennial update filing under market-based rate regulations.

In June 2009, the FERC issued Order No. 697-C which generally clarified certain interpretations relating to power sales and purchases at balancing area interfaces or into balancing areas involving market power. In July 2009, the FERC issued an Order approving the Company's September 2008 application for market-based rate authority. During July 2009, affiliates of KU completed a transaction terminating certain prior generation and power marketing activities in the Big Rivers Electric Company balancing area, which termination should ultimately allow a filing to request a determination that the Company no longer is deemed to have market power in such balancing area.

KU conducts certain of its wholesale power sales activities in accordance with existing market-based rate authority principles and interpretations. Future FERC proceedings relating to Orders 697 or market-based rate authority could alter the amount of sales made at market-based versus cost-based rates. The Company's sales under market-based rate authority totaled less than \$1 million for the year ended December 31, 2010.

Mandatory Reliability Standards

As a result of the EPCRA 2005, certain formerly voluntary reliability standards became mandatory in June 2007 and authority was delegated to various Regional Reliability Organizations ("RROs") by the NERC, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to \$1 million per day, as well as non-monetary penalties, depending upon the circumstances of the violation. The Utilities are members of the SERC, which acts as KU's and LG&E's RRO. During December 2009 and April, July and August 2010, the Utilities submitted ten self-reports relating to various standards, which self-reports remain in the early stages of RRO review, and therefore, the Utilities are unable to estimate the

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 3—Rates and Regulatory Matters (Continued)

outcome of these matters. Mandatory reliability standard settlements commonly also include non-penalty elements, including compliance steps and mitigation plans. Settlements with SERC proceed to NERC and FERC review before becoming final. While the Utilities believe they are in compliance with the mandatory reliability standards, events of potential non-compliance may be identified from time-to-time. The Utilities cannot predict such potential violations or the outcome of self-reports described above.

Integrated Resource Planning

Integrated resource planning (“IRP”) regulations in Kentucky require major utilities to make triennial IRP filings with the Kentucky Commission. In April 2008, KU and LG&E filed their 2008 joint IRP with the Kentucky Commission. The IRP provides historical and projected demand, resource and financial data and other operating performance and system information. The Kentucky Commission issued a staff report and Order closing this proceeding in December 2009. Pursuant to the Virginia Commission’s December 2008 Order, KU filed its IRP in July 2009. The filing consisted of the 2008 Joint IRP filed by KU and LG&E with the Kentucky Commission along with additional data. The Virginia Commission has not established a procedural schedule for this proceeding. KU expects to file their next IRP in April 2011.

PUHCA 2005

PPL, KU’s ultimate parent, is a holding company under PUHCA 2005. PPL, its utility subsidiaries, including KU, and certain of its non-utility subsidiaries, are subject to extensive regulation by the FERC with respect to numerous matters, including electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. KU believes that it has adequate authority, including financing authority, under existing FERC Orders and regulations to conduct its business and will seek additional authorization when necessary.

EPAAct 2005

The EPAAct 2005 was enacted in August 2005. Among other matters, this comprehensive legislation contains provisions mandating improved electric reliability standards and performance; granting enhanced civil penalty authority to the FERC; providing economic and other incentives relating to transmission, pollution control and renewable generation assets; increasing funding for clean coal generation incentives; repealing the Public Utility Holding Company Act of 1935; enacting PUHCA 2005; and expanding FERC jurisdiction over public utility holding companies and related matters via the Federal Power Act and PUHCA 2005.

In February 2006, the Kentucky Commission initiated an administrative proceeding to consider the requirements of the EPAAct 2005, Subtitle E Section 1252, Smart Metering, which concerns time-based metering and demand response, and Section 1254, Interconnections. EPAAct 2005 requires each state regulatory authority to conduct a formal investigation and issue a decision on whether or not it is appropriate to implement certain Section 1252 standards within eighteen months after the enactment of EPAAct 2005 and to commence consideration of Section 1254 standards within one year after the enactment of EPAAct 2005. Following a public hearing with all Kentucky jurisdictional electric utilities, in

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 3—Rates and Regulatory Matters (Continued)

December 2006, the Kentucky Commission issued an Order in this proceeding indicating that the EPA 2005 Section 1252 and Section 1254 standards should not be adopted. However, all five Kentucky Commission jurisdictional utilities were required to file real-time pricing pilot programs for their large commercial and industrial customers. KU developed a real-time pricing pilot program for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by KU for implementation within approximately eight months. The tariff was filed in October 2008, with an effective date of December 1, 2008. KU files annual reports on the program within 90 days of each plan year end for the three-year pilot period.

Green Energy Riders

In February 2007, KU and LG&E filed a Joint Application and Testimony for Proposed Green Energy Riders. In May 2007, a Kentucky Commission Order was issued authorizing KU to establish Small and Large Green Energy Riders, allowing customers to contribute funds to be used for the purchase of renewable energy credits. During November 2009, KU and LG&E filed an application to both continue and modify the existing Green Energy Programs. In February 2010, the Kentucky Commission approved the Utilities' application, as filed.

Home Energy Assistance Program

In July 2007, KU filed an application with the Kentucky Commission for the establishment of a Home Energy Assistance program. During September 2007, the Kentucky Commission approved the five-year program as filed, effective in October 2007. The programs were scheduled to terminate in September 2012 and is funded through a \$0.10 per month meter charge. Effective February 6, 2009, as a result of the settlement agreement in the 2008 base rate case, the program is funded through a \$0.15 per month meter charge. As a condition in the settlement in the change of control proceeding before the Kentucky Commission in the PPL acquisition, the program was extended to September 2015.

Collection Cycle Revision

As part of its base rate case filed on July 29, 2008, LG&E proposed to change the due date for customer bill payments from 15 days to 10 days to align its collection cycle with KU. In addition, in its rate case filed on July 29, 2008, KU proposed to include a late payment charge if payment is not received within 15 days from the bill issuance date to align with LG&E. The settlement agreements approved in the rate cases in February 2009 changed the due date for customer bill payments to 12 days after bill issuance for both KU and LG&E and permitted KU's implementation of a late payment charge if payment is not received within 15 days from the bill issuance date.

Depreciation Study

In December 2007, KU filed a depreciation study with the Kentucky Commission as required by a previous Order. In August 2008, the Kentucky Commission issued an Order consolidating the depreciation study with the base rate case proceeding. The approved settlement agreements in the rate cases established new depreciation rates effective February 2009. KU also filed the depreciation study with the Virginia Commission which approved the implementation of the new depreciation rates

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 3—Rates and Regulatory Matters (Continued)

effective February 2009. Approval by the Virginia Commission does not preclude the rates from being raised as an issue by any party in KU's future base rate cases in Virginia.

Brownfield Development Rider Tariff

In March 2008, KU received Kentucky Commission approval for a Brownfield Development Rider, which offers a discounted rate to electric customers who meet certain usage and location requirements, including taking new service at a Brownfield site, as certified by the appropriate Kentucky state agency. The rider permits special contracts with such customers which provide for a series of declining partial rate discounts over an initial five-year period of a longer service arrangement. The tariff is intended to promote local economic redevelopment and efficient usage of utility resources by aiding potential reuse of vacant Brownfield sites.

Interconnection and Net Metering Guidelines

In May 2008, the Kentucky Commission on its own motion initiated a proceeding to establish interconnection and net metering guidelines in accordance with amendments to existing statutory requirements for net metering of electricity. The jurisdictional electric utilities and intervenors in this case presented proposed interconnection guidelines to the Kentucky Commission in October 2008. In a January 2009 Order, the Kentucky Commission issued the Interconnection and Net Metering Guidelines—Kentucky that were developed by all parties to the proceeding. KU does not expect any financial or other impact as a result of this Order. In April 2009, KU filed revised net metering tariffs and application forms pursuant to the Kentucky Commission's Order. The Kentucky Commission issued an Order in April 2009, which suspended for five months all net metering tariffs filed by the jurisdictional electric utilities. This suspension was intended to allow sufficient time for review of the filed tariffs by the Kentucky Commission Staff and intervening parties. In June 2009, the Kentucky Commission Staff held an informal conference with the parties to discuss issues related to the net metering tariffs filed by KU. Following this conference, the intervenors and KU resolved all issues and KU filed revised net metering tariffs with the Kentucky Commission. In August 2009, the Kentucky Commission issued an Order approving the revised tariffs.

EISA 2007 Standards

In November 2008, the Kentucky Commission initiated an administrative proceeding to consider new standards as a result of the Energy Independence and Security Act of 2007 ("EISA 2007"), part of which amends the Public Utility Regulatory Policies Act of 1978 ("PURPA"). There are four new PURPA standards and one non-PURPA standard applicable to electric utilities. The proceeding also considers two new PURPA standards applicable to natural gas utilities. EISA 2007 requires state regulatory commissions and non-regulated utilities to begin consideration of the rate design and smart grid investments no later than December 19, 2008 and to complete the consideration by December 19, 2009. The Kentucky Commission established a procedural schedule that allowed for data discovery and testimony through July 2009. In October 2009, the Kentucky Commission held an informal conference for the purpose of discussing issues related to the standard regarding the consideration of Smart Grid investments. A public hearing has not been scheduled in this matter.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 4—Asset Retirement Obligations

A summary of KU's net ARO assets, ARO liabilities and regulatory assets established under the asset retirement and environmental obligations guidance of the FASB ASC follows:

	<u>ARO Net Assets</u>	<u>ARO Liabilities</u>	<u>Regulatory Assets</u>
As of December 31, 2008, Predecessor	\$ 5	\$(32)	\$ 28
ARO accretion and depreciation	<u>(1)</u>	<u>(2)</u>	<u>2</u>
As of December 31, 2009, Predecessor	4	(34)	30
ARO accretion and depreciation	—	(2)	2
Reclassification for retired assets	(1)	—	1
ARO revaluation—change in estimates	<u>22</u>	<u>(24)</u>	<u>2</u>
As of October 31, 2010, Predecessor	25	(60)	35
ARO accretion and depreciation	(1)	—	1
Purchase accounting—fair value adjustment	<u>28</u>	<u>6</u>	<u>(34)</u>
As of December 31, 2010, Successor	<u>\$52</u>	<u>\$(54)</u>	<u>\$ 2</u>

In September 2010, the Company performed a revaluation of its AROs as a result of recently proposed environmental legislation and improved ability to forecast asset retirement costs due to recent construction and retirement activity.

In November 2010, the Company recorded a purchase accounting adjustment to fair value AROs due to the PPL acquisition.

Pursuant to regulatory treatment prescribed under the regulated operations guidance of the FASB ASC, an offsetting regulatory credit was recorded in “Depreciation and amortization” in the Statements of Income for the Successor of \$1 million in 2010 and \$2 million for the Predecessor for the ARO accretion and depreciation expense. The offsetting regulatory credit recorded was \$2 million in 2009 and 2008 for the ARO accretion and depreciation expense. The ARO liabilities are offset by cash settlements that have not yet been applied. Therefore, ARO net assets, ARO liabilities and regulatory assets balances do not net to zero due to the cash settlements.

KU's AROs are primarily related to the final retirement of assets associated with generating units. KU transmission and distribution lines largely operate under perpetual property easement agreements which do not generally require restoration upon removal of the property. Therefore, under the asset retirement and environmental obligations guidance of the FASB ASC, no material asset retirement obligations are recorded for transmission and distribution assets.

Note 5—Derivative Financial Instruments

KU is subject to interest rate and commodity price risk related to on-going business operations. The Company's policies allow for the interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate swaps. Although the Company's policies allow for the use of interest rate swaps, as of December 31, 2010 and 2009, KU had no interest rate swaps outstanding. At December 31, 2010, KU's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was less than \$1 million.

The Company does not net collateral against derivative instruments.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 5—Derivative Financial Instruments (Continued)

Energy Trading and Risk Management Activities

KU conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to manage price risk and are accounted for as non-hedging derivatives on a mark-to-market basis in accordance with the derivatives and hedging guidance of the FASB ASC.

Energy trading and risk management contracts are valued using prices based on active trades from Intercontinental Exchange Inc. In the absence of a traded price, midpoints of the best bids and offers are the primary determinants of valuation. When sufficient trading activity data is unavailable, other inputs include prices quoted by brokers or observable inputs other than quoted prices, such as one-sided bids or offers as of the balance sheet date. Quotes are verified quarterly using an independent pricing source of actual transactions. Quotes for combined off-peak and weekend timeframes are allocated between the two timeframes based on their historical proportional ratios to the integrated cost. No other adjustments are made to the forward prices. No changes to valuation techniques for energy trading and risk management activities occurred during 2010 or 2009. Changes in market pricing, interest rate and volatility assumptions were made during both years.

KU's financial assets and liabilities as of December 31, 2010 and December 31, 2009, arising from energy trading and risk management contracts not designated as hedging instruments accounted for at fair value total less than \$1 million and are recorded in prepayments and other current assets and other current liabilities, respectively.

The Company maintains credit policies intended to minimize credit risk in wholesale marketing and trading activities by assessing the creditworthiness of potential counterparties prior to entering into transactions with them and continuing to evaluate their creditworthiness once transactions have been initiated. To further mitigate credit risk, KU seeks to enter into netting agreements or require cash deposits, letters of credit and parental company guarantees as security from counterparties. The Company uses ratings of S&P, Moody's and definitive qualitative and quantitative data to assess the financial strength of counterparties on an on-going basis. If no external rating exists, KU assigns an internally generated rating for which it sets appropriate risk parameters. As risk management contracts are valued based on changes in market prices of the related commodities, credit exposures are revalued and monitored on a daily basis. At December 31, 2010, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better. The Company has reserved against counterparty credit risk based on KU's own creditworthiness (for net liabilities) and its counterparty's creditworthiness (for net assets). The Company applies historical default rates within varying credit ratings over time provided by S&P or Moody's. At December 31, 2010 and December 31, 2009, counterparty credit reserves related to energy trading and risk management contracts were less than \$1 million.

The net volume of electricity based financial derivatives outstanding at December 31, 2010 and December 31, 2009, was 129,199 Mwh and 315,600 Mwh, respectively. Cash collateral related to the energy trading and risk management contracts was less than \$1 million at December 31, 2010 and December 31, 2009. Cash collateral related to the energy trading and risk management contracts is recorded in "Prepayments and other current assets" on the Balance Sheets.

KU manages the price risk of its estimated future excess economic generation capacity using market-traded forward contracts. Hedge accounting treatment has not been elected for these

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 5—Derivative Financial Instruments (Continued)

transactions; therefore, realized and unrealized gains and losses are included in the Statements of Income.

The following table presents the effect of market-traded forward contract derivatives not designated as hedging instruments on income:

<u>Loss Recognized in Income</u>	<u>Location</u>	<u>Successor</u>	<u>Predecessor</u>		
		November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009	2008
Unrealized gain (loss)	Electric revenues	\$—	\$—	\$(1)	\$1

Net realized gains and losses were zero for the period ended December 31, 2010 and less than \$1 million for the periods ended October 31, 2010, December 31, 2009 and December 31, 2008.

Credit Risk Related Contingent Features

Certain of KU’s derivative contracts contain credit contingent provisions which would permit the counterparties with which KU is in a net liability position to require the transfer of additional collateral upon a decrease in KU’s credit rating. Some of these provisions would require KU to transfer additional collateral or permit the counterparty to terminate the contract if KU’s credit rating were to fall below investment grade. Some of these provisions also allow the counterparty to require additional collateral upon each decrease in the credit rating at levels that remain above investment grade. In either case, if KU’s credit rating were to fall below investment grade (i.e., below BBB– for S&P or Baa3 for Moody’s), and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent provisions require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization by KU on derivative instruments in net liability positions.

Additionally, certain of KU’s derivative contracts contain credit contingent provisions that require KU to provide “adequate assurance” of performance if the other party has reasonable grounds for insecurity regarding KU’s performance of its obligation under the contract. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. A demand for additional assurance would typically involve negotiations among the parties.

To determine net liability positions, KU uses the fair value of each agreement. At December 31, 2010, there were no energy trading and risk management derivative contracts with credit risk related contingent features that are in a liability position and collateral of less than \$1 million was posted in the normal course of business. At December 31, 2010, a downgrade of the Company’s credit rating below investment grade would have no effect on the energy trading and risk management derivative contracts or collateral required.

Note 6—Fair Value Measurements

KU adopted the fair value guidance in the FASB ASC in two phases. Effective January 1, 2008, the Company adopted it for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis, and effective January 1, 2009, the Company adopted it for all

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 6—Fair Value Measurements (Continued)

non-financial instruments accounted for at fair value on a non-recurring basis. The FASB ASC guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, the FASB ASC guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value.

The carrying values and estimated fair values of KU's non-trading financial instruments follow:

	Successor		Predecessor	
	December 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term bonds	\$1,841	\$1,728	\$ 351	\$ 351
Long-term debt to affiliated company	—	—	1,331	1,401

The long-term fixed rate pollution control bond valuations reflect prices quoted by investment banks, which are active in the market for these instruments. First mortgage bond valuations reflect prices quoted from a third party service. The fair value of the long-term debt due to affiliated company is determined using an internal valuation model that discounts the future cash flows of each loan at current market rates as determined based on quotes from investment banks that are actively involved in capital markets for utilities and factor in KU's credit ratings and default risk. The fair values of cash and cash equivalents, accounts receivable, cash surrender value of key man life insurance, accounts payable and notes payable are substantially the same as their carrying values.

KU has classified the applicable financial assets and liabilities that are accounted for at fair value into the three levels of the fair value hierarchy, as defined by the fair value measurements and disclosures guidance of the FASB ASC, as discussed in Note 1, Summary of Significant Accounting Policies.

The Company classifies its derivative cash collateral balances within level 1 based on the funds being held in a demand deposit account. The Company classifies its derivative energy trading and risk management contracts within level 2 because it values them using prices actively quoted for proposed or executed transactions, quoted by brokers or observable inputs other than quoted prices.

KU's financial assets and liabilities as of December 31, 2010 and 2009, arising from energy trading and risk management contracts accounted for at fair value on a recurring basis total less than \$1 million. Cash collateral related to the energy trading and risk management contracts was less than \$1 million at December 31, 2010 and December 31, 2009 each year.

There were no level 3 measurements for the periods ending December 31, 2010 and December 31, 2009.

Note 7—Goodwill and Intangible Assets

In connection with PPL's acquisition of LKE, KU recorded goodwill on November 1, 2010. In addition, as of November 1, 2010, certain intangible assets were adjusted to their fair value and new intangible assets were recorded. See Note 2, Acquisition by PPL, for further information.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 7—Goodwill and Intangible Assets (Continued)

Goodwill

The Company performs its required annual goodwill impairment test in the fourth quarter. Impairment tests are performed between the annual tests when the Company determines that a triggering event has occurred that would, more likely than not, reduce the fair value of a reporting unit below its carrying value. The goodwill impairment test is comprised of a two-step process. In step 1, the Company identifies a potential impairment by comparing the estimated fair value of the regulated utilities (the goodwill reporting unit) to their carrying value, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. If the fair value is less than the carrying value, then step 2 is performed to measure the amount of impairment loss, if any. The step 2 calculation compares the implied fair value of the goodwill to the carrying value of the goodwill. The implied fair value of goodwill is equal to the excess of the Company estimated fair value over the fair values of its identified assets and liabilities. If the carrying value of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to that excess (but not in excess of the carrying value).

In connection with PPL's acquisition of LKE on November 1, 2010, goodwill of \$607 million was recorded on November 1, 2010. The allocation of the goodwill to KU was based on the net asset value of the Company. The goodwill represents value paid for the rate regulated business located in a defined service area with a constructive regulatory environment, which provides for future investment, earnings and cash flow growth, as well as the talented and experienced workforce. KU's franchise values are being attributed to the going concern value of the business and thus were recorded as goodwill rather than a separately identifiable intangible asset. None of the goodwill recognized is expected to be deductible for income tax purposes or included in customer rates. See Note 2, Acquisition by PPL, for further information.

For the 2010 annual impairment test, the primary valuation technique used was an income methodology based on management's estimates of forecasted cash flows for the Company, with those cash flows discounted to present value using rates commensurate with the risks of those cash flows. Management also took into consideration the acquisition price paid by PPL. The discounted cash flows for the Company was based on discrete financial forecasts developed by management for planning purposes and consistent with those given to PPL. Cash flows beyond the discrete forecasts were estimated using a terminal-value calculation, which incorporated historical and forecasted financial trends for the Company. No impairment resulted from the fourth quarter test, as the determined fair value of the Company was greater than its carrying value.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 7—Goodwill and Intangible Assets (Continued)

Other Intangible Assets

The gross carrying amount and the accumulated amortization of other intangible assets were as follows:

	Successor	
	December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:		
Coal contracts(a)	\$145	\$ 3
Land rights(b)	8	—
Emission allowances(c)	9	—
OVEC power purchase agreement(d)	39	1
Total other intangible assets	\$201	\$ 4

- (a) The gross carrying amount represents the fair value of coal contracts recognized as a result of the 2010 acquisition by PPL. The weighted average amortization period of these contracts is 3 years. See Note 2, Acquisition by PPL, for further information.
- (b) The gross carrying amount represents the fair value of land rights recognized as a result of adopting PPL’s accounting policies in the Successor period. The weighted average amortization period of these rights is 17 years. See Note 1, Summary of Significant Accounting Policies, for further information.
- (c) The gross carrying amount represents the fair value of emission allowances recognized as a result of the 2010 acquisition by PPL, as well as the reclassification of amounts from inventory to intangible assets as a result of adopting PPL’s accounting policies in the Successor period. The weighted average amortization period of these emission allowances is 3 years. See Note 2, Acquisition by PPL, for further information.
- (d) The gross carrying amount represents the fair value of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. The weighted average amortization period of the power purchase agreement is 8 years. See Note 2, Acquisition by PPL, for further information.

Current intangible assets and long-term intangible assets are included in “Other intangible assets” in their respective areas on the Balance Sheets in 2010. Intangible assets resulting from purchase accounting adjustments are not recoverable in rates.

Amortization expense, excluding consumption of emission allowances, was \$4 million for the Successor in 2010. The estimated aggregate amortization expense for each of the next five years is as follows:

	Estimated Expense in Period Ended				
	2011	2012	2013	2014	2015
Aggregate amortization expense	\$43	\$25	\$27	\$24	\$26

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 8—Concentrations of Credit and Other Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. Concentrations of credit risk (whether on- or off-balance sheet) relate to groups of customers or counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

All of KU's customer receivables arise from deliveries of electricity. During 2010, the Company's ten largest customers accounted for less than 19% of volumes.

Effective August 4, 2009, KU and its employees represented by the IBEW Local 2100 entered into a three-year collective bargaining agreement. The agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. KU and its employees represented by the USWA Local 9447-01 entered into a three-year collective bargaining agreement in August 2008. This agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. The employees represented by these two bargaining units comprise approximately 15% of the Company's workforce at December 31, 2010.

Note 9—Pension and Other Postretirement Benefit Plans

KU employees benefit from both funded and unfunded retirement benefit plans. Its defined benefit pension plan covers employees hired by December 31, 2005. Employees hired after this date participate in the Retirement Income Account ("RIA"), a defined contribution plan. The postretirement plan includes health care benefits that are contributory, with participants' contributions adjusted annually. The Company uses December 31 as the measurement date for its plans.

Obligations and Funded Status

The following tables provide a reconciliation of the changes in the defined benefit plans' obligations, the fair value of assets and the funded status of the plans for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor:

	Pension Benefits			Other Postretirement Benefits		
	Successor	Predecessor		Successor	Predecessor	
	2010	2010	2009	2010	2010	2009
Change in benefit obligation:						
Benefit obligation at beginning of period	\$355	\$316	\$306	\$84	\$80	\$75
Service cost	1	5	6	—	1	2
Interest cost	3	16	18	1	4	4
Benefits paid, net of retiree contributions	(3)	(14)	(18)	(1)	(4)	(5)
Actuarial (gain) loss and other	(2)	32	4	(1)	3	4
Benefit obligation at end of period	<u>\$354</u>	<u>\$355</u>	<u>\$316</u>	<u>\$83</u>	<u>\$84</u>	<u>\$80</u>

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 9—Pension and Other Postretirement Benefit Plans (Continued)

	Pension Benefits			Other Postretirement Benefits		
	Successor	Predecessor		Successor	Predecessor	
	2010	2010	2009	2010	2010	2009
Change in plan assets:						
Fair value of plan assets at beginning of period	\$ 237	\$ 219	\$183	\$ 20	\$ 17	\$ 12
Actual return on plan assets	7	20	41	—	1	3
Employer contributions	—	13	13	2	6	7
Benefits paid, net of retiree contributions	(3)	(14)	(18)	(1)	(4)	(5)
Administrative expenses and other	—	(1)	—	—	—	—
Fair value of plan assets at end of period	<u>\$ 241</u>	<u>\$ 237</u>	<u>\$219</u>	<u>\$ 21</u>	<u>\$ 20</u>	<u>\$ 17</u>
Funded status at end of period	<u>\$(113)</u>	<u>\$(118)</u>	<u>\$(97)</u>	<u>\$(62)</u>	<u>\$(64)</u>	<u>\$(63)</u>

Amounts Recognized in the Balance Sheets

The following tables provide the amounts recognized in the Balance Sheets and information for plans with benefit obligations in excess of plan assets plans for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor:

	Pension Benefits			Other Postretirement Benefits		
	Successor	Predecessor		Successor	Predecessor	
	2010	2010	2009	2010	2010	2009
Regulatory assets	\$ 117	\$ 125	\$105	\$ —	\$ —	\$ —
Regulatory liabilities	—	—	—	(10)	(9)	(9)
Accrued benefit liability (non-current)	(113)	(118)	(97)	(62)	(64)	(63)

Amounts recognized in regulatory assets and liabilities for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor:

	Pension Benefits			Other Postretirement Benefits		
	Successor	Predecessor		Successor	Predecessor	
	2010	2010	2009	2010	2010	2009
Transition obligation	\$ —	\$ —	\$ —	\$ 2	\$ 2	\$ 3
Prior service cost	3	4	5	1	1	2
Accumulated loss (gain)	114	121	100	(13)	(12)	(14)
Total regulatory assets and liabilities	<u>\$117</u>	<u>\$125</u>	<u>\$105</u>	<u>\$(10)</u>	<u>\$ (9)</u>	<u>\$ (9)</u>

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 9—Pension and Other Postretirement Benefit Plans (Continued)

Additional information for plans with accumulated benefit obligations in excess of plan assets for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor:

	Pension Benefits			Other Postretirement Benefits		
	Successor	Predecessor		Successor	Predecessor	
	2010	2010	2009	2010	2010	2009
Benefit obligation	\$354	\$355	\$316	\$83	\$84	\$80
Accumulated benefit obligation	299	299	268	—	—	—
Fair value of plan assets	241	237	219	21	20	17

The amounts recognized in regulatory assets and liabilities for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor:

	Pension Benefits			Other Postretirement Benefits		
	Successor	Predecessor		Successor	Predecessor	
	2010	2010	2009	2010	2010	2009
Net (gain) loss arising during the period	\$(6)	\$26	\$(22)	\$(1)	\$ 2	\$ 2
Amortization of prior service cost	—	(1)	(1)	—	—	—
Amortization of transitional obligation	—	—	—	—	(2)	(1)
Amortization of loss	(2)	(5)	(9)	—	—	—
Total amounts recognized in regulatory assets and liabilities	<u>\$(8)</u>	<u>\$20</u>	<u>\$(32)</u>	<u>\$(1)</u>	<u>\$—</u>	<u>\$ 1</u>

For discussion of the pension and postretirement regulatory assets, see Note 3, Rates and Regulatory Matters.

Components of Net Periodic Benefit Cost

The following tables provide the components of net periodic benefit cost for pension and other postretirement benefit plans. The tables include the costs associated with both KU employees and Servco employees who provide services to KU. The Servco costs are allocated to KU based on

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 9—Pension and Other Postretirement Benefit Plans (Continued)

employees' labor charges and are approximately 51%, 49% and 46% of Servco's costs for 2010, 2009 and 2008, respectively.

	Pension Benefits					
	Successor			Predecessor		
	November 1, 2010 through December 31, 2010			January 1, 2010 through October 31, 2010		
	Servco Allocation to			Servco Allocation to		
	KU	KU	Total KU	KU	KU	Total KU
Service cost	\$ 1	\$ 1	\$ 2	\$ 5	\$ 5	\$ 10
Interest cost	3	2	5	16	6	22
Expected return on plan assets	(3)	(1)	(4)	(14)	(5)	(19)
Amortization of prior service cost	—	—	—	1	1	2
Amortization of actuarial gain	2	—	2	5	2	7
Net periodic benefit cost	\$ 3	\$ 2	\$ 5	\$ 13	\$ 9	\$ 22

	Pension Benefits					
	Predecessor—Year Ended December 31, 2009			Predecessor—Year Ended December 31, 2008		
	Servco Allocation to			Servco Allocation to		
		KU	KU	Total KU	KU	KU
Service cost	\$ 6	\$ 5	\$ 11	\$ 6	\$ 4	\$ 10
Interest cost	18	7	25	18	6	24
Expected return on plan assets	(15)	(4)	(19)	(21)	(5)	(26)
Amortization of prior service cost	1	1	2	1	1	2
Amortization of actuarial gain	9	2	11	—	—	—
Net periodic benefit cost	\$ 19	\$ 11	\$ 30	\$ 4	\$ 6	\$ 10

	Other Postretirement Benefits					
	Successor			Predecessor		
	November 1, 2010 through December 31, 2010			January 1, 2010 through October 31, 2010		
	Servco Allocation to			Servco Allocation to		
	KU	KU	Total KU	KU	KU	Total KU
Service cost	\$—	\$—	\$—	\$ 1	\$ 1	\$ 2
Interest cost	1	—	1	4	—	4
Expected return on plan assets	—	—	—	(1)	—	(1)
Amortization of transition obligation	—	—	—	1	—	1
Net periodic benefit cost	\$ 1	\$—	\$ 1	\$ 5	\$ 1	\$ 6

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 9—Pension and Other Postretirement Benefit Plans (Continued)

	Other Postretirement Benefits							
	Predecessor—Year Ended December 31, 2009			Predecessor Year Ended December 31, 2008				
	KU	Servco Allocation to KU		Total KU	KU	Servco Allocation to KU		Total KU
		\$	%			\$	\$	
Service cost	\$ 1	\$ 1	\$ 2	\$ 1	\$ 1	\$ 2		
Interest cost	5	—	5	5	—	5		
Expected return on plan assets	(1)	—	(1)	(1)	—	(1)		
Amortization of transition obligation	1	—	1	1	—	1		
Net periodic benefit cost	<u>\$ 6</u>	<u>\$ 1</u>	<u>\$ 7</u>	<u>\$ 6</u>	<u>\$ 1</u>	<u>\$ 7</u>		

The estimated amounts that will be amortized from regulatory assets and liabilities into net periodic benefit cost in 2011 are shown in the following table:

	Pension Benefits	Other Postretirement Benefits
Regulatory assets and liabilities:		
Net actuarial loss	\$ 8	\$—
Prior service cost	1	1
Transition obligation	—	1
Total regulatory assets and liabilities amortized during 2011 . .	<u>\$ 9</u>	<u>\$ 2</u>

The weighted average assumptions used in the measurement of KU's pension and postretirement benefit obligations for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor are shown in the following table:

	Successor	Predecessor	
	December 31, 2010	October 31, 2010	December 31, 2009
Discount rate—pension benefits	5.52%	5.46%	6.13%
Discount rate—postretirement benefits	5.12%	4.96%	5.82%
Rate of compensation increase	5.25%	5.25%	5.25%

For the first ten months of 2010, the discount rates used to determine the pension and postretirement benefit obligations and the period expense were determined using the Mercer Pension Discount Yield Curve. This model takes the plans' cash flows and matches them to a yield curve that provides the equivalent yields on zero-coupon corporate bonds for each maturity. The discount rate is the single rate that produces the same present value of cash flows. The selection of the various discount rates represents the equivalent single rate under a broad-market AA yield curve constructed by Mercer.

For the last two months of 2010, the Towers Watson Yield Curve was used to determine the discount rate. This model also starts with an analysis of the expected benefit payment stream for its plans. This information is first matched against a spot-rate yield curve. A portfolio of Aa-graded

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 9—Pension and Other Postretirement Benefit Plans (Continued)

non-callable (or callable with make-whole provisions) bonds, with a total amount outstanding in excess of \$667 billion, serves as the base from which those with the lowest and highest yields are eliminated to develop the ultimate yield curve. The results of this analysis are considered together with other economic data and movements in various bond indices to determine the discount rate assumption.

The weighted average assumptions used in the measurement of KU's pension and postretirement net periodic benefit costs for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor are shown in the following table:

	Successor	Predecessor		
	2010	2010	2009	2008
Discount rate—pension	5.45%	5.46%	6.25%	6.66%
Discount rate—postretirement	4.94%	5.82%	6.36%	6.56%
Expected long-term return on plan assets	7.25%	7.75%	8.25%	8.25%
Rate of compensation increase	5.25%	5.25%	5.25%	5.25%

To develop the expected long-term rate of return on assets assumption, KU considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the current asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. The Company has determined that the 2011 expected long-term rate of return on assets assumption should be 7.25%.

The following describes the effects on pension benefits by changing the major actuarial assumptions discussed above:

- A 1% change in the assumed discount rate would have a \$39 million positive or negative impact to the 2010 accumulated benefit obligation and an approximate \$51 million positive or negative impact to the 2010 projected benefit obligation.
- A 25 basis point change in the expected rate of return on assets would have resulted in less than a \$1 million positive or negative impact to 2010 pension expense.
- A 25 basis point increase in the rate of compensation increase would have a \$3 million negative impact to the 2010 projected benefit obligation.

Assumed Health Care Cost Trend Rates

For measurement purposes, an 8% annual increase in the per capita cost of covered health care benefits was assumed for the first ten months of 2010. The rate was assumed to decrease gradually to 4.5% by 2029 and remain at that level thereafter. For the last two months of 2010, an 8% annual increase in the per capita cost of covered health care benefits was assumed and the rate was assumed to decrease gradually to 5.5% by 2019. For 2011, a 9% annual increase in the per capita cost of covered health care benefits is assumed and the rate is assumed to decrease gradually to 5.5% by 2019. This change in the length of the health care trend was made to conform to PPL's accounting policies.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 9—Pension and Other Postretirement Benefit Plans (Continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have resulted in an increase or decrease of less than \$1 million to the 2010 total of service and interest costs components and an increase or decrease of \$4 million in year end 2010 postretirement benefit obligations.

Expected Future Benefit Payments and Medicare Subsidy Receipts

The following list provides the amount of expected future benefit payments, which reflect expected future service costs and the estimated gross amount of Medicare subsidy receipts:

	<u>Pension Benefits</u>	<u>Other Postretirement Benefits</u>	<u>Medicare Subsidy Receipts</u>
2011	\$ 18	\$ 6	\$ 1
2012	18	6	—
2013	18	6	1
2014	18	7	—
2015	18	7	1
2016 - 2020	106	36	3

Plan Assets

The following table shows the pension plan's weighted average asset allocation by asset category at December 31:

	<u>Target Range</u>	<u>Successor 2010</u>	<u>Predecessor 2009</u>
Equity securities	45% - 75%	56%	59%
Debt securities	30% - 50%	24%	40%
Other	0% - 10%	20%	1%
Totals		<u>100%</u>	<u>100%</u>

The investment policy of the pension plans was developed in conjunction with financial and actuarial consultants, investment advisors and legal counsel. The goal of the investment policy is to preserve the capital of the pension plans' assets and maximize investment earnings in excess of inflation with acceptable levels of volatility. The return objective is to exceed the benchmark return for the policy index comprised of the following: Russell 3000 Index, MSCI-EAFE Index, Barclays Capital Aggregate and Barclays Capital U.S. Long Government/Credit Bond Index in proportions equal to the targeted asset allocation.

Evaluation of performance focuses on a long-term investment time horizon over rolling three and five-year periods. The assets of the pension plans are broadly diversified within different asset classes (equities, fixed income securities and cash equivalents).

To minimize the risk of large losses in a single asset class, no more than 5% of the portfolio will be invested in the securities of any one issuer with the exclusion of the U.S. government and its agencies. The equity portion of the fund is diversified among the market's various subsections to diversify risk, maximize returns and avoid undue exposure to any single economic sector, industry group

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 9—Pension and Other Postretirement Benefit Plans (Continued)

or individual security. The equity subsectors include, but are not limited to, growth, value, small capitalization and international.

In addition, the overall fixed income portfolio may have an average weighted duration, or interest rate sensitivity which is within $\pm 20\%$ of the duration of the overall fixed income benchmark. Foreign bonds in the aggregate shall not exceed 10% of the total fund. The portfolio may include a limited investment of up to 20% in below investment grade securities provided that the overall average portfolio quality remains “AA” or better. The below investment grade securities include, but are not limited to, medium-term notes, corporate debt, non-dollar and emerging market debt and asset backed securities. The cash investments should be in securities that are either short maturities (not to exceed 180 days) or readily marketable with modest risk.

Derivative securities are permitted only to improve the portfolio’s risk/return profile, to modify the portfolio’s duration or to reduce transaction costs and must be used in conjunction with underlying physical assets in the portfolio. Derivative securities that involve speculation, leverage, interest rate anticipation, or any undue risk whatsoever are not deemed appropriate investments.

The investment objective for the postretirement benefit plan is to provide current income consistent with stability of principal and liquidity while maintaining a stable net asset value of \$1.00 per share. The postretirement funds are invested in a prime cash money market fund that invests primarily in a portfolio of short-term, high-quality fixed income securities issued by banks, corporations and the U.S. government.

KU has classified plan assets that are accounted for at fair value into the three levels of the fair value hierarchy, as defined by the fair value measurements and disclosures guidance of the FASB ASC. See Note 6, Fair Value Measurements, for further information.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

A description of the valuation methodologies used to measure plan assets at fair value is provided below:

Money market funds: These investments are public investment vehicles valued using \$1 for the net asset value. The money market funds are classified within level 2 of the valuation hierarchy.

Common/collective trusts: Valued based on the beginning of year value of the plan’s interests in the trust plus actual contributions and allocated investment income (loss) less actual distributions and allocated administrative expenses. Quoted market prices are used to value investments in the trust, with the exception of the GAC. The fair value of certain other investments for which quoted market prices are not available are valued based on yields currently available on comparable securities of issuers with similar credit ratings. The common/collective trusts are classified within level 2 of the valuation hierarchy.

The preceding methods described may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 9—Pension and Other Postretirement Benefit Plans (Continued)

methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Prior to the acquisition, the GAC was considered an immediate participation guarantee contract which was not included in the fair value table. In accordance with the plan accounting guidance of the FASB ASC, the cost incurred to purchase the GAC prior to March 20, 1992, was permitted to be carried at contract value, since it is a contract with an insurance company and prior to the acquisition it was excluded from the table above. The cost incurred to fund the GAC after March 20, 1992, was carried at contract value in accordance with the plan accounting guidance of the FASB ASC, since it was a contract that incorporates mortality and morbidity risk. Contract value represents cost plus interest income less distributions for benefits and administrative expenses. To conform to PPL's accounting methods, the John Hancock GAC was classified in the fair value table as a level 3 and as "other" rather than "debt securities" in the asset allocation table for the period ended December 31, 2010.

The following table sets forth, by level within the fair value hierarchy, the plan's assets at fair value at December 31:

	Successor		Predecessor	
	Level 2	Level 3	Level 2	Level 3
Money market funds	\$ 2	\$—	\$ 2	\$—
Common/collective trusts	213	—	186	—
John Hancock—GAC	—	47	—	—
Total investments at fair value	<u>\$215</u>	<u>\$47</u>	<u>\$188</u>	<u>\$—</u>

The following table sets forth a reconciliation of changes in the fair value of the plan's level 3 assets for the following period:

	Successor
Balance at November 1, 2010	\$—
Purchases	1
Transfers into level 3	46
Balance at December 31, 2010	<u>\$47</u>

There are no assets categorized as level 1 as of December 31, 2010 and December 31, 2009.

Contributions

KU made discretionary contributions to the pension plan of \$13 million in 2010 and 2009. Servco made \$9 million and \$8 million in discretionary contributions to its pension plan in 2010 and 2009, respectively. The amount of future contributions to the pension plan will depend upon the actual return on plan assets and other factors, but the Company funds its pension obligations in a manner consistent with the Pension Protection Act of 2006. The Company made contributions totaling \$43 million in January 2011. See Note 18, Subsequent Events, for further information.

The Company made contributions to its other postretirement benefit plan of \$8 million in 2010 and \$7 million in 2009. In 2011, the Company anticipates making voluntary contributions to fund

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 9—Pension and Other Postretirement Benefit Plans (Continued)

Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Pension Legislation

The Pension Protection Act of 2006 was enacted in August 2006. New rules regarding funding of defined benefit plans are generally effective for plan years beginning in 2008. Among other matters, this comprehensive legislation contains provisions applicable to defined benefit plans which generally (i) mandate full funding of current liabilities within seven years; (ii) increase tax-deduction levels regarding contributions; (iii) revise certain actuarial assumptions, such as mortality tables and discount rates; and (iv) raise federal insurance premiums and other fees for under-funded and distressed plans. The legislation also contains a number of provisions relating to defined-contribution plans and qualified and non-qualified executive pension plans and other matters. The Company's plan met the minimum funding requirements as defined by the Pension Protection Act of 2006 for years ended December 31, 2010 and 2009.

Thrift Savings Plans

KU has a thrift savings plan under section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may defer and contribute to the plan a portion of current compensation in order to provide future retirement benefits. KU makes contributions to the plan by matching a portion of the employees' contributions. The costs of this matching were \$3 million in 2010, 2009 and 2008.

KU also makes contributions to RIAs within the thrift savings plans for certain employees not covered by the non-contributory defined benefit pension plan. These employees consist of those hired after December 31, 2005. The Company makes these contributions based on years of service and the employees' wage and salary levels, and makes them in addition to the matching contributions discussed above. The amounts contributed by the Company under this arrangement were less than \$1 million in 2010, 2009 and 2008.

Health Care Reform

In March 2010, Health Care Reform (the Patient Protection and Affordable Care Act of 2010) was signed into law. Many provisions of Health Care Reform do not take effect for an extended period of time and many aspects of the law which are currently unclear or undefined will likely be clarified in future regulations.

During 2010, KU recorded an income tax expense of less than \$1 million to recognize the impact of the elimination of the tax deduction related to the Medicare Retiree Drug Subsidy that becomes effective in 2013.

Specific provisions within Health Care Reform that may impact KU include:

- Beginning in 2011, requirements extend dependent coverage up to age 26, remove the \$2 million lifetime maximum and eliminate cost sharing for certain preventative care procedures.
- Beginning in 2018, a potential excise tax is expected on high-cost plans providing health coverage that exceeds certain thresholds.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 9—Pension and Other Postretirement Benefit Plans (Continued)

The Company has evaluated these provisions of Health Care Reform on its benefit programs in consultation with its actuarial consultants and has determined that the excise tax will not have an impact on its postretirement medical plans. The requirement to extend dependent coverage up to age 26 is not expected to have a significant impact on active or retiree medical costs. The Company will continue to monitor the potential impact of any changes to the existing provisions and implementation guidance related to Health Care Reform on its benefit programs.

Note 10—Income Taxes

KU's federal income tax return is included in a United States consolidated income tax return filed by LKE's direct parent. Prior to October 31, 2010 the return was included in the consolidated return of E.ON US Investments Corp. Due to the acquisition by PPL, the return will be included in the consolidated PPL return beginning November 1, 2010, for each tax period. Each subsidiary of the consolidated tax group, including KU, calculates its separate income tax for each period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. The Company also files income tax returns in various state jurisdictions. While 2007 and later years are open under the federal statute of limitations, Revenue Agent Reports for 2007-2008 have been received from the IRS, effectively closing these years to additional audit adjustments. Tax years beginning with 2007 were examined under an IRS program, Compliance Assurance Process ("CAP"). This program accelerates the IRS's review to begin during the year applicable to the return and ends 90 days after the return is filed. KU had no adjustments for the 2007 federal tax return. For 2008, the IRS allowed additional deductions in connection with the Company's application for a change in repair deductions and disallowed certain bonus depreciation claimed on the original return. The net temporary tax impact for the Company was a \$12 million reduction in tax and was recorded in the second quarter of 2010. The 2009 federal return was filed in the third quarter of 2010 and the IRS issued a Partial Acceptance Letter in connection with CAP. The IRS is continuing to review bonus depreciation, storms and other repairs. No net material adverse impact is expected from these remaining areas. The short tax year beginning January 1, 2010 through October 31, 2010, is also being examined under CAP. No material items have been raised by the IRS at this time. The two month period beginning November 1, 2010 and ending December 31, 2010 is not currently under examination.

Additions and reductions of uncertain tax positions during 2010, 2009 and 2008 were less than \$1 million. Possible amounts of uncertain tax positions for KU that may decrease within the next 12 months total less than \$1 million and are based on the expiration of the audit periods as defined in the statutes. If recognized, the less than \$1 million of unrecognized tax benefits would reduce the effective income tax rate.

The amount KU recognized as interest expense and interest accrued related to unrecognized tax benefits was less than \$1 million for the twelve month periods ended and as of December 31, 2010, 2009 and 2008. The interest expense and interest accrued is based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes. At the date of adoption, the Company accrued less than \$1 million in interest expense on uncertain tax positions. KU records the interest as "Interest expense" and penalties, if any, as "Operating expenses" on the Statements of Income and "Other current liabilities" on the Balance Sheets, on a pre-tax basis. No penalties were accrued by the Company through December 31, 2010.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 10—Income Taxes (Continued)

Components of income tax expense are shown in the table below:

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009 2008	
Current:				
Federal	\$13	\$46	\$(5)	\$ 46
State	3	9	1	10
Deferred:				
Federal—net	4	20	43	(10)
State—net	—	3	7	(3)
Investment tax credit—deferred	—	—	21	25
Total income tax expense	<u>\$20</u>	<u>\$78</u>	<u>\$67</u>	<u>\$ 68</u>

In June 2006, KU and LG&E filed a joint application with the U.S. Department of Energy (“DOE”) requesting certification to be eligible for an investment tax credit applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that KU and LG&E were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, KU received an Order from the Kentucky Commission approving the accounting of the investment tax credit, which includes a full depreciation basis adjustment for the amount of the credit. KU’s portion of the TC2 tax credit is approximately \$101 million. Based on eligible construction expenditures incurred, KU recorded an investment tax credit of \$21 million and \$25 million in 2009 and 2008, respectively, decreasing current federal income taxes. As of December 31, 2009, KU had recorded its maximum credit of \$101 million. The income tax expense impact from amortizing this credit over the life of the related property began when the facility was placed in service in January 2011.

In March 2008, certain environmental and preservation groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was in violation of certain environmental laws and demanded relief, including suspension or termination of the program. The plaintiffs voluntarily dismissed their complaint in August 2010.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 10—Income Taxes (Continued)

Components of deferred income taxes included in the Balance Sheets are shown below:

	Successor December 31, 2010	Predecessor December 31, 2009
Deferred income tax liabilities:		
Depreciation and other plant-related items	\$347	\$303
Regulatory assets and other	133	69
Total deferred income tax liabilities	480	372
Deferred income tax assets:		
Regulatory liabilities and other	80	—
Income taxes due to customers	2	4
Pensions and related benefits	9	17
Liabilities and other	19	18
Total deferred income tax assets	110	39
Net deferred income tax liabilities	\$370	\$333
Balance sheet classification:		
Prepayments and other current assets	\$ (6)	\$ (3)
Deferred income taxes (non-current)	376	336
Net deferred income tax liabilities	\$370	\$333

The Company expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

A reconciliation of differences between the income tax expense at the statutory U.S. federal income tax rate and KU's actual income tax expense follows:

	Successor	Predecessor	
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009 2008
Statutory federal income tax expense	\$19	\$77	\$70 \$79
State income taxes—net of federal benefit	2	8	5 5
Qualified production activities deduction	(1)	(4)	(1) (3)
Dividends received deduction related to EEI investment	—	—	(3) (8)
Reversal of excess deferred taxes	—	(2)	(2) (1)
Other differences—net	—	(1)	(2) (4)
Income tax expense	\$20	\$78	\$67 \$68
Effective income tax rate	36.4%	35.8%	33.5% 30.1%

The Tax Relief, Unemployment Reauthorization and Job Creation Act of 2010, enacted December 17, 2010 provided, among other provisions, certain incentives related to bonus depreciation

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 10—Income Taxes (Continued)

and 100% expensing of qualifying capital expenditures. KU benefited from these new provisions by reducing its 2010 current federal income tax expense. This reduction in federal taxable income for KU does, however, result in a reduction of KU's Section 199 Manufacturing deduction, which is based on manufacturing taxable income and correspondingly increases income tax expense. The impact from these changes on 2010 was not material; however, KU anticipates a significant reduction of taxable income in 2011 and 2012 and a corresponding loss of most, if not all, of the Section 199 Manufacturing deduction for the following two years.

Note 11—Long-Term Debt

As summarized below, at December 31, 2010, long-term debt consisted of first mortgage bonds and secured pollution control bonds. At December 31, 2009, long-term debt and the current portion of long-term debt consisted primarily of pollution control bonds and long-term loans from affiliated companies.

	<u>Successor</u> <u>2010</u>	<u>Predecessor</u> <u>2009</u>
Current portion of long-term debt to affiliates	\$ —	\$ 33
Long-term debt to affiliated companies	—	1,298
Secured first mortgage bonds, net of debt discount and amortization of debt discount	1,500	—
Pollution control revenue bonds, collateralized by first mortgage bonds	351	351
Fair value adjustment from purchase accounting	1	—
Unamortized discount	(11)	—
Total long-term debt	<u>1,841</u>	<u>1,682</u>
Less current portion	—	261
Long-term debt, excluding current portion	<u>\$1,841</u>	<u>\$1,421</u>

	<u>Stated Interest Rates</u>	<u>Maturities</u>	<u>Debt</u> <u>Amounts</u>
<i>Successor</i>			
Outstanding at December 31, 2010:			
Current portion	N/A	N/A	\$ —
Non-current portion	Variable—6.00%	2015 - 2040	1,841
<i>Predecessor</i>			
Outstanding at December 31, 2009:			
Current portion	Variable—4.240%	2010 - 2034	\$ 261
Non-current portion	Variable—7.035%	2011 - 2037	1,421

As of December 31, 2009, long-term debt includes \$228 million of pollution control bonds that were classified as current portion because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Carroll County 2002 Series A and B, 2004 Series A, 2006 Series B and 2008 Series A;

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 11—Long-Term Debt (Continued)

Muhlenberg County 2002 Series A; and Mercer County 2000 Series A and 2002 Series A. Maturity dates for these bonds range from 2023 to 2034. As of December 31, 2009, the bonds were classified as current portion of long-term debt because investors could put the bonds back to the Company within one year. As of December 31, 2010, the bonds were reclassified as long-term debt. See Note 1, Summary of Significant Accounting Policies, for changes in classification.

Pollution control bonds are obligations of KU issued in connection with tax-exempt pollution control bonds by various counties in Kentucky. A loan agreement obligates the Company to make debt service payments to the counties in amounts equal to the debt service due from the counties on the related pollution control bonds. Depending on the type of expense, the Successor capitalized debt expenses in long-term other regulatory assets or long-term other assets to align with the term of the debt for which the expenses were related. The Predecessor capitalized debt expenses in current or long-term other regulatory assets or other current or long-term other assets based on the amount of expense expected to be recovered within the next year through rate recovery. Both Predecessor and Successor amortized debt expenses over the lives of the related bond issues. The Predecessor presentation and the Successor presentation are both appropriate under regulatory practices and GAAP.

In October 2010, in order to secure their respective obligations with respect to the pollution control bonds, KU issued first mortgage bonds to the pollution control bond trustees. KU's first mortgage bonds contain terms and conditions that are substantially parallel to the terms and conditions of the counties' debt, but provide that obligations are deemed satisfied to the extent of payments under the related loan agreement, and thus generally require no separate payment of principal and interest except under certain circumstances, including should KU default on the respective loan agreement. Also in October 2010, one national rating agency revised downward the short-term credit rating of the pollution control bonds and the Company's issuer rating as a result of the pending acquisition by PPL.

Several series of KU's pollution control bonds are insured by monoline bond insurers whose ratings have been reduced due to exposures relating to insurance of sub-prime mortgages. At December 31, 2010, KU had an aggregate \$351 million of outstanding pollution control indebtedness, of which \$96 million is in the form of insured auction rate securities wherein interest rates are reset every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. Since 2008, interest rates increased and the Company experienced "failed auctions" when there were insufficient bids for the bonds. When a failed auction occurs, the interest rate is set pursuant to a formula stipulated in the indenture.

The average annualized interest rates on the auction rate bonds follow:

Successor	Predecessor	
November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	December 31, 2009
0.53%	0.51%	0.44%

The instruments governing this auction rate bond permit KU to convert the bond to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 11—Long-Term Debt (Continued)

As a result of downgrades of the monoline insurers by all of the rating agencies to levels below that of the Company's rating, the debt ratings of the Company's insured bonds are all based on the Company's senior secured debt rating and are not influenced by the monoline bond insurer ratings.

In connection with the PPL acquisition, on November 1, 2010, KU borrowed \$1,331 million from a PPL subsidiary, in order to repay loans from a subsidiary of E.ON. KU used the net proceeds received from the sale of the first mortgage bonds to repay the debt owed to the PPL subsidiary arising from the borrowing.

In November 2010, KU issued first mortgage bonds totaling \$1,500 million and used the proceeds to repay the loans from a PPL subsidiary mentioned above and for general corporate purposes. The first mortgage bonds were issued at a discount as described in the table below:

<u>First Mortgage Bonds</u>	<u>Principal</u>	<u>Discount Price</u>	<u>First Mortgage Bonds Proceeds(a)</u>
Series due 2015	\$ 250	99.650%	\$ 249
Series due 2020	500	99.622%	498
Series due 2040	750	98.915%	742
Total	<u>\$1,500</u>		<u>\$1,489</u>

(a) Before expenses other than discount to Purchaser

The first mortgage bonds were issued by KU in accordance with the rules of Section 144A of the Securities Act of 1933. KU has entered into a registration rights agreement in which it has agreed to file a registration statement with the SEC relating to an offer to exchange the first mortgage bonds for publicly tradable securities having substantially identical terms. If ultimate registration and/or certain milestones are not completed by certain dates in mid- and late 2011, the Company has agreed to pay liquidated damages to the bondholders. The liquidated damages would total 0.25% per annum of the principal amount of the bonds for the first 90 days and 0.50% per annum of the principal amount thereafter until the conditions described above have been cured.

There were no redemptions or maturities of long-term debt for 2009. Redemptions and maturities of long-term debt for 2010 are summarized below:

<u>Year</u>	<u>Description</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Secured/ Unsecured</u>	<u>Maturity</u>
<i>Successor</i>					
2010	Due to PPL Investment Corp.	\$1,331	4.24% - 7.035%	Unsecured	2010 - 2037
2010	Due to E.ON affiliates	1,331	4.24% - 7.035%	Unsecured	2010 - 2037

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 11—Long-Term Debt (Continued)

Issuances of long-term debt for 2010 and 2009 are summarized below:

<u>Year</u>	<u>Description</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Secured/ Unsecured</u>	<u>Maturity</u>
<i>Successor</i>					
2010	Due to PPL Investment Corp.	\$1,331	4.24% - 7.035%	Unsecured	2010 - 2037
2010	First mortgage bonds	250	1.625%	Secured	2015
2010	First mortgage bonds	500	3.25%	Secured	2020
2010	First mortgage bonds	750	5.125%	Secured	2040
<i>Predecessor</i>					
2009	Due to E.ON affiliates	50	4.445%	Unsecured	2019
2009	Due to E.ON affiliates	50	4.81%	Unsecured	2019
2009	Due to E.ON affiliates	50	5.28%	Unsecured	2017

As of December 31, 2010, all of the Company's long-term debt is secured by a first mortgage lien on substantially all of the real and tangible personal property of the Company located in Kentucky.

Long-term debt maturities for KU are shown in the following table:

2011	\$ —
2012	—
2013	—
2014	—
2015	250
Thereafter	<u>1,601</u>
	<u>\$1,851</u>

KU was in compliance with all debt covenants at December 31, 2010.

See Note 1, Summary of Significant Accounting Policies, for certain debt refinancing and associated transactions completed by KU in connection with the PPL acquisition, Note 2, Acquisition by PPL, for the adjustment made to the pollution control bonds to reflect fair value and Note 15, Related Party Transactions, for long-term debt payable to affiliates.

Note 12—Notes Payable and Other Short-Term Obligations

Intercompany Revolving Line of Credit

KU participates in an intercompany money pool agreement wherein LKE and/or LG&E make funds available to KU at market-based rates (based on highly rated commercial paper issues) of up to \$400 million. Details of the balances are as follows:

	<u>Total Money Pool Available</u>	<u>Amount Outstanding</u>	<u>Balance Available</u>	<u>Average Interest Rate</u>
December 31, 2010, Successor	\$400	\$10	\$390	0.25%
December 31, 2009, Predecessor . .	400	45	355	0.20%

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 12—Notes Payable and Other Short-Term Obligations (Continued)

LKE maintains revolving credit facilities totaling \$300 million at December 31, 2010 and \$313 million at December 31, 2009, to ensure funding availability for the money pool. At December 31, 2010, the LKE facility is with PPL Investment Corp. LKE pays PPL Investment Corp. an annual commitment fee based on the Utilities' current bond ratings on the unused portion of the commitment. At December 31, 2009, one facility, totaling \$150 million, was with E.ON North America, Inc., while the remaining line, totaling \$163 million, was with Fidelia, both affiliated companies of E.ON. The balances are as follows:

	<u>Total Available</u>	<u>Amount Outstanding</u>	<u>Balance Available</u>	<u>Average Interest Rate</u>
December 31, 2010, Successor	\$300	\$ —	\$300	N/A
December 31, 2009, Predecessor	313	276	37	1.25%

Bank Revolving Line of Credit

As of December 31, 2010, the Company maintained a \$400 million revolving line of credit with a group of banks maturing in December 2014. The revolving line of credit allows KU to issue letters of credit or borrow funds up to \$400 million. Outstanding letters of credit reduce the facility's available borrowing capacity. The Company pays the banks an annual commitment fee based on current bond ratings on the unused portion of the commitment. At December 31, 2010, there was no amount borrowed under this facility although letters of credit totaling \$198 million have been issued under this facility. This credit agreement contains financial covenants requiring the borrower's debt to total capitalization ratio to not exceed 70%, as calculated pursuant to the credit agreement, and other customary covenants.

As of December 31, 2009, the Company maintained a \$35 million bilateral line of credit with an unaffiliated financial institution maturing in June 2012. The Company paid the banks an annual commitment fee on the unused portion of the commitment. At December 31, 2009, there was no balance outstanding under this facility. This facility was terminated on November 1, 2010, in conjunction with the PPL acquisition.

On December 1, 2010, KU replaced the letters of credit issued under prior letter of credit facilities with letters of credit of the same amount issued under the revolving line of credit. The four letter of credit facilities were subsequently terminated.

KU was in compliance with all line of credit covenants at December 31, 2010.

See Note 1, Summary of Significant Accounting Policies, for certain debt refinancing and associated transactions completed by KU in connection with the PPL acquisition and Note 15, Related Party Transactions, for long-term debt payable to affiliates.

Note 13—Commitments and Contingencies

Operating Leases

KU leases office space, office equipment, plant equipment, real estate, railcars, telecommunications and vehicles and accounts for these leases as operating leases. In addition, KU reimburses LG&E for a portion of the lease expense paid by LG&E for KU's usage of office space leased by LG&E. Total lease expense was \$10 million, \$10 million and \$9 million for 2010, 2009 and 2008, respectively. The

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 13—Commitments and Contingencies (Continued)

future minimum annual lease payments for operating leases for years subsequent to December 31, 2010, are shown in the following table:

2011	\$ 8
2012	7
2013	5
2014	5
2015	3
Thereafter	<u>1</u>
	<u>\$29</u>

Owensboro Contract Litigation and Termination

In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit against KU concerning a long-term power supply contract (the “OMU Agreement”) with KU. In May 2009, KU and OMU executed a settlement agreement resolving the matter on a basis consistent with prior court rulings and KU has received the agreed settlement amounts. Pursuant to the settlement’s operation, the OMU Agreement terminated in May 2010.

Sale and Leaseback Transaction

The Company is a participant in a sale and leaseback transaction involving its 62% interest in two jointly owned CTs at KU’s E.W. Brown generating station (Units 6 and 7). Commencing in December 1999, KU and LG&E entered into a tax-efficient, 18-year lease of the CTs. The Utilities have provided funds to fully defease the lease and have executed an irrevocable notice to exercise an early purchase option contained in the lease after 15.5 years. The financial statement treatment of this transaction is no different than if the Utilities had retained its ownership interest. The leasing transaction was entered into following receipt of required state and federal regulatory approvals. At December 31, 2010, the Balance Sheets included these assets at a value of \$65 million, which is reflected in “Regulated utility plant—electric.”

In case of default under the lease, the Company is obligated to pay to the lessor its share of certain fees or amounts. Primary events of default include loss or destruction of the CTs, failure to insure or maintain the CTs and unwinding of the transaction due to governmental actions. No events of default currently exist with respect to the lease. Upon any termination of the lease, whether by default or expiration of its term, title to the CTs reverts jointly to KU and LG&E.

At December 31, 2010, the maximum aggregate amount of default fees or amounts was \$7 million, of which KU would be responsible for 62% (approximately \$4 million). The Company has made arrangements with LKE, via guarantee and regulatory commitment, for LKE to pay its full portion of any default fees or amounts.

Letters of Credit

KU has provided letters of credit as of December 31, 2010 and 2009, for on-balance sheet obligations totaling \$198 million to support bonds of \$195 million and letters of credit for off-balance

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 13—Commitments and Contingencies (Continued)

sheet obligations totaling less than \$1 million to support certain obligations related to workers' compensation.

Commodity Purchases

OVEC

KU has a contract for power purchases with OVEC, terminating in 2026, for various Mw capacities. KU holds a 2.5% investment interest in OVEC with ten other electric utilities. KU is not the primary beneficiary; therefore, the investment is not consolidated into the Company's financial statements, but is recorded on the cost basis. OVEC is located in Piketon, Ohio, and owns and operates two coal-fired power plants, Kyger Creek Station in Ohio, and Clifty Creek Station in Indiana. KU is contractually entitled to 2.5% of OVEC's output, approximately 60 Mw of nameplate generation capacity. Pursuant to the OVEC power purchase contract, the Company may be conditionally responsible for a 2.5% pro-rata share of certain obligations of OVEC under defined circumstances. These contingent liabilities may include unpaid OVEC indebtedness as well as shortfall amounts in certain excess decommissioning costs and postretirement benefits other than pension. KU's contingent potential proportionate share of OVEC's December 31, 2010 outstanding debt was \$35 million. Future obligations for power purchases from OVEC are demand payments, comprised of annual minimum debt service payments, as well as contractually required reimbursement of plant operating, maintenance and other expenses, and are shown in the following table:

2011	\$ 9
2012	10
2013	10
2014	10
2015	10
Thereafter	<u>114</u>
	<u>\$163</u>

Coal and Natural Gas Transportation Purchase Obligations

KU has contracts to purchase coal and natural gas transportation. Future obligations are shown in the following table:

2011	\$439
2012	200
2013	144
2014	93
2015	91
Thereafter	<u>14</u>
	<u>\$981</u>

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 13—Commitments and Contingencies (Continued)

Construction Program

KU had approximately \$116 million of commitments in connection with its construction program at December 31, 2010.

In June 2006, KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price. During 2009 and 2010, KU received several contractual notices from the TC2 construction contractor asserting historical force majeure and excusable event claims for a number of adjustments to the contract price, construction schedule, commercial operations date, liquidated damages or other relevant provisions. In September 2010, KU and the construction contractor agreed to a settlement to resolve the force majeure and excusable event claims occurring through July 2010, under the TC2 construction contract, which settlement provided for a limited, negotiated extension of the contractual commercial operations date and/or relief from liquidated damage calculations. With limited exceptions the Company took care, custody and control of TC2 on January 22, 2011, and has dispatched the unit to meet customer demand since that date. KU and the contractor agreed to a further amendment of the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. KU cannot currently estimate the ultimate outcome of these matters.

TC2 Air Permit

The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the KDAQ in November 2005. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order upholding the permit. The environmental groups petitioned the EPA to object to the state permit and subsequent permit revisions. In determinations made in September 2008 and June 2009, the EPA rejected most of the environmental groups' claims but identified three permit deficiencies which the KDAQ addressed by revising the permit. In August 2009, the EPA issued an Order denying the remaining claims with the exception of two additional deficiencies which the KDAQ was directed to address. The EPA determined that the proposed permit subsequently issued by the KDAQ satisfied the conditions of the EPA Order although the agency recommended certain enhancements to the administrative record. In January 2010, the KDAQ issued a final permit revision incorporating the proposed changes to address the two EPA objections. In March 2010, the Sierra Club submitted a petition to the EPA to object to the permit revision, which is now pending before the EPA. The Company believes that the final permit as revised should not have a material adverse effect on its financial condition or results of operations. However, until the EPA issues a final ruling on the pending petition and all applicable appeals have been exhausted, the Company cannot predict the final outcome of this matter.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 13—Commitments and Contingencies (Continued)

Environmental Matters

The Company's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. As indicated below and summarized at the conclusion of this section, evolving environmental regulations will likely increase the level of capital and operating and maintenance expenditures incurred by the Company during the next several years. Based upon prior regulatory precedent, the Company believes that many costs of complying with such pending or future requirements would likely be recoverable under the ECR or other potential cost-recovery mechanisms, but the Company can provide no assurance as to the ultimate outcome of such proceedings before the regulatory authorities.

Ambient Air Quality

The Clean Air Act requires the EPA to periodically review the available scientific data for six criteria pollutants and establish concentration levels in the ambient air sufficient to protect the public health and welfare with an extra margin for safety. These concentration levels are known as NAAQS. Each state must identify "nonattainment areas" within its boundaries that fail to comply with the NAAQS and develop a SIP to bring such nonattainment areas into compliance. If a state fails to develop an adequate plan, the EPA must develop and implement a plan. As the EPA increases the stringency of the NAAQS through its periodic reviews, the attainment status of various areas may change, thereby triggering additional emission reduction obligations under revised SIPs aimed to achieve attainment.

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO₂ and NO_x emissions from power plants. In 1998, the EPA issued its final "NO_x SIP Call" rule requiring reductions in NO_x emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NO_x emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which required additional SO₂ emission reductions of 70% and NO_x emission reductions of 65% from 2003 levels. The CAIR provided for a two-phase cap and trade program, with initial reductions of NO_x and SO₂ emissions due by 2009 and 2010, respectively, and final reductions due by 2015. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR.

In July 2008, a federal appeals court issued a ruling finding deficiencies in the CAIR and vacating it. In December 2008, the Court amended its previous Order, directing the EPA to promulgate a new regulation but leaving the CAIR in place in the interim. The remand of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and the Utilities' compliance plans relating thereto due to the interconnection of the CAIR with such associated programs.

In January 2010, the EPA proposed a revised NAAQS for ozone which would increase the stringency of the standard. In addition, the EPA published final revised NAAQS standards for NO₂ and SO₂ in February 2010 and June 2010, respectively, which are more stringent than previous standards. Depending on the level of action determined necessary to bring local nonattainment areas into

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 13—Commitments and Contingencies (Continued)

compliance with the revised NAAQS standards, KU's power plants are potentially subject to requirements for additional reductions in SO₂ and NO_x emissions.

In July 2010, the EPA issued the proposed CATR, which serves to replace the CAIR. The CATR provides for a two-phase SO₂ reduction program with Phase I reductions due by 2012 and Phase II reductions due by 2014. The CATR provides for NO_x reductions in 2012, but the EPA advised that it is studying whether additional NO_x reductions should be required for 2014. The CATR is more stringent than the CAIR as it accelerates certain compliance dates and provides for only intrastate and limited interstate trading of emission allowances. In addition to its preferred approach, the EPA is seeking comment on an alternative approach which would provide for individual emission limits at each power plant. The EPA has announced that it will propose additional "transport" rules to address compliance with revised NAAQS standards for ozone and particulate matter which will be issued by the EPA in the future, as discussed below.

Hazardous Air Pollutants

As provided in the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provided for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets would be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR.

In February 2008, a federal appellate court issued a decision vacating the CAMR. The EPA has entered into a consent decree requiring it to promulgate a utility Maximum Achievable Control Technology rule to replace the CAMR with a proposed rule due by March 2011 and a final rule by November 2011. Depending on the final outcome of the rulemaking, the CAMR could be replaced by new rules with different or more stringent requirements for reduction of mercury and other hazardous air pollutants. Kentucky has also repealed its corresponding state mercury regulations.

Acid Rain Program

The Clean Air Act imposed a two-phased cap and trade program to reduce SO₂ emissions from power plants that were thought to contribute to "acid rain" conditions in the northeastern U.S. The Clean Air Act also contains requirements for power plants to reduce NO_x emissions through the use of available combustion controls.

Regional Haze

The Clean Air Act also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas. In 2005, the EPA issued its Clean Air Visibility Rule detailing how the Clean Air Act's BART requirements will be applied to facilities, including power plants built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, as the CAIR provided for more

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 13—Commitments and Contingencies (Continued)

visibility improvement than BART, states are allowed to substitute CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The final rule has been challenged in the courts. Additionally, because the regional haze SIPs incorporate certain CAIR requirements, the remand of the CAIR could potentially impact regional haze SIPs. See “Ambient Air Quality” above for a discussion of CAIR-related uncertainties.

Installation of Pollution Controls

Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. KU met its Phase I SO₂ requirements primarily through installation of FGD equipment on Ghent Unit 1. KU’s strategy for its Phase II SO₂ requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emission allowances and fuel switching to defer certain additional capital expenditures and continue to evaluate improvements to further reduce SO₂ emissions. KU believes its costs in reducing SO₂, NO_x and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU’s compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. KU expects to incur additional capital expenditures currently approved in its ECR plans totaling approximately \$500 million during the 2011 through 2013 time period to achieve emissions reductions and manage coal combustion residuals. Monthly recovery is subject to periodic review by the Kentucky Commission.

GHG Developments

In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. As discussed below, legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs, including 11 northeastern U.S. states and the District of Columbia under the *Regional GHG Initiative program* and California. Substantial efforts to pass federal GHG legislation are on-going. The current administration has announced its support for the adoption of mandatory GHG reduction requirements at the federal level. The United States and other countries met in Copenhagen, Denmark, in December 2009, in an effort to negotiate a GHG reduction treaty to succeed the Kyoto Protocol, which is set to expire in 2013. In Copenhagen, the U.S. made a nonbinding commitment to, among other things, seek to reduce GHG emissions to 17% below 2005 levels by 2020 and provide financial support to developing countries. The United States and other nations met in Cancun, Mexico, in December 2010 to continue negotiations toward a binding agreement.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 13—Commitments and Contingencies (Continued)

GHG Legislation

KU is monitoring on-going efforts to enact GHG reduction requirements and requirements governing carbon sequestration at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. In June 2009, the U.S. House of Representatives passed the American Clean Energy and Security Act of 2009, which was a comprehensive energy bill containing the first-ever nation-wide GHG cap and trade program. The bill provided for reductions in GHG emissions of 3% below 2005 levels by 2012, 17% by 2020 and 83% by 2050. In order to cushion potential rate impacts for utility customers, approximately 43% of emissions allowances would have initially been allocated at no cost to the electric utility sector, with this allocation gradually declining to 7% in 2029 and zero thereafter. The bill would have also established a renewable electricity standard requiring utilities to meet 20% of their electricity demand through renewable energy and energy efficiency by 2020. The bill contained additional provisions regarding carbon capture and sequestration, clean transportation, smart grid advancement, nuclear and advanced technologies and energy efficiency.

In September 2009, the Clean Energy Jobs and American Power Act, which was largely patterned on the House legislation, was introduced in the U.S. Senate. The Senate bill raised the emissions reduction target for 2020 to 20% below 2005 levels and did not include a renewable electricity standard. While the initial bill lacked detailed provisions for the allocation of emissions allowances, a subsequent revision incorporated allowance allocation provisions similar to the House bill. Although Senators Kerry and Lieberman and others worked to reach a consensus on GHG legislation, no bill passed the Senate in 2010. The Company is closely monitoring the progress of pending energy legislation, but the prospect for passage of comprehensive GHG legislation in 2011 is uncertain.

GHG Regulations

In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. In April 2009, the EPA issued a proposed endangerment finding concluding that GHGs endanger public health and welfare, which is an initial rulemaking step under the Clean Air Act. A final endangerment finding was issued in December 2009. In September 2009, the EPA issued a final GHG reporting rule requiring reporting by facilities with annual GHG emissions equivalent to at least 25,000 tons of carbon dioxide. A number of the Company's facilities are required to submit annual reports commencing with calendar year 2010. In May 2010, the EPA issued a final GHG "tailoring" rule, effective January 2011, requiring new or modified sources with GHG emissions equivalent to at least 75,000 tons of carbon dioxide to obtain permits under the Prevention of Significant Deterioration Program. Such new or modified facilities would be required to install Best Available Control Technology. While the Company is unaware of any currently available GHG control technology that might be required for installation on new or modified power plants, it is currently assessing the potential impact of the rule. The final rule will apply to new and modified power plants beginning in January 2011. The Company is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted through legislation or regulations. In December 2010, the EPA announced that it plans to promulgate GHG New Source Performance Standards for power plants, including both new and existing facilities. A proposed rule is expected by July 2011, while a final rule is expected by May 2012. In the absence of either a proposed or final regulation, KU is unable to assess the potential impact of any future regulation.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 13—Commitments and Contingencies (Continued)

GHG Litigation

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting facilities. In October 2009, a three judge panel of the United States Court of Appeals for the 5th Circuit in the case of *Comer v. Murphy Oil* reversed a lower court, holding that private plaintiffs have standing to assert certain common law claims against more than 30 utility, oil, coal and chemical companies. In March 2010, the court vacated the opinion of the three-judge panel and granted a motion for rehearing but subsequently denied the appeal due to the lack of a quorum. The appellate ruling leaves in effect the lower court ruling dismissing the plaintiffs' claims. In January 2011, the Supreme Court denied petitioner's petition for review, which effectively brings the case to an end. The *Comer* complaint alleged that GHG emissions from the defendants' facilities contributed to global warming which increased the intensity of Hurricane Katrina. E.ON, the former indirect parent of the Utilities, was named as a defendant in the complaint but was not a party to the proceedings due to the failure of the plaintiffs to pursue service under the applicable international procedures. KU continues to monitor relevant GHG litigation to identify judicial developments that may be potentially relevant to operations.

Ghent Opacity NOV

In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of KU's Ghent generating station. The parties have met on this matter and KU has received no further communications from the EPA. The Company is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

Ghent New Source Review NOV

In March 2009, the EPA issued an NOV alleging that KU violated certain provisions of the Clean Air Act's rules governing new source review and prevention of significant deterioration by installing FGD and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. In December 2009, the EPA issued a Section 114 information request seeking additional information on this matter. In March 2010, the Company received an EPA settlement proposal providing for imposition of additional permit limits and emission controls and anticipates continued settlement negotiations with the EPA. Negotiations between the EPA and KU are ongoing. Depending on the provisions of a final settlement or the results of litigation, if any, resolution of this matter could involve significant increased operating and capital expenditures. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination on the Company's financial position or results of operations.

Ash Ponds and Coal-Combustion Byproducts

The EPA has undertaken various initiatives in response to the December 2008 impoundment failure at the TVA's Kingston power plant, which resulted in a major release of coal combustion byproducts into the environment. The EPA issued information requests to utilities throughout the country, including KU, to obtain information on their ash ponds and other impoundments. In addition, the EPA inspected a large number of impoundments located at power plants to determine their

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 13—Commitments and Contingencies (Continued)

structural integrity. The inspections included several of KU's impoundments, which the EPA found to be in satisfactory condition. In June 2010, the EPA published proposed regulations for coal combustion byproducts handled in landfills and ash ponds. The EPA has proposed two alternatives: (1) regulation of coal combustion byproducts in landfills and ash ponds as a hazardous waste or (2) regulation of coal combustion byproducts as a solid waste with minimum national standards. Under both alternatives, the EPA has proposed safety requirements to address the structural integrity of ash ponds. In addition, the EPA will consider potential refinements of the provisions for beneficial reuse of coal combustion byproducts.

Water Discharges and PCB Regulations

The EPA has also announced plans to develop revised effluent limitation guidelines governing discharges from power plants and standards for cooling water intake structures. The EPA has further announced plans to develop revised standards governing the use of polychlorinated biphenyls ("PCB") in electrical equipment. The Company is monitoring these ongoing regulatory developments but will be unable to determine the impact until such time as new rules are finalized.

Impact of Pending and Future Environmental Developments

As a company with significant coal-fired generating assets, KU will likely be substantially impacted by pending or future environmental rules or legislation requiring mandatory reductions in GHG emissions or other air emissions, imposing more stringent standards on discharges to waterways, or establishing additional requirements for handling or disposal of coal combustion byproducts. These evolving environmental regulations will likely require an increased level of capital expenditures and increased incremental operating and maintenance costs by the Company over the next several years. Due to the uncertain nature of the final regulations that will ultimately be adopted by the EPA, including the reduction targets and the deadlines that will be applicable, the Company cannot finalize estimates of the potential compliance costs, but should the final rules incorporate additional emission reduction requirements, require more stringent emissions controls or implement more stringent byproducts storage and disposal practices, such costs will likely be significant. With respect to NAAQS, CATR, CAMR replacement and coal combustion byproducts developments, based upon a preliminary analysis of proposed regulations, the Company may be required to consider actions such as upgrading existing emissions controls, installing additional emissions controls, upgrading byproducts disposal and storage and possible early replacement of coal-fired units. Capital expenditures for KU associated with such actions are preliminarily estimated to be in the \$1.5 to \$1.7 billion range over the next ten years, although final costs may substantially vary. With respect to potential developments in water discharge, revised PCB standards or GHG initiatives, costs in such areas cannot be estimated due to the preliminary status or uncertain outcome of such developments, but would be in addition to the above amount and could be substantial. Ultimately, the precise impact on the Company's operations of these various environmental developments cannot be determined prior to the finalization of such requirements. Based upon prior regulatory precedent, the Company believes that many costs of complying with such pending or future requirements would likely be recoverable under the ECR or other potential cost-recovery mechanisms, but the Company can provide no assurance as to the ultimate outcome of such proceedings before the regulatory authorities.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 13—Commitments and Contingencies (Continued)

TC2 Water Permit

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County generating station. In October 2010, the hearing officer issued a report and recommended Order providing for dismissal of the claims raised by the petitioners. In December 2010, the Secretary issued a final Order dismissing all claims and upholding the permit which petitioners subsequently appealed to Trimble County Circuit Court.

General Environmental Proceedings

From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include a prior Section 114 information request from the EPA relating to new-source review issues at KU's Ghent unit 2; completed settlement with state regulators regarding compliance with particulate limits in the air permit for KU's Tyrone generating station; remediation obligations or activities for or other risks relating to elevated PCB levels at existing properties; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; and on-going claims regarding the GHG emissions from the Company's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the Company's operations.

Note 14—Jointly Owned Electric Utility Plant

TC2 is a jointly owned unit at the Trimble County site. KU and LG&E own undivided 60.75% and 14.25% interests, respectively. Of the remaining 25%, IMEA owns a 12.12% undivided interest and IMPA owns a 12.88% undivided interest. Each company is responsible for its proportionate share of capital cost during construction and fuel, operation and maintenance cost when TC2 is in-service. With limited exceptions the Company took care, custody and control of TC2 on January 22, 2011, and has dispatched the unit to meet customer demand since that date. KU and the contractor agreed to a further amendment of the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. In December 2009 and June 2008, LG&E sold assets to KU related to the construction of TC2 with a net book value of \$48 million and \$10 million, respectively.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 14—Jointly Owned Electric Utility Plant (Continued)

The following data represent shares of the jointly owned property (capacity based on nameplate rating):

	TC2				
	KU	LG&E	IMPA	IMEA	Total
Ownership interest	60.75%	14.25%	12.88%	12.12%	100%
Mw capacity	509	119	108	102	838
KU's 60.75% ownership:					
Plant held for future use	\$ 62				
Construction work in progress	703				
Accumulated depreciation	(1)				
Net book value	\$764				
LG&E's 14.25% ownership:					
Plant held for future use	\$ 2				
Construction work in progress	187				
Accumulated depreciation	—				
Net book value	\$189				

KU and LG&E jointly own the following CTs and related equipment (capacity based on net summer capability) as of December 31, 2010:

Ownership Percentage	KU				LG&E				Total			
	Mw Capacity	Cost	Depr.	Net Book Value	Mw Capacity	Cost	Depr.	Net Book Value	Mw Capacity	Cost	Depr.	Net Book Value
KU 47%, LG&E 53%(a) . .	129	\$ 43	\$—	\$ 43	146	\$48	\$—	\$48	275	\$ 91	\$—	\$ 91
KU 62%, LG&E 38%(b) . .	190	64	(2)	62	118	40	(2)	38	308	104	(4)	100
KU 71%, LG&E 29%(c) . .	228	63	(1)	62	92	26	—	26	320	89	(1)	88
KU 63%, LG&E 37%(d) . .	404	109	(1)	108	236	64	(1)	63	640	173	(2)	171
KU 71%, LG&E 29%(e) . .	n/a	4	—	4	n/a	2	—	2	n/a	6	—	6

- (a) Comprised of Paddy's Run 13 and E.W. Brown 5. In addition to the above jointly owned utility plant, there is an inlet air cooling system attributable to unit 5 and units 8-11 at the E.W. Brown facility. This inlet air cooling system is not jointly owned, however, it is used to increase production on the units to which it relates, resulting in an additional 88 Mw of capacity for KU.
- (b) Comprised of units 6 and 7 at the E.W. Brown facility.
- (c) Comprised of units 5 and 6 at the Trimble County facility.
- (d) Comprised of CT Substation 7-10 and units 7, 8, 9 and 10 at the Trimble County facility.
- (e) Comprised of CT Substation 5 and 6 and CT Pipeline at the Trimble County facility.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 14—Jointly Owned Electric Utility Plant (Continued)

Both KU's and LG&E's participating share of direct expenses of the jointly owned plants is included in the corresponding operating expenses on each company's respective Statements of Income (i.e., fuel, maintenance of plant, other operating expense).

Note 15—Related Party Transactions

KU and subsidiaries of LKE and PPL engage in related party transactions. Transactions between KU and LKE subsidiaries are eliminated on consolidation of LKE. Transactions between KU and PPL subsidiaries are eliminated on consolidation of PPL. These transactions are generally performed at cost and are in accordance with FERC regulations under PUHCA 2005 and the applicable Kentucky Commission and Virginia Commission regulations.

Intercompany Wholesale Sales and Purchases

KU and LG&E jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are recorded as intercompany wholesale sales and purchases are recorded by each company at a price equal to the seller's fuel cost. Savings realized from purchasing electricity intercompany instead of generating from their own higher costs units or purchasing from the market are shared equally between the Utilities. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

These sales and purchases are included in the Statements of Income as "Operating revenues", "Power purchased" expenses and "Other operation and maintenance expenses". KU's intercompany electric revenues and power purchased expenses were as follows:

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009 2008	
Electric operating revenues from LG&E	\$ 2	\$13	\$ 21	\$ 80
Power purchased and related operations and maintenance expenses from LG&E	21	79	101	109

Interest Charges

See Note 11, Long-Term Debt, and Note 12, Notes Payable and Other Short-Term Obligations, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 15—Related Party Transactions (Continued)

KU's interest expense to affiliated companies was as follows:

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009 2008	
Interest on money pool loans	\$—	\$—	\$—	\$ 2
Interest on PPL loans	2	—	—	—
Interest on Fidelity loans	—	62	69	56

Interest paid to LKE on the money pool arrangement was less than \$1 million for 2010 and 2009.

Dividends

In September 2010, the Company paid dividends of \$50 million to its sole shareholder, LKE.

Capital Contributions

The Company received no capital contributions in 2010, but received capital contributions of \$75 million and \$145 million from its sole shareholder, LKE, in 2009 and 2008, respectively.

Sale of Assets

In 2010, KU sold and bought assets of less than \$1 million to and from LG&E. In December 2009, LG&E sold assets to KU related to the construction of TC2 with a net book value of \$48 million.

Other Intercompany Billings

Servco provides the Company with a variety of centralized administrative, management and support services. Associated charges include payroll taxes paid by Servco on behalf of KU, labor and burdens of Servco employees performing services for KU, coal purchases and other vouchers paid by Servco on behalf of KU. The cost of these services is directly charged to the Company, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and/or other statistical information. These costs are charged on an actual cost basis.

In addition, the Utilities provide services to each other and to Servco. Billings between the Utilities relate to labor and overheads associated with union and hourly employees performing work for the other utility, charges related to jointly-owned generating units and other miscellaneous charges. Billings from KU to Servco include cash received by Servco on behalf of KU, tax settlements and other payments made by the Company on behalf of other non-regulated businesses which are reimbursed through Servco.

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 15—Related Party Transactions (Continued)

Intercompany billings to and from KU were as follows:

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009 2008	
Servco billings to KU	\$46	\$233	\$169	\$227
LG&E billings to KU	14	49	44	5
KU billings to Servco	12	11	14	3
KU billings to LG&E	—	—	78	75

Intercompany Balances

The Company had the following balances with its affiliates:

	Successor	Predecessor
	December 31, 2010	December 31, 2009
Accounts receivable from LKE	\$12	\$ 9
Accounts payable to LG&E	22	53
Accounts payable to Servco	23	20
Accounts payable to Fidelity	—	15
Notes payable to LKE	10	45
Long-term debt to Fidelity	—	1,331

Note 16—Selected Quarterly Data (Unaudited)

	For the 2010 Periods Ended(a)				
	Predecessor				Successor
	March 31	June 30	September 30	October 31	December 31
Operating revenues	\$380	\$350	\$416	\$102	\$263
Operating income	87	71	105	22	65
Net income	44	31	54	11	35

(a) Periods ended March 31, June 30 and September 30 represent three months then ended. Period ended October 31 represents one month then ended and period ended December 31 represents two months then ended.

	For the 2009 Quarters Ended			
	Predecessor			
	March 31	June 30	September 30	December 31
Operating revenues	\$363	\$305	\$341	\$346
Operating income	19	53	125	72
Net income	7	26	66	34

Kentucky Utilities Company
Notes to Financial Statements (Continued)

Note 17—Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consisted of the following:

	Pre-Tax Accumulated Derivative Gain (Loss)	Income Taxes	Net
Balance at December 31, 2009, Predecessor	\$—	\$—	\$—
Equity investee’s other comprehensive income (loss)	(3)	1	(2)
Balance at October 31, 2010, Predecessor	(3)	1	(2)
Effect of PPL acquisition	3	(1)	2
Balance at December 31, 2010, Successor	\$—	\$—	\$—

Note 18—Subsequent Events

Subsequent events have been evaluated through February 25, 2011, the date of issuance of these statements. These statements contain all necessary adjustments and disclosures resulting from that evaluation.

On January 31, 2011, KU filed a notice of intent to file a rate case with the Virginia Commission for the test year ended December 31, 2010. The case is expected to be filed on or after April 1, 2011.

With limited exceptions the Company took care, custody and control of TC2 on January 22, 2011, and has dispatched the unit to meet customer demand since that date. LG&E and KU and the contractor agreed to a further amendment of the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages.

On January 14, 2011, KU contributed \$43 million to its pension plan.

Kentucky Utilities Company
Condensed Financial Statements
(Unaudited)
As of March 31, 2011 and December 31, 2010
and for the three months ended
March 31, 2011 and 2010

Index of Abbreviations

ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CATR	Clean Air Transport Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	Kentucky Utilities Company
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON AG affiliate)
GAAP	U.S. Generally Accepted Accounting Principles
GHG	Greenhouse Gas
IRP	Integrated Resource Plan
KDAQ	Kentucky Division for Air Quality
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LG&E	Louisville Gas and Electric Company
LKE	LG&E and KU Energy LLC and Subsidiaries
MISO	Midwest Independent Transmission System Operator
Moody's	Moody's Investor Services, Inc.
Mwh	Megawatt hours
NAAQS	National Ambient Air Quality Standards
NO ₂	Nitrogen Dioxide
NOV	Notice of Violation
NO _x	Nitrogen Oxide
OVEC	Ohio Valley Electric Corporation
PPL	PPL Corporation
PCB	Polychlorinated Biphenyls
Predecessor	The Company during the time period prior to November 1, 2010
S&P	Standard & Poor's Rating Service
SCR	Selective Catalytic Reduction
SEC	U.S. Securities and Exchange Commission
Servco	LG&E and KU Services Company
SIP	State Implementation Plan
SO ₂	Sulfur Dioxide
Successor	The Company during the time period after October 31, 2010
TC2	Trimble County Unit 2
Utilities	KU and LG&E
Virginia Commission	Virginia State Corporation Commission

Kentucky Utilities Company
Condensed Financial Statements
(Unaudited)
As of March 31, 2011 and December 31, 2010
and for the three months ended
March 31, 2011 and 2010

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Kentucky Utilities Company
Condensed Statements of Income
(unaudited)
(\$ millions)

	<u>Successor</u>	<u>Predecessor</u>
	<u>Three Months Ended</u> <u>March 31, 2011</u>	<u>Three Months Ended</u> <u>March 31, 2010</u>
Operating revenues:		
Retail and wholesale	\$395	\$373
Wholesale to affiliate (Note 10)	<u>11</u>	<u>7</u>
Total operating revenues	406	380
Operating expenses:		
Fuel for electric generation	130	126
Power purchased	8	30
Power purchased from affiliate (Note 10)	27	24
Other operation and maintenance	89	79
Depreciation and amortization	<u>45</u>	<u>34</u>
Total operating expenses	299	293
Operating income	107	87
Equity in earnings of unconsolidated venture	1	3
Interest expense	18	2
Interest expense to affiliate	<u>—</u>	<u>18</u>
Income from continuing operations, before income taxes	90	70
Income taxes (Note 7)	<u>32</u>	<u>26</u>
Net income	<u>\$ 58</u>	<u>\$ 44</u>

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

Kentucky Utilities Company
Condensed Statements of Comprehensive Income
(unaudited)
(\$ millions)

	<u>Successor</u>	<u>Predecessor</u>
	<u>Three Months Ended</u> <u>March 31, 2011</u>	<u>Three Months Ended</u> <u>March 31, 2010</u>
Net income	\$58	\$44
Other comprehensive loss:		
Equity investee's other comprehensive loss, net of tax benefit of \$0	<u>(1)</u>	<u>—</u>
Comprehensive income	<u>\$57</u>	<u>\$44</u>

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

Kentucky Utilities Company
Condensed Statements of Common Equity
(unaudited)
(\$ millions)

	<u>Common Shares Outstanding</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comp. Loss</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
Successor:						
Balance January 1, 2011	37,817,878	\$308	\$2,348	\$—	\$ 35	\$2,691
Net income	—	—	—	—	58	58
Dividends declared	—	—	—	—	(31)	(31)
Other comprehensive loss	—	—	—	(1)	—	(1)
Balance March 31, 2011	<u>37,817,878</u>	<u>\$308</u>	<u>\$2,348</u>	<u>\$(1)</u>	<u>\$ 62</u>	<u>\$2,717</u>
	<u>Common Shares Outstanding</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comp. Loss</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
Predecessor:						
Balance January 1, 2010	37,817,878	\$308	\$316	\$—	\$1,328	\$1,952
Net income	—	—	—	—	44	44
Balance March 31, 2010	<u>37,817,878</u>	<u>\$308</u>	<u>\$316</u>	<u>\$—</u>	<u>\$1,372</u>	<u>\$1,996</u>

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

Kentucky Utilities Company
Condensed Balance Sheets
(unaudited)
(\$ millions)

	March 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 57	\$ 3
Accounts receivable (less allowance for doubtful accounts 2011 \$4; 2010, \$6):		
Customer	79	90
Affiliate	—	12
Other	7	20
Unbilled revenues	73	89
Fuel, materials and supplies:		
Fuel (predominantly coal)	90	95
Other materials and supplies	43	41
Regulatory assets (Note 3)	3	9
Other intangible assets	17	22
Prepayments and other current assets	14	15
Total current assets	383	396
Investment in unconsolidated venture	31	30
Property, plant and equipment:		
Regulated utility plant	4,361	3,630
Less: accumulated depreciation	54	14
Construction work in progress	275	955
Property, plant and equipment—net	4,582	4,571
Deferred debits and other noncurrent assets:		
Regulatory assets (Note 3):		
Pension benefits	117	117
Other regulatory assets	113	105
Goodwill	607	607
Other intangible assets	168	175
Other long-term assets	57	58
Total deferred debits and other noncurrent assets	1,062	1,062
Total assets	\$6,058	\$6,059

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

Kentucky Utilities Company
Condensed Balance Sheets (Continued)
(unaudited)
(\$ millions)

	March 31, 2011	December 31, 2010
Liabilities and Equity		
Current liabilities:		
Notes payable to affiliate (Note 10)	\$ —	\$ 10
Accounts payable	73	67
Accounts payable to affiliates (Note 10)	38	45
Customer deposits	23	23
Accrued taxes	24	25
Interest payable	23	8
Regulatory liabilities (Note 3)	34	41
Other current liabilities	29	33
Total current liabilities	244	252
Long-term bonds (Note 8)	1,841	1,841
Deferred credits and other noncurrent liabilities:		
Deferred income taxes	399	376
Accumulated provision for pensions	75	113
Investment tax credits	103	104
Asset retirement obligations	54	54
Regulatory liabilities:		
Accumulated cost of removal of utility plant (Note 3)	354	348
Other regulatory liabilities (Note 3)	178	186
Other long-term liabilities	93	94
Total deferred credits and other noncurrent liabilities	1,256	1,275
Equity:		
Common stock, without par value—authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in capital	2,348	2,348
Accumulated other comprehensive loss	(1)	—
Retained earnings	62	35
Total equity	2,717	2,691
Commitments and contingent liabilities (Note 9)	—	—
Total liabilities and equity	\$6,058	\$6,059

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

Kentucky Utilities Company
Condensed Statements of Cash Flows
(unaudited)
(\$ millions)

	<u>Successor</u> <u>Three Months Ended</u> <u>March 31, 2011</u>	<u>Predecessor</u> <u>Three Months Ended</u> <u>March 31, 2010</u>
Cash flows from operating activities:		
Net income	\$ 58	\$ 44
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45	34
Deferred income taxes—net	22	9
Provision for pension and postretirement benefits	7	5
Other—net	(3)	—
Change in current assets and liabilities:		
Accounts receivable	32	(14)
Unbilled revenues	16	16
Fuel, materials and supplies	3	(7)
Regulatory assets	5	31
Prepayments and other current assets	2	1
Accounts payable	3	11
Accounts payable to affiliates	(7)	3
Accrued taxes	(1)	12
Interest payable	15	—
Regulatory liabilities	(2)	—
Other current liabilities	(3)	(2)
Pension and postretirement benefits funding	(44)	(14)
Other—net	(3)	(4)
Net cash provided by operating activities	<u>145</u>	<u>125</u>
Cash flows from investing activities:		
Construction expenditures	(50)	(59)
Purchases of assets from affiliate	—	(48)
Net cash used in investing activities	<u>\$(50)</u>	<u>\$(107)</u>
Cash flows from financing activities:		
Changes in notes payable to affiliate—net	\$(10)	\$ (17)
Payment of dividends (Note 10)	(31)	—
Net cash used in financing activities	<u>(41)</u>	<u>(17)</u>
Change in cash and cash equivalents	54	1
Cash and cash equivalents at beginning of period	<u>3</u>	<u>2</u>
Cash and cash equivalents at end of period	<u>\$ 57</u>	<u>\$ 3</u>

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

Kentucky Utilities Company
Notes to Condensed Financial Statements
(unaudited)

Note 1—Interim Financial Statements

The accompanying condensed financial statements and notes should be read in conjunction with KU's Financial Statements and Additional Information Report for 2010.

Terms and abbreviations are explained in the index of abbreviations. Dollars are in millions unless otherwise noted.

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. The Condensed Balance Sheet at December 31, 2010, is derived from the 2010 audited Balance Sheet.

The results of operations for the three months ended March 31, 2011, are not necessarily indicative of the results to be expected for the full year ending December 31, 2011, or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

Predecessor and Successor Financial Presentation

KU became an indirect wholly owned subsidiary of PPL, when PPL acquired all of the outstanding limited liability company interests in the Company's direct parent, LKE, from E.ON US Investments Corp. on November 1, 2010.

KU's condensed financial statements and accompanying footnotes have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL accounting policies, which are discussed in the Company's Financial Statements and Additional Information Report for 2010. The cost basis of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor period are not comparable to the Predecessor period.

Despite the separate presentation, the core operations of the Company have not changed. See Note 2, Acquisition by PPL, and Note 7, Goodwill and Intangible Assets, in the Company's Financial Statements and Additional Information Report for 2010, for information regarding the acquisition and the purchase accounting adjustments.

Note 2—Summary of Significant Accounting Policies

The following accounting policy disclosures represent updates to Note 1, Summary of Significant Accounting Policies, in KU's Financial Statements and Additional Information Report for 2010 and should be read in conjunction with that discussion.

Equity Method Investment

KU's equity method investment, included in Investment in unconsolidated venture on the Condensed Balance Sheets, consists of its investment in Electric Energy, Inc ("EEI"). KU owns 20% of

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
(unaudited)

Note 2—Summary of Significant Accounting Policies (Continued)

the common stock of EEI, which owns and operates a coal-fired plant and natural gas facility in southern Illinois. Through a power marketer affiliated with its majority owner, EEI sells its output to third parties. Although KU holds an investment interest in EEI, it is not the primary beneficiary and is therefore not consolidated into the Company's financial statements. KU's investment in EEI, accounted for under the equity method of accounting, as of March 31, 2011 and December 31, 2010, totaled \$30 million. KU's direct exposure to loss as a result of its involvement with EEI is generally limited to the value of its investment.

Cost Method Investment

KU's cost method investment, included in Investment in unconsolidated venture on the Condensed Balance Sheets, consists of KU's 2.5% investment in OVEC. KU and 11 other electric utilities are owners of OVEC, which is located in Piketon, Ohio. At March 31, 2011 and December 31, 2010, KU's investment in OVEC was not significant. KU is not the primary beneficiary of OVEC; therefore, it is not consolidated into the Company's financial statements and is accounted for under the cost method of accounting.

Note 3—Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities and for descriptions of certain matters which may not have undergone material changes relating to the period covered by this quarterly report, reference is made to Note 3, Rates and Regulatory Matters, in KU's Financial Statements and Additional Information Report for 2010.

The Company is subject to the jurisdiction of the FERC, Kentucky Commission, Virginia Commission and the Tennessee Regulatory Authority in virtually all matters related to electric utility regulation and as such, its accounting is subject to the regulated operations guidance of the FASB ASC. Given its position in the marketplace and the status of regulation in Kentucky and Virginia, there are no plans or intentions to discontinue the application of the regulated operations guidance of the FASB ASC.

KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and notes payable) including certain regulatory adjustments to exclude non-regulated investments and environmental compliance plans recovered separately through the ECR mechanism. At the time base rates were determined, no recorded regulatory assets or regulatory liabilities were excluded from the return on capitalization utilized in the calculation of Kentucky base rates. Therefore, a return is earned on all Kentucky regulatory assets existing at the time base rates were determined, except where such regulatory assets were offset by associated liabilities and thus, have no net impact on capitalization.

As a result of purchase accounting, certain fair value amounts, reflecting contracts that have favorable or unfavorable terms relative to market (e.g., coal, purchased power, emission allowances), were recorded on the Condensed Balance Sheets with offsetting regulatory assets or liabilities. Prior to and after the acquisition of KU's parent, LKE, by PPL, KU recovers the cost of these contracts. KU's customer rates will continue to reflect these items at their original contracted prices.

KU's Virginia base rates are calculated based on a return on rate base. All regulatory assets and liabilities are excluded from the return on rate base utilized in the calculation of Virginia base rates.

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
(unaudited)

Note 3—Rates and Regulatory Matters (Continued)

KU's wholesale requirements rates for municipal customers are calculated based on annual updates to a rate formula that utilizes a return on rate base. All regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates.

Kentucky Rate Case

In January 2010, KU filed an application with the Kentucky Commission requesting an annual increase in electric base rates of approximately 12%, or \$135 million. In June 2010, KU and all of the intervenors, except the Attorney General of Kentucky, agreed to stipulations providing for an annual increase in electric base rates of \$98 million and filed a request with the Kentucky Commission to approve such settlement. An Order in the proceeding was issued in July 2010, approving all the provisions in the stipulations and a return on equity range of 9.75% - 10.75%. The new rates became effective on August 1, 2010.

Virginia Rate Cases

On April 1, 2011, KU filed an application with the Virginia Commission requesting an annual increase in electric base rates for its Virginia jurisdictional customers in an amount of \$9 million or approximately 14%. The proposed increase reflects a rate of return on rate base of 8% based on a return on equity of 11%, inclusion of expenditures to complete TC2 and all new FGD controls in base rates, recovery of a 2009 regulatory asset and various other adjustments to revenue and expenses for the test year ended December 31, 2010. The Company expects new rates to go into effect in January 2012. KU cannot currently predict the outcome of this proceeding.

In June 2009, KU filed an application with the Virginia Commission requesting an annual increase in electric base rates for its Virginia jurisdictional customers in an amount of \$12 million or approximately 21%. The proposed increase reflected a proposed rate of return on rate base of 8.586% based on a return on equity of 12%. During December 2009, KU and the Virginia Commission Staff agreed to a Stipulation and Recommendation authorizing annual base rate revenue increases of \$11 million and a return on rate base of 7.846% based on a 10.5% return on common equity. In March 2010, the Virginia Commission issued an Order approving the stipulation, with the increased rates to be put into effect as of April 1, 2010. As part of the stipulation, KU refunded \$1 million in interim rate increases in excess of the ultimately approved rates.

FERC Wholesale Rate Case

In May 2010, KU submitted to the FERC the annual adjustments to the formula rates which incorporated certain proposed increases. Updated rates, including certain further adjustments from a review process involving wholesale requirements customers, became effective as of July 1, 2010, subject to certain review procedures by the wholesale requirements customers and the FERC. The review period ended in September 2010 and the rates that went into effect July 1, 2010 were determined to be final.

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
(unaudited)

Note 3—Rates and Regulatory Matters (Continued)

Regulatory Assets and Liabilities

The following regulatory assets and liabilities are included in the Condensed Balance Sheets:

	<u>March 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Current regulatory assets:		
Coal contracts(a)	\$ 3	\$ 4
Virginia levelized fuel factor(b)	—	5
Total current regulatory assets	<u>\$ 3</u>	<u>\$ 9</u>
Non-current regulatory assets:		
Pension benefits(c)	\$117	\$117
Other non-current regulatory assets:		
Storm restoration(d)	61	57
Unamortized loss on bonds(d)	12	12
Coal contracts(a)	12	14
Other(e)	28	22
Subtotal other non-current regulatory assets	<u>113</u>	<u>105</u>
Total non-current regulatory assets	<u>\$230</u>	<u>\$222</u>
Current regulatory liabilities:		
Coal contracts	\$ 12	\$ 16
DSM	7	5
ECR	10	12
Emission allowances	4	6
FAC	1	2
Total current regulatory liabilities	<u>\$ 34</u>	<u>\$ 41</u>
Non-current regulatory liabilities:		
Accumulated cost of removal of utility plant	\$354	\$348
Other non-current regulatory liabilities:		
Coal contracts	120	126
OVEC power purchase contract	38	38
Postretirement benefits	10	10
Other(f)	10	12
Subtotal other non-current regulatory liabilities	<u>178</u>	<u>186</u>
Total non-current regulatory liabilities	<u>\$532</u>	<u>\$534</u>

(a) Offsetting regulatory asset for fair value purchase accounting adjustment. See the Company's Financial Statements and Additional Information Report for 2010 for information on the purchase accounting adjustments.

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
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Note 3—Rates and Regulatory Matters (Continued)

- (b) The Virginia levelized fuel factor regulatory asset has a separate recovery mechanism generally recoverable within twelve months. In its April 2011 rate case filing, KU requested recovery of this amount over a three year period.
- (c) KU recovers this asset through pension expense included in the calculation of base rates.
- (d) These regulatory assets are recovered through base rates.
- (e) Other regulatory assets include:
- The Carbon Management Research Group and Kentucky Consortium for Carbon Storage contributions, an East Kentucky Power Cooperative (“EKPC”) FERC transmission settlement agreement, rate case expenses, unamortized debt expense and the MISO exit costs, which are recovered through base rates.
 - The FERC jurisdictional portion of the EKPC FERC transmission settlement agreement is recovered through the annual FERC formula rate updates.
 - FERC jurisdictional pension expense, which will be requested in a future FERC rate case.
 - Offsetting regulatory asset for fair value purchase accounting adjustment for leases. See the Company’s Financial Statements and Additional Information Report for 2010 for information on the purchase accounting adjustments.
 - ARO regulatory assets. When an asset with an ARO is retired, the related ARO regulatory asset will be offset against the associated ARO asset and ARO liability.
 - Virginia levelized fuel factor regulatory asset to be recovered over a three year period beginning April 1, 2011.
- (f) Other regulatory liabilities includes the emission allowance purchase accounting offset, MISO exit, deferred income taxes and a change in accounting method for FERC jurisdictional spare parts. See the Company’s Financial Statements and Additional Information Report for 2010 for information on the purchase accounting adjustments.

FAC

In February 2011, KU filed an application with the Virginia Commission seeking approval of an increase in its fuel cost factor beginning with service rendered in April 2011. In March, 2011, a hearing was held on KU’s requested fuel factor and an Order was issued approving a revised fuel factor to be in effect beginning with service rendered on and after April 1, 2011, with recovery of the regulatory asset over a three year period.

Storm Restoration

In December 2009, a major snow storm hit KU’s Virginia service area causing approximately 30,000 customer outages. During the normal 2009 Virginia Annual Information Filing (“AIF”), KU requested that the Virginia Commission establish a regulatory asset and defer for future recovery approximately \$6 million in incremental operation and maintenance expenses related to the storm restoration. In March 2011, the Virginia Commission issued a Staff Report on KU’s 2009 AIF stating

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
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Note 3—Rates and Regulatory Matters (Continued)

that the Staff considers storm damage to be extraordinary, non-recurring and material to KU. The Staff Report also recommended establishing a regulatory asset for these costs, with recovery over a five year period upon approval in the next base rate case. In March 2011, a regulatory asset of \$6 million was established for actual costs incurred. In April 2011, KU filed an application with the Virginia Commission requesting an annual increase in electric base rates for its Virginia jurisdictional customers including recovery of the storm costs over five years.

Note 4—Derivative Financial Instruments

KU is subject to interest rate and commodity price risk related to on-going business operations. The Company's policies allow for the interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate swaps. Although the Company's policies allow for the use of interest rate swaps, as of March 31, 2011 and December 31, 2010, KU had no interest rate swaps outstanding. At March 31, 2011, KU's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

The Company does not net collateral against derivative instruments.

Energy Trading and Risk Management Activities

KU conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to manage price risk and are accounted for as non-hedging derivatives on a mark-to-market basis in accordance with the derivatives and hedging guidance of the FASB ASC.

Assets and liabilities from short-term and long-term energy trading and risk management derivative contracts were not significant at March 31, 2011 and December 31, 2010.

The Company maintains credit policies intended to minimize credit risk in wholesale marketing and trading activities by assessing the creditworthiness of potential counterparties prior to entering into transactions with them and continuing to evaluate their creditworthiness once transactions have been initiated. To further mitigate credit risk, KU seeks to enter into netting agreements or require collateral such as cash deposits, letters of credit or parent company guarantees as security from counterparties. The Company uses credit ratings of S&P, Moody's and definitive qualitative and quantitative data to assess the financial strength of counterparties on an on-going basis. If no external rating exists, KU assigns an internally generated rating for which it sets appropriate risk parameters. As risk management contracts are valued based on changes in market prices of the related commodities, credit exposures are revalued and monitored on a daily basis. At March 31, 2011, 100% of the trading and risk management commitments were with counterparties rated BBB- /Baa3 equivalent or better. The Company has reserved against credit risk based on KU's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). The Company applies historical default rates within varying credit ratings over time provided by S&P or Moody's. At March 31, 2011 and December 31, 2010, credit reserves related to energy trading and risk management contracts were not significant.

The net volume of electricity based financial derivatives outstanding at March 31, 2011 and December 31, 2010, was 163,836 Mwh and 129,199 Mwh, respectively. Cash collateral posted by the Company related to the energy trading and risk management contracts was not significant at March 31,

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
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Note 4—Derivative Financial Instruments (Continued)

2011 and December 31, 2010. Cash collateral related to the energy trading and risk management contracts is recorded in Prepayments and other current assets on the Condensed Balance Sheets.

KU manages the price risk of its estimated future excess economic generation capacity using market-traded forward contracts. Hedge accounting treatment has not been elected for these transactions; therefore, realized and unrealized gains and losses are included on the Condensed Statements of Income. For the three months ended March 31, 2011 and 2010, the impact of the derivative positions on energy trading and risk management activities recorded on the Condensed Statements of Income was not significant.

Credit Risk Related Contingent Features

Certain of KU's derivative contracts contain credit contingent provisions which would permit the counterparties with which KU is in a net liability position to require the transfer of additional collateral upon a decrease in KU's credit rating. Some of these provisions require KU to transfer additional collateral or permit the counterparty to terminate the contract if KU's credit rating were to fall below investment grade. Some of these provisions also allow the counterparty to require additional collateral upon each decrease in the credit rating at levels that remain above investment grade. In either case, if KU's credit rating were to fall below investment grade (i.e., below BBB- for S&P or Baa3 for Moody's) and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent provisions require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization by KU on derivative instruments in net liability positions.

Additionally, certain of KU's derivative contracts contain credit contingent provisions that require KU to provide "adequate assurance" of performance if the other party has reasonable grounds for insecurity regarding KU's performance of its obligation under the contract. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. A demand for additional assurance would typically involve negotiations among the parties.

To determine net liability positions, KU uses the fair value of each agreement. At March 31, 2011, there were no energy trading and risk management derivative contracts with credit risk related contingent features that are in a liability position. In the normal course of business, the collateral posted by KU was not significant. At March 31, 2011, a downgrade of the Company's credit rating below investment grade would have no effect on the energy trading and risk management derivative contracts or collateral required.

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
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Note 5—Fair Value Measurements

The FASB ASC guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, the FASB ASC guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value.

Energy trading and risk management contracts are valued using prices based on active trades from Intercontinental Exchange Inc. In the absence of a traded price, midpoints of the best bids and offers are the primary determinants of valuation. When sufficient trading activity is unavailable, other inputs include prices quoted by brokers or observable inputs other than quoted prices, such as one-sided bids or offers as of the balance sheet date. Quotes are verified quarterly using an independent pricing source of actual transactions. Quotes for combined off-peak and weekend timeframes are allocated between the two timeframes based on their historical proportional ratios to the integrated cost. No other adjustments are made to the forward prices. No changes to valuation techniques for energy trading and risk management activities occurred during the three months ended March 31, 2011 or 2010. Changes in market pricing, interest rate and volatility assumptions were made during the three months ended March 31, 2011 and 2010.

The fair values of cash and cash equivalents, accounts receivable, cash surrender value of key man life insurance, accounts payable and notes payable are substantially the same as their carrying values.

KU has classified the applicable financial assets and liabilities that are accounted for at fair value into the three levels of the fair value hierarchy, as discussed in Note 1, Summary of Significant Accounting Policies, in the Company's Financial Statements and Additional Information Report for 2010.

The Company classifies its derivative cash collateral balances within Level 1 based on the funds being held in a demand deposit account. The Company classifies its derivative energy trading and risk management contracts within Level 2 because it values them using prices actively quoted for proposed or executed transactions, quoted by brokers or observable inputs other than quoted prices.

KU's financial assets and liabilities as of March 31, 2011 and December 31, 2010, arising from energy trading and risk management contracts accounted for at fair value on a recurring basis, were not significant. Cash collateral related to the energy trading and risk management contracts was not significant at March 31, 2011 and December 31, 2010.

There were no Level 3 measurements for the periods ending March 31, 2011 and December 31, 2010

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
(unaudited)

Note 5—Fair Value Measurements (Continued)

Financial Instruments Not Recorded at Fair Value

The carrying values and estimated fair values of KU's non-trading financial instruments follow:

	March 31, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term bonds	\$1,841	\$1,761	\$1,841	\$1,728

The fair value of these instruments was estimated using an income approach by discounting future cash flows at estimated current cost of funding rates.

Note 6—Pension and Other Postretirement Benefit Plans

Components of Net Periodic Benefit Cost

The following tables provide the components of net periodic benefit cost for pension and other postretirement benefit plans. The tables include the costs associated with both KU employees and Servco employees who provide services to KU. Servco costs are allocated to KU based on employees' labor charges. For the three months ended March 31, 2011 and March 31, 2010, KU was allocated approximately 55% and 53% of Servco's costs, respectively.

	Three Months Ended March 31, 2011		
	KU	Servco Allocation To	
		KU	Total KU
<i>Pension Benefits (Successor):</i>			
Service cost	\$ 2	\$ 2	\$ 4
Interest cost	5	2	7
Expected return on plan assets	(5)	(2)	(7)
Amortization of actuarial loss	2	1	3
Net periodic benefit cost	\$ 4	\$ 3	\$ 7

	Three Months Ended March 31, 2010		
	KU	Servco Allocation To	
		KU	Total KU
<i>Pension Benefits (Predecessor):</i>			
Service cost	\$ 2	\$ 1	\$ 3
Interest cost	5	2	7
Expected return on plan assets	(4)	(1)	(5)
Amortization of actuarial loss	1	1	2
Net periodic benefit cost	\$ 4	\$ 3	\$ 7

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
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Note 6—Pension and Other Postretirement Benefit Plans (Continued)

	Three Months Ended March 31, 2011		
	KU	Servco Allocation To KU	Total KU
<i>Other Postretirement Benefits (Successor):</i>			
Interest cost	\$1	\$—	\$1
Net periodic benefit cost	\$1	\$—	\$1
	Three Months Ended March 31, 2010		
	KU	Servco Allocation To KU	Total KU
<i>Other Postretirement Benefits (Predecessor):</i>			
Interest cost	\$1	\$—	\$1
Amortization of prior service cost	1	—	1
Net periodic benefit cost	\$2	\$—	\$2

Contributions

KU made discretionary contributions to its pension plan of \$43 million and \$13 million in January 2011 and 2010, respectively. In addition, Servco made discretionary contributions to its pension plan of \$38 million and \$9 million in January 2011 and January 2010, respectively. The amount of future contributions to the pension plan will depend upon the actual return on plan assets and other factors, but the Company’s intent is to fund its pension plan in a manner consistent with the requirements of the Pension Protection Act of 2006.

For the three months ended March 31, 2011, the Company made contributions to its other postretirement benefit plan of \$1 million. The Company anticipates making further voluntary contributions to fund Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum tax deductible amount.

Health Care Reform

In March 2010, Health Care Reform (the Patient Protection and Affordable Care Act of 2010) was signed into law. Many provisions of Health Care Reform do not take effect for an extended period of time and many aspects of the law which are currently unclear or undefined will likely be clarified in future regulations.

Effective January 1, 2011, provisions within Health Care Reform required dependent coverage up to age 26, removed the \$2 million lifetime maximum and eliminated the cost sharing for certain preventative care procedures. The impact to KU is not expected to be material.

Beginning in 2013, provisions within Health Care Reform eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
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Note 6—Pension and Other Postretirement Benefit Plans (Continued)

prescription drug benefits equivalent to Medicare Part D Coverage. As a result, in the first quarter of 2010, KU recorded income tax expense to recognize the impact of the elimination that was not significant.

A provision within Health Care Reform beginning in 2018 is a potential excise tax on high-cost plans providing health coverage that exceeds certain thresholds. The Company has evaluated this provision of Health Care Reform on its benefit programs in consultation with its actuarial consultants and has determined that the excise tax will not have an impact on its postretirement medical plan.

The Company will continue to monitor the potential impact of any changes to the existing provisions and implementation guidance related to Health Care Reform.

Note 7—Income Taxes

KU's federal income tax return is included in a U.S. consolidated income tax return filed by LKE's direct parent. Prior to November 1, 2010, the return was included in the consolidated return of E.ON US Investments Corp. Due to the acquisition by PPL, the return will be included in the consolidated PPL return beginning November 1, 2010, for each tax period. Each subsidiary of the consolidated tax group, including KU, calculates its separate income tax for each period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. The Company also files income tax returns in various state jurisdictions. While 2007 and later years are open under the federal statute of limitations, Revenue Agent Reports for 2007-2008 have been received from the Internal Revenue Service ("IRS"), effectively closing these years to additional audit adjustments. Tax years beginning with 2007 were examined under an IRS program, Compliance Assurance Process ("CAP"). This program accelerates the IRS's review to begin during the year applicable to the return and ends 90 days after the return is filed. For 2008, the IRS allowed additional deductions in connection with the Company's application for a change in repair deductions and disallowed certain bonus depreciation claimed on the original return. The net temporary tax impact for the Company was a \$12 million reduction in tax and was recorded in the second quarter of 2010. The 2009 federal return was filed in the third quarter of 2010 and the IRS issued a Partial Acceptance Letter in connection with CAP. The IRS is continuing to review storms and other repairs. No net material adverse impact is expected from these remaining areas. The short tax year beginning January 1, 2010 through October 31, 2010, is also being examined under CAP. No material items have been raised by the IRS at this time. The two month period beginning November 1, 2010 and ending December 31, 2010, is not currently under examination.

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
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Note 7—Income Taxes (Continued)

A reconciliation of KU's effective income tax rate follows:

<u>Reconciliation of Income Taxes</u>	<u>Successor</u> <u>Three Months</u> <u>Ended</u> <u>March 31, 2011</u>	<u>Predecessor</u> <u>Three Months</u> <u>Ended</u> <u>March 31, 2010</u>
Federal income tax on income before income taxes at statutory tax rate—35%	\$ 31	\$ 25
Increase (decrease) due to:		
State income taxes—net of federal income tax benefit	3	3
Qualified production activities deduction	—	(1)
Investment and other tax credits	(1)	—
Other—net	(1)	(1)
Net increase	<u>1</u>	<u>1</u>
Income tax expense	<u>\$ 32</u>	<u>\$ 26</u>
Effective income tax rate	<u>35.6%</u>	<u>37.1%</u>

Unrecognized Tax Benefits

KU had no material changes in unrecognized tax benefits since December 31, 2010, and does not expect any material changes to occur in unrecognized tax benefits during the next 12 months.

Note 8—Debt

As summarized below, long-term debt consisted of first mortgage bonds and secured pollution control bonds.

	<u>March 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Secured first mortgage bonds	\$1,500	\$1,500
Pollution control revenue bonds, collateralized by first mortgage bonds	351	351
Fair value adjustment from purchase accounting	1	1
Unamortized discount	(11)	(11)
Total long-term debt	1,841	1,841
Less current portion	—	—
Long-term debt, excluding current portion	<u>\$1,841</u>	<u>\$1,841</u>

In November 2010, KU issued first mortgage bonds totaling \$1,500 million and used the proceeds to repay loans from a PPL subsidiary and for general corporate purposes. The first mortgage bonds were issued at a discount.

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Notes to Condensed Financial Statements (Continued)
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Note 8—Debt (Continued)

The first mortgage bonds were issued by KU via transactions not requiring registration under the Securities Act of 1933. KU entered into a registration rights agreement in which it agreed to file a registration statement with the SEC relating to an offer to exchange the first mortgage bonds for publicly tradable securities having substantially identical terms. If ultimate registration and/or certain milestones are not completed by certain dates in mid- and late 2011, the Company has agreed to pay liquidated damages to the bondholders. The liquidated damages would total 0.25% per annum of the principal amount of the bonds for the first 90 days and 0.50% per annum of the principal amount thereafter until the conditions described above have been cured. In April 2011, KU filed a registration statement on Form S-4 with the SEC, pursuant to the registration rights agreements described above.

At March 31, 2011, KU had an aggregate \$351 million of outstanding pollution control indebtedness, of which \$96 million is in the form of insured auction rate securities wherein interest rates are reset every 35 days via an auction process. The credit ratings of the monoline bond insurers have been reduced to levels below that of the Company's rating due to exposures relating to insurance of sub-prime mortgages. As a result, the debt ratings of the Company's insured pollution control bonds are based on the Company's senior secured debt rating and are not influenced by the monoline bond insurer ratings. When a failed auction occurs, the interest rate is set pursuant to a formula stipulated in the indenture.

The average annualized interest rates on the auction rate bond follows:

Successor	Predecessor
Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
0.37%	0.27%

The instruments governing the auction rate bond permit KU to convert the bond to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently.

KU participates in an intercompany money pool agreement wherein LKE and/or LG&E make funds available to KU at market-based rates (based on highly rated commercial paper issues) of up to \$400 million. Details of the balances were as follows:

	<u>Total Available</u>	<u>Amount Outstanding</u>	<u>Balance Available</u>	<u>Average Interest Rate</u>
March 31, 2011	\$400	\$—	\$400	N/A
December 31, 2010	400	10	390	0.25%

As of March 31, 2011, the Company maintained a \$400 million revolving line of credit with a group of banks maturing in December 2014. The revolving line of credit allows KU to issue letters of credit or borrow funds up to \$400 million. Outstanding letters of credit reduce the facility's available borrowing capacity. The Company pays the banks an annual commitment fee based on current bond ratings on the unused portion of the commitment. At March 31, 2011, there were no borrowings outstanding under this facility. However, letters of credit totaling \$198 million have been issued under this facility to support outstanding tax exempt bonds. This credit agreement contains financial

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
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Note 8—Debt (Continued)

covenants requiring the borrower's debt to total capitalization ratio to not exceed 70%, as calculated pursuant to the credit agreement, and other customary covenants.

On April 29, 2011, KU entered into a new \$198 million letter of credit agreement that will be used to issue letters of credit to support outstanding tax exempt bonds. The facility matures in April 2014. On May 2, 2011, letters of credit totaling \$198 million were issued under the new agreement replacing the letters of credit previously issued under KU's credit facility.

KU was in compliance with all debt covenants at March 31, 2011 and December 31, 2010.

Note 9—Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 3, Rates and Regulatory Matters), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in KU's Financial Statements and Additional Information Report for 2010 (including, but not limited to, Note 10, Related Party Transactions; Note 3, Rates and Regulatory Matters; and Note 11, Subsequent Events; to the financial statements of the Company contained therein).

Energy Purchases and Other Commitments

OVEC Power

Pursuant to a power purchase agreement with OVEC, extended in February 2011, to 2040, pending regulatory approvals, the Company may be conditionally responsible for a 2.5% pro-rata share of certain obligations of OVEC under defined circumstances. These contingent liabilities may include unpaid OVEC indebtedness as well as shortfall amounts in certain excess decommissioning costs and postretirement benefits other than pension. KU's contingent proportionate share of OVEC's outstanding debt was \$34 million at March 31, 2011. See Note 2, Summary of Significant Accounting Policies, for further information.

Legal Matters

KU is involved in legal proceedings, claims and litigation in the ordinary course of business and cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

Construction Program

KU had approximately \$107 million of commitments in connection with its construction program at March 31, 2011.

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
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Note 9—Commitments and Contingencies (Continued)

In June 2006, KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price. During 2009 and 2010, KU received several contractual notices from the TC2 construction contractor asserting historical force majeure and excusable event claims for a number of adjustments to the contract price, construction schedule, commercial operations date, liquidated damages or other relevant provisions. In September 2010, KU and the construction contractor agreed to a settlement to resolve the force majeure and excusable event claims occurring through July 2010, under the TC2 construction contract, which settlement provided for a limited, negotiated extension of the contractual commercial operations date and/or relief from liquidated damage calculations. With limited exceptions the Company took care, custody and control of TC2 on January 22, 2011, and has dispatched the unit to meet customer demand since that date. KU and the contractor agreed to a further amendment of the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. KU cannot currently estimate the ultimate outcome of these matters.

TC2 CCN Application and Transmission Matters

KU's and LG&E's CCN for a transmission line associated with the TC2 construction has been challenged by certain property owners in Hardin County, Kentucky. Certain proceedings relating to CCN challenging and federal historic preservation permit requirements have concluded with outcomes in the Utilities' favor.

With respect to the remaining on-going dispute, KU obtained various successful rulings during 2008 at the Hardin County Circuit Court confirming its condemnation rights. In August 2008, several landowners appealed such rulings to the Kentucky Court of Appeals and received a temporary stay preventing KU from accessing their properties. In May 2010, the Kentucky Court of Appeals issued an Order affirming the Hardin Circuit Court's finding that KU had the right to condemn easements on the properties. In May 2010, the landowners filed a petition for reconsideration with the Court of Appeals. In July 2010, the Court of Appeals denied that petition. In August, 2010, the landowners filed for discretionary review of that denial by the Kentucky Supreme Court. In March 2011, the Kentucky Supreme Court denied the landowners' request for discretionary review.

Regulatory Issues

Market-Based Rate Authority

In July 2009, the FERC issued an order approving KU's September 2008 tri-annual application for updated market-based rate authority. During July 2009, affiliates of KU completed a transaction terminating certain prior generation and power marketing activities in the Big Rivers Electric Corporation control area, which termination should ultimately allow a filing to request a determination that KU is no longer deemed to have market power in such control area and that historical restrictions on KU sales into that area is no longer applicable.

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
(unaudited)

Note 9—Commitments and Contingencies (Continued)

Integrated Resource Planning

IRP regulations require major utilities to make triennial IRP filings with the Kentucky Commission. In April 2011, KU and LG&E filed their 2011 joint IRP with the Kentucky Commission. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. Pursuant to a December 2008 Order, KU will file with the Virginia Commission the 2011 joint IRP by September 1, 2011, along with certain supplemental information as required by this Order. Impending environmental regulation could result in the retirements of older, smaller coal-fired units and therefore, the IRP assumes potential retirements of approximately 800 megawatts of coal-fired capacity with replacement by combined cycle gas units in 2016. In addition the IRP assumes approximately 500 megawatts of peak demand reductions by 2017, via existing or expanded demand side management or energy efficiency programs. Implementation of the major findings of the IRP is subject to further Company analysis and decision-making and further regulatory approvals.

Mandatory Reliability Standards

As a result of the EAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007 and authority was delegated to various Regional Reliability Organizations (“RROs”) by the North American Electric Reliability Corporation (“NERC”), which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to \$1 million per day, as well as non-monetary penalties, depending upon the circumstances of the violation. The Utilities are members of the SERC Reliability Corporation (“SERC”), which acts as their RRO. The Utilities have continued to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans. The resolution of a number of these potential violation reports is pending. Any regional reliability entity determination concerning resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC. Therefore, the Utilities are unable to estimate the outcome of these matters. Additionally, the Utilities have one open self-report which has been the subject of a settlement with the SERC. This settlement was for no penalty but still requires FERC approval before becoming final. Mandatory reliability standard settlements commonly also include non-penalty elements, including compliance steps and mitigation plans. While the Utilities believe they are in compliance with the mandatory reliability standards, events of potential non-compliance may be identified from time-to-time. The Utilities cannot predict such potential violations or the outcome of self-reports described above.

Other

In February 2006, the Kentucky Commission initiated an administrative proceeding to consider the requirements of the federal EAct 2005, Subtitle E Section 1252, Smart Metering, which concerns time-based metering and demand response, and Section 1254, Interconnections. The EAct 2005 requires each state regulatory authority to conduct a formal investigation and issue a decision on whether or not it is appropriate to implement certain Section 1252 standards within eighteen months after the enactment of the EAct 2005 and to commence consideration of Section 1254 standards within a year after the enactment of the EAct 2005. Following a public hearing with all Kentucky

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
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Note 9—Commitments and Contingencies (Continued)

jurisdictional electric utilities, in December 2006, the Kentucky Commission issued an Order in this proceeding indicating that the EPA Act 2005 Section 1252 and Section 1254 standards should not be adopted. However, all the Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their large commercial and industrial customers. KU and LG&E developed real-time pricing pilots for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot programs proposed by KU and LG&E for implementation for their large commercial and industrial customers. The tariff was filed in October 2008, with an effective date of December 1, 2008. KU and LG&E file annual reports on the program within 90 days of each plan year-end for the three-year pilot period.

Environmental Matters

The Company's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. As indicated below and summarized at the conclusion of this section, evolving environmental regulations will likely increase the level of capital and operating and maintenance expenditures incurred by the Company during the next several years. Based upon prior regulatory precedent, the Company believes that many costs of complying with such pending or future requirements would likely be recoverable under the ECR or other potential cost-recovery mechanisms, but the Company can provide no assurance as to the ultimate outcome of such proceedings before the regulatory authorities.

General Environmental Proceedings

From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include a prior Section 114 information request from the EPA relating to new-source review issues at KU's Ghent unit 2; completed settlement with state regulators regarding compliance with particulate limits in the air permit for KU's Tyrone generating station; remediation obligations or activities for or other risks relating to elevated PCB levels at existing properties; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; and on-going claims regarding the GHG emissions from the Company's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the Company's operations.

Air

Ambient Air Quality:

The Clean Air Act requires the EPA to periodically review the available scientific data for six criteria pollutants and establish concentration levels in the ambient air sufficient to protect the public health and welfare with an extra margin for safety. These concentration levels are known as NAAQS. Each state must identify "nonattainment areas" within its boundaries that fail to comply with the NAAQS and develop a SIP to bring such nonattainment areas into compliance. If a state fails to

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
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Note 9—Commitments and Contingencies (Continued)

develop an adequate plan, the EPA must develop and implement a plan. As the EPA increases the stringency of the NAAQS through its periodic reviews, the attainment status of various areas may change, thereby triggering additional emission reduction obligations under revised SIPs aimed to achieve attainment.

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO₂ and NO_x emissions from power plants. In 1998, the EPA issued its final “NO_x SIP Call” rule requiring reductions in NO_x emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NO_x emissions to 0.15 pounds weight per million British thermal units on a company-wide basis. In 2005, the EPA issued the CAIR which required additional SO₂ emission reductions of 70% and NO_x emission reductions of 65% from 2003 levels. The CAIR provided for a two-phase cap and trade program, with initial reductions of NO_x and SO₂ emissions due by 2009 and 2010, respectively, and final reductions due by 2015. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR.

In July 2008, a federal appeals court issued a ruling finding deficiencies in the CAIR and vacating it. In December 2008, the Court amended its previous Order, directing the EPA to promulgate a new regulation but leaving the CAIR in place in the interim. The remand of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and the Utilities’ compliance plans relating thereto due to the interconnection of the CAIR with such associated programs.

In January 2010, the EPA proposed a revised NAAQS for ozone which would increase the stringency of the standard. In addition, the EPA published final revised NAAQS standards for NO₂ and SO₂ in February 2010 and June 2010, respectively, which are more stringent than previous standards. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the revised NAAQS standards, KU’s power plants are potentially subject to requirements for additional reductions in SO₂ and NO_x emissions.

In August 2010, the EPA issued the proposed CATR, which serves to replace the CAIR. The CATR provides for a two-phase SO₂ reduction program with Phase I reductions due by 2012 and Phase II reductions due by 2014. The CATR provides for NO_x reductions in 2012, but the EPA advised that it is studying whether additional NO_x reductions should be required for 2014. The CATR is more stringent than the CAIR as it accelerates certain compliance dates and provides for only intrastate and limited interstate trading of emission allowances. In addition to its preferred approach, the EPA is seeking comment on an alternative approach which would provide for individual emission limits at each power plant. The EPA has announced that it will propose additional “transport” rules to address compliance with revised NAAQS standards for ozone and particulate matter which will be issued by the EPA in the future, as discussed below.

Hazardous Air Pollutants:

As provided in the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
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Note 9—Commitments and Contingencies (Continued)

power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provided for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets would be achieved as a “co-benefit” of the controls installed for purposes of compliance with the CAIR.

In February 2008, a federal appellate court issued a decision vacating the CAMR. In March 2011, the EPA released the proposed utility Maximum Achievable Control Technology rule to replace the CAMR. The proposed rule would establish standards for hazardous air pollutants emitted by power plants including mercury, other heavy metals, and acid gases. The emissions limitations specified in the proposed rule are stringent, requiring a 91% reduction in the case of mercury emissions. Upon promulgation of a final rule, facilities would have a short three-year period to comply with the new requirements, with the possibility of a one-year extension from the state. The Company will be unable to determine the exact impact on Company operations until such time as a final rule is promulgated by the EPA.

Acid Rain Program:

The Clean Air Act imposed a two-phased cap and trade program to reduce SO₂ emissions from power plants that were thought to contribute to “acid rain” conditions in the northeastern U.S. The Clean Air Act also contains requirements for power plants to reduce NO_x emissions through the use of available combustion controls.

Regional Haze:

The Clean Air Act also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas. In 2005, the EPA issued its Clean Air Visibility Rule detailing how the Clean Air Act’s BART requirements will be applied to facilities, including power plants built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, as the CAIR provided for more visibility improvement than BART, states are allowed to substitute CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The final rule has been challenged in the courts. Additionally, because the regional haze SIPs incorporate certain CAIR requirements, the remand of the CAIR could potentially impact regional haze SIPs. See Ambient Air Quality above for a discussion of CAIR-related uncertainties.

KU submitted an analysis of the visibility impacts of its Kentucky BART-eligible sources to the KDAQ. None of KU’s plants were determined to have a significant regional haze impact.

Ghent Opacity NOV:

In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act’s operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
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Note 9—Commitments and Contingencies (Continued)

KU's Ghent generating station. The parties have met on this matter and KU has received no further communications from the EPA. The Company is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

Ghent New Source Review NOV:

In March 2009, the EPA issued an NOV alleging that KU violated certain provisions of the Clean Air Act's rules governing new source review and prevention of significant deterioration by installing FGD and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. In December 2009, the EPA issued a Section 114 information request seeking additional information on this matter. In March 2010, the Company received an EPA settlement proposal providing for imposition of additional permit limits and emission controls and anticipates continued settlement negotiations with the EPA. Negotiations between the EPA and KU are ongoing. Depending on the provisions of a final settlement or the results of litigation, if any, resolution of this matter could involve significant increased operating and capital expenditures. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination on the Company's financial position or results of operations.

Installation of Pollution Controls:

Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. KU met its Phase I SO₂ requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's strategy for its Phase II SO₂ requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emission allowances and fuel switching to defer certain additional capital expenditures and continue to evaluate improvements to further reduce SO₂ emissions. KU believes its costs in reducing SO₂, NO_x and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. KU expects to incur additional capital expenditures currently approved in its ECR plans totaling approximately \$500 million during the 2011 through 2013 time period to achieve emissions reductions and manage coal combustion residuals. Monthly recovery is subject to periodic review by the Kentucky Commission.

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
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Note 9—Commitments and Contingencies (Continued)

TC2 Air Permit:

The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the KDAQ in November 2005. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order upholding the permit. The environmental groups petitioned the EPA to object to the state permit and subsequent permit revisions. In determinations made in September 2008 and June 2009, the EPA rejected most of the environmental groups' claims but identified three permit deficiencies which the KDAQ addressed by revising the permit. In August 2009, the EPA issued an Order denying the remaining claims with the exception of two additional deficiencies which the KDAQ was directed to address. The EPA determined that the proposed permit subsequently issued by the KDAQ satisfied the conditions of the EPA Order although the agency recommended certain enhancements to the administrative record. In January 2010, the KDAQ issued a final permit revision incorporating the proposed changes to address the two EPA objections. In March 2010, the Sierra Club submitted a petition to the EPA to object to the permit revision, which is now pending before the EPA. The Company believes that the final permit as revised should not have a material adverse effect on its financial condition or results of operations. However, until the EPA issues a final ruling on the pending petition and all applicable appeals have been exhausted, the Company cannot predict the final outcome of this matter.

GHG Developments:

In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. As discussed below, legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs, including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are on-going. The current administration has announced its support for the adoption of mandatory GHG reduction requirements at the federal level. The United States and other countries met in Copenhagen, Denmark, in December 2009, in an effort to negotiate a GHG reduction treaty to succeed the Kyoto Protocol, which is set to expire in 2013. In Copenhagen, the U.S. made a nonbinding commitment to, among other things, seek to reduce GHG emissions to 17% below 2005 levels by 2020 and provide financial support to developing countries. The United States and other nations met in Cancun, Mexico, in December 2010 to continue negotiations toward a binding agreement.

GHG Legislation:

KU is monitoring on-going efforts to enact GHG reduction requirements and requirements governing carbon sequestration at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. In June 2009, the U.S. House of Representatives passed the American Clean Energy and Security Act of 2009, which was a comprehensive energy bill containing the first-ever nation-wide GHG cap and trade program. The bill provided for reductions in

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
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Note 9—Commitments and Contingencies (Continued)

GHG emissions of 3% below 2005 levels by 2012, 17% by 2020 and 83% by 2050. In order to cushion potential rate impacts for utility customers, approximately 43% of emissions allowances would have initially been allocated at no cost to the electric utility sector, with this allocation gradually declining to 7% in 2029 and zero thereafter. The bill would have also established a renewable electricity standard requiring utilities to meet 20% of their electricity demand through renewable energy and energy efficiency by 2020. The bill contained additional provisions regarding carbon capture and sequestration, clean transportation, smart grid advancement, nuclear and advanced technologies and energy efficiency.

In September 2009, the Clean Energy Jobs and American Power Act, which was largely patterned on the House legislation, was introduced in the U.S. Senate. The Senate bill raised the emissions reduction target for 2020 to 20% below 2005 levels and did not include a renewable electricity standard. While the initial bill lacked detailed provisions for the allocation of emissions allowances, a subsequent revision incorporated allowance allocation provisions similar to the House bill. Although Senators Kerry and Lieberman and others worked to reach a consensus on GHG legislation, no bill passed the Senate in 2010. The Company is closely monitoring the progress of pending energy legislation, but the prospect for passage of comprehensive GHG legislation in 2011 is uncertain.

GHG Regulations:

In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. In April 2009, the EPA issued a proposed endangerment finding concluding that GHGs endanger public health and welfare, which is an initial rulemaking step under the Clean Air Act. A final endangerment finding was issued in December 2009. In September 2009, the EPA issued a final GHG reporting rule requiring reporting by facilities with annual GHG emissions equivalent to at least 25,000 tons of carbon dioxide. A number of the Company's facilities are required to submit annual reports commencing with calendar year 2010. In May 2010, the EPA issued a final GHG "tailoring" rule, effective January 2011, requiring new or modified sources with GHG emissions equivalent to at least 75,000 tons of carbon dioxide to obtain permits under the Prevention of Significant Deterioration Program. Such new or modified facilities would be required to install Best Available Control Technology. While the Company is unaware of any currently available GHG control technology that might be required for installation on new or modified power plants, it is currently assessing the potential impact of the rule. The final rule will apply to new and modified power plants beginning in January 2011. The Company is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted through legislation or regulations. In December 2010, the EPA announced that it plans to promulgate GHG New Source Performance Standards for power plants, including both new and existing facilities. A proposed rule is expected by July 2011, while a final rule is expected by May 2012. In the absence of either a proposed or final regulation, KU is unable to assess the potential impact of any future regulation.

GHG Litigation:

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting facilities. In October 2009, a three judge panel of the United States Court of Appeals for the 5th Circuit in the case of *Comer v. Murphy Oil* reversed a lower court, holding that private plaintiffs have standing to assert certain common law

Kentucky Utilities Company
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Note 9—Commitments and Contingencies (Continued)

claims against more than 30 utility, oil, coal and chemical companies. In March 2010, the court vacated the opinion of the three-judge panel and granted a motion for rehearing but subsequently denied the appeal due to the lack of a quorum. The appellate ruling leaves in effect the lower court ruling dismissing the plaintiffs' claims. In January 2011, the Supreme Court denied petitioner's petition for review, which effectively brings the case to an end. The Comer complaint alleged that GHG emissions from the defendants' facilities contributed to global warming which increased the intensity of Hurricane Katrina. E.ON AG, the former indirect parent of the Utilities, was named as a defendant in the complaint, but was not a party to the proceedings due to the failure of the plaintiffs to pursue service under the applicable international procedures. KU continues to monitor relevant GHG litigation to identify judicial developments that may be potentially relevant to operations.

Water/Waste

Ash Ponds and Coal-Combustion Byproducts:

The EPA has undertaken various initiatives in response to the December 2008 impoundment failure at the Tennessee Valley Authority's Kingston power plant, which resulted in a major release of coal combustion byproducts into the environment. The EPA issued information requests to utilities throughout the country, including KU, to obtain information on their ash ponds and other impoundments. In addition, the EPA inspected a large number of impoundments located at power plants to determine their structural integrity. The inspections included several of KU's impoundments, which the EPA found to be in satisfactory condition. In June 2010, the EPA published proposed regulations for coal combustion byproducts handled in landfills and ash ponds. The EPA has proposed two alternatives: (1) regulation of coal combustion byproducts in landfills and ash ponds as a hazardous waste or (2) regulation of coal combustion byproducts as a solid waste with minimum national standards. Under both alternatives, the EPA has proposed safety requirements to address the structural integrity of ash ponds. In addition, the EPA will consider potential refinements of the provisions for beneficial reuse of coal combustion byproducts.

Water Discharges and PCB Regulations:

In March 2011, the EPA released a proposed cooling water intake structure rule pursuant to Section 316(b) of the Clean Water Act. The proposed rule would require a case-by-case review to identify appropriate measures to mitigate the impact of cooling water intake structures on aquatic life. Mitigation measures required as a result of the review could range from use of smaller mesh screens on intake structures to more costly measures such as construction of cooling towers. The exact impact of the rule will depend on the provisions contained in the final rule promulgated by the EPA and the subsequent implementation of the rule by the states. The EPA has also announced plans to develop revised effluent limitation guidelines governing discharges from power plants. The EPA has further announced plans to develop revised standards governing the use of PCB in electrical equipment. The Company is monitoring these ongoing regulatory developments, but will be unable to determine the impact until such time as new rules are finalized.

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
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Note 9—Commitments and Contingencies (Continued)

TC2 Water Permit:

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County generating station. In October 2010, the hearing officer issued a report and recommended Order providing for dismissal of the claims raised by the petitioners. In December 2010, the Secretary issued a final Order dismissing all claims and upholding the permit which petitioners subsequently appealed to Trimble County Circuit Court.

Basin Seepage or Groundwater Infiltration:

Seepages or groundwater infiltration has been detected at wastewater basins or landfills at various KU plants. KU has completed or is completing assessments of seepages at various facilities and is working with agencies to implement abatement measures for those seepages, where required. The potential cost to address identified seepages or other seepages at KU's plants is not now determinable, but could be significant.

Superfund

KU is a potentially responsible party at several sites listed by the EPA under the federal Superfund program. Clean-up actions have been or are being undertaken at all of these sites, the costs of which has not been significant to the Company. However, should the EPA require different or additional measures in the future, or should KU's share of costs at multi-party sites increase significantly more than currently expected, the costs to KU could be significant.

KU is remediating or has completed the remediation of several sites that were not addressed under a regulatory program such as Superfund, but for which the Company may be liable for remediation. These include a number of former coal gas manufacturing facilities in Kentucky previously owned or operated or currently owned by KU. There are additional sites, formerly owned or operated by KU for which the Company lacks information on current site conditions and is therefore unable to predict what, if any, potential liability it may have.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which the Company currently lacks information, the costs of remediation and other liabilities could be substantial. It also could incur other non-remediation costs at sites included in current consent orders or other contaminated sites, the costs of which are not now determinable but could be significant.

Impact of Pending and Future Environmental Developments

As a company with significant coal-fired generating assets, KU will likely be substantially impacted by pending or future environmental rules or legislation requiring mandatory reductions in GHG emissions or other air emissions, imposing more stringent standards on discharges to waterways, or establishing additional requirements for handling or disposal of coal combustion byproducts. These evolving environmental regulations will likely require an increased level of capital expenditures and increased incremental operating and maintenance costs by the Company over the next several years.

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
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Note 9—Commitments and Contingencies (Continued)

Due to the uncertain nature of the final regulations that will ultimately be adopted by the EPA, including the reduction targets and the deadlines that will be applicable, the Company cannot finalize estimates of the potential compliance costs, but should the final rules incorporate additional emission reduction requirements, require more stringent emissions controls or implement more stringent byproducts storage and disposal practices, such costs will likely be significant. With respect to NAAQS, CATR, utility Maximum Achievable Control Technology rule and coal combustion byproducts developments, based upon a preliminary analysis of proposed regulations, the Company may be required to consider actions such as upgrading existing emissions controls, installing additional emissions controls, upgrading byproducts disposal and storage and possible early replacement of coal-fired units. Capital expenditures for KU associated with such actions are preliminarily estimated to be in the \$1.5 to \$1.75 billion range over the next ten years, although final costs may substantially vary. With respect to potential developments in water discharge, including the recently proposed Section 316(b) cooling water intake rule and the expected revisions to the effluent guidelines, revised PCB standards or GHG initiatives, costs in such areas cannot be estimated due to the preliminary status or uncertain outcome of such developments, but would be in addition to the above amount and could be substantial. Ultimately, the precise impact on the Company's operations of these various environmental developments cannot be determined prior to the finalization of such requirements. Based upon prior regulatory precedent, the Company believes that many costs of complying with such pending or future requirements would likely be recoverable under the ECR or other potential cost-recovery mechanisms, but the Company can provide no assurance as to the ultimate outcome of such proceedings before the regulatory authorities.

Note 10—Related Party Transactions

KU and subsidiaries of LKE and PPL engage in related party transactions. Transactions between KU and LKE subsidiaries are eliminated on consolidation of LKE. Transactions between KU and PPL subsidiaries are eliminated on consolidation of PPL. These transactions are generally performed at cost and are in accordance with FERC regulations under the Public Utility Holding Company Act of 2005 and the applicable Kentucky Commission and Virginia Commission regulations.

Intercompany Wholesale Sales and Purchases

KU and LG&E jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are recorded as intercompany wholesale sales and purchases and are recorded by each company at a price equal to the seller's fuel cost. Savings realized from purchasing electricity intercompany instead of generating from their own higher costs units or purchasing from the market are shared equally between the Utilities. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
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Note 10—Related Party Transactions (Continued)

These sales and purchases are included in the Condensed Statements of Income as Wholesale to affiliate, and Power purchased from affiliate. KU's intercompany electric revenues and power purchased expenses were as follows:

	Successor Three Months Ended March 31, 2011	Predecessor Three Months Ended March 31, 2010
Electric operating revenues from LG&E	\$11	\$ 7
Power purchased from LG&E	27	24

Interest Charges

See Note 8, Debt, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

Interest paid to LKE on the money pool arrangement was not significant for the three months ended March 31, 2011 and for the three months ended March 31, 2010. There were no loans from Fidelia during the three months ended March 31, 2011. Interest expense related to loans from Fidelia was \$18 million for the three months ended March 31, 2010.

Dividends

In March 2011, the Company paid dividends of \$31 million to its sole shareholder, LKE. For the period ended March 31, 2010 no dividends were paid.

Other Intercompany Billings

Servco provides the Company with a variety of centralized administrative, management and support services. Associated charges include payroll taxes paid by Servco on behalf of KU, labor and burdens of Servco employees performing services for KU, coal purchases and other vouchers paid by Servco on behalf of KU. The cost of these services is directly charged to the Company, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and/or other statistical information. These costs are charged on an actual cost basis.

In addition, the Utilities provide services to each other and to Servco. Billings between the Utilities relate to labor and overheads associated with union and hourly employees performing work for the other utility, charges related to jointly-owned generating units and other miscellaneous charges. Billings from KU to Servco include cash received by Servco on behalf of KU, tax settlements and other payments made by the Company on behalf of other non-regulated businesses which are reimbursed through Servco.

Kentucky Utilities Company
Notes to Condensed Financial Statements (Continued)
(unaudited)

Note 10—Related Party Transactions (Continued)

Intercompany billings to and from KU were as follows:

	<u>Successor</u> Three Months Ended March 31, 2011	<u>Predecessor</u> Three Months Ended March 31, 2010
Servco billings to KU	\$49	\$50
LG&E billings to KU	27	8

KU billings to Servco were not significant for the three months ended March 31, 2011 and March 31, 2010.

Intercompany Balances

The Company had the following balances with its affiliates:

	<u>March 31, 2011</u>	<u>December 31, 2010</u>
Accounts receivable from LKE	\$—	\$12
Accounts payable to Servco	14	23
Accounts payable to LG&E	17	22
Accounts payable to LKE	7	—
Notes payable to LKE	—	10

Note 11—Subsequent Events

Subsequent events have been evaluated through May 9, 2011, the date of issuance of these statements and these statements contain all necessary adjustments and disclosures resulting from that evaluation.

On May 2, 2011, KU a filed notice of intent to file an ECR plan with the Kentucky Commission. The plan will be filed on or after June 1, 2011.

On April 29, 2011, KU entered into a new \$198 million letter of credit agreement that will be used to issue letters of credit to support outstanding tax exempt bonds. The facility matures in April 2014. On May 2, 2011, letters of credit totaling \$198 million were issued under the new agreement replacing the letters of credit previously issued under KU's credit facility. In May 2011, one national rating agency downgraded the long-term rating of four of KU's pollution control bonds by one notch in connection with the substitution of the letters of credit enhancing these four bonds.

On April 22, 2011 KU filed a Form S-4, Registration Statement, with the SEC, as agreed in its first mortgage bonds registration rights agreement. The Form S-4 relates to an offer to exchange the first mortgage bonds with registered, publicly tradable securities.

On April 21, 2011, KU and LG&E filed their 2011 joint IRP with the Kentucky Commission.

On April 1, 2011, KU filed a rate adjustment request with the Virginia Commission. If approved, the \$9 million base rate increase, an increase of approximately 14%, would be effective January 2012. Inclusive in that request is the recovery over five years of \$6 million in expenses from the December 2009 winter storm that affected KU's Virginia jurisdiction.

KENTUCKY UTILITIES COMPANY

Offers to Exchange

**\$250,000,000 aggregate principal amount of its 1.625%
First Mortgage Bonds due 2015,
\$500,000,000 aggregate principal amount of its 3.250%
First Mortgage Bonds due 2020 and
\$750,000,000 aggregate principal amount of its 5.125%
First Mortgage Bonds due 2040,
each of which have been registered under the
Securities Act of 1933, as amended,**

for any and all of its outstanding

**1.625% First Mortgage Bonds due 2015, 3.250%
First Mortgage Bonds due 2020
and 5.125% First Mortgage Bonds due 2040, respectively**

PROSPECTUS

June 2, 2011

Supplement, dated May 2, 2011 to Reoffering Circular dated December 10, 2008, as supplemented as of December 16, 2008, October 29, 2010 and December 1, 2010 (the "Reoffering Circular")

\$12,900,000

County of Mercer, Kentucky

Solid Waste Disposal Facility Revenue Bonds, 2000 Series A

(Kentucky Utilities Company Project)

Effective as of May 2, 2011, through April 22, 2014 (the Letter of Credit (as defined below) expiration date, subject to extension or earlier termination), payment of the principal of and interest on the above-referenced bonds (the "Bonds") when due will be paid with funds drawn under an irrevocable transferable direct pay letter of credit (the "Letter of Credit") issued by

SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH

The Letter of Credit will permit the Trustee to draw with respect to the Bonds up to an amount sufficient to pay (i) the principal thereof (or that portion of the purchase price corresponding to principal) plus (ii) interest thereon (or that portion of the purchase price corresponding to interest) up to a maximum rate of 10% per annum for at least 45 days.

The Bonds will continue to bear interest at a Weekly Rate, determined by the Remarketing Agent, Morgan Stanley & Co. Incorporated, in accordance with the Indenture, payable on the first Business Day of each calendar month, commencing on June 1, 2011. The interest rate period, interest rate and Interest Rate Mode will be subject to change under certain conditions, as described in the Reoffering Circular. The Bonds are subject to optional redemption, extraordinary optional redemption, in whole or in part, and mandatory redemption following a determination of taxability prior to maturity, as described in the Reoffering Circular. The Bonds are subject to mandatory purchase on any date on which the Bonds are converted to a different Interest Rate Mode and upon the expiration of the Letter of Credit or any Alternate Credit Facility.

This supplement contains a description of the Letter of Credit and Sumitomo Mitsui Banking Corporation, New York Branch, the issuer of the Letter of Credit. For purposes of the Reoffering Circular, the Letter of Credit is a "Credit Facility" and Sumitomo Mitsui Banking Corporation, New York Branch is a "Credit Facility Issuer." Except as otherwise specified herein, information in the Reoffering Circular referred to above has not been amended or modified and the information contained herein is qualified by reference to, and should be read in conjunction with, the Reoffering Circular, including information incorporated therein by reference. Terms not otherwise defined herein shall have the meanings ascribed to them in such Reoffering Circular.

The eighth paragraph under the section of the Reoffering Circular captioned "Introductory Statement" is hereby amended to read in its entirety as follows:

Effective May 2, 2011, the Company will cause to be delivered an irrevocable transferable direct pay letter of credit (the "Letter of Credit"), issued by Sumitomo Mitsui Banking Corporation, New York Branch (the "Bank"), to provide for the timely payment of principal of and accrued interest (calculated for at least 45 days at the maximum rate of 10% per annum) on, and purchase price of, the Bonds. The Company will be required to reimburse the Bank for all amounts drawn by the Trustee under the Letter of Credit pursuant to the terms of a certain Reimbursement Agreement, to be dated as of May 2, 2011 (the "Reimbursement Agreement"), between the Company and the Bank. The Letter of Credit will expire on April 22, 2014, unless extended or earlier terminated.

* * * *

The section of the Reoffering Circular captioned "The Letter of Credit" is hereby amended to read in its entirety as follows:

THE LETTER OF CREDIT

The following summarizes certain provisions of the Letter of Credit and the Reimbursement Agreement, to which reference is made for the detailed provisions thereof. Unless otherwise defined in this Reoffering Circular, capitalized terms in the following summary are used as defined in the Letter of Credit and the Reimbursement Agreement. The Company is permitted under the Indenture to deliver an Alternate Credit Facility to replace the Letter of Credit. Any such Alternate Credit Facility must meet certain requirements described in the Indenture.

The Letter of Credit

The Letter of Credit will be an irrevocable transferable direct pay letter of credit issued by the Bank in order to provide additional security for the payment of principal of, purchase

price of, interest on and premium, if applicable, on any date when payments under the Bonds are due, including principal and interest payments and payments upon tender, redemption, acceleration or maturity of the Bonds. The Letter of Credit will provide for direct payments to or upon the order of the Trustee as set forth in the Letter of Credit in amounts sufficient to pay such amounts in accordance with the terms thereof.

The Letter of Credit will be issued in an amount equal to the aggregate principal amount of the outstanding Bonds, plus an amount that represents interest accrued thereon at an assumed maximum rate of 10% per annum for 45 days (the "Credit Amount"). The Trustee, upon compliance with the terms of the Letter of Credit, is authorized to draw up to (a) an amount sufficient (i) to pay principal of the Bonds, when due, whether at maturity or upon redemption or acceleration, and (ii) to pay the portion of the purchase price of the Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed (a "Liquidity Drawing") equal to the principal amount of the Bonds, plus (b) an amount not to exceed 45 days of accrued interest on the Bonds at an assumed rate of 10% per annum (i) to pay interest on the Bonds, when due, and (ii) to pay the portion of the interest accrued on the Bonds as of any Liquidity Drawing.

The amount available under the Letter of Credit will be automatically reduced by the amount of any drawing thereunder, subject to reinstatement as described below. With respect to a drawing by the Trustee solely to pay interest on the Bonds on an Interest Payment Date, the amount available under the Letter of Credit will be automatically reinstated in the amount of such drawing effective on the earlier of (i) receipt by the Bank from the Company of reimbursement of any drawing solely to pay interest in full or (ii) at the opening of business on the eleventh calendar day after the date the Bank honors such drawing, unless the Trustee has received written notice from the Bank by the tenth calendar day after the date the Bank honors such drawing that the Bank is not so reinstating the available amount due to the Company's failure to reimburse the Bank for such drawing in full, or that an event of default has occurred and is continuing under the \$198,309,583.05 Letter of Credit Agreement dated as of April 29, 2011 among the Company, the lenders from time to time thereto, and Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, as Administrative Agent (the "Credit Agreement") and, in either case, directing an acceleration of the Bonds pursuant to the Indenture. With respect to a Liquidity Drawing under the Letter of Credit, the amount available under the Letter of Credit will be automatically reduced by the principal amount of the Bonds purchased with the proceeds of such drawing plus the amount of accrued interest on such Bonds. In the event of the remarketing of the Bonds purchased with the proceeds of a Liquidity Drawing, the amount available under the Letter of Credit will be automatically reinstated upon receipt by the Bank or the Trustee on the Bank's behalf of an amount equal to such principal amount plus accrued interest.

The Letter of Credit will terminate on the earliest to occur of:

- (i) the Bank's close of business on April 22, 2014 (such date, as extended from time to time in accordance with the Letter of Credit is defined as the "Stated Expiration Date");

(ii) the Bank's close of business on the date which is five Business Days following the date of receipt by the Bank of a certificate from the Trustee certifying that (a) no Bonds remain Outstanding within the meaning of the Indenture, (b) all drawings required to be made under the Indenture and available under the Letter of Credit have been made and honored, (c) an Alternate Credit Facility has been delivered to the Trustee in accordance with the Indenture to replace the Letter of Credit or (d) all of the outstanding Bonds were converted to Bonds bearing interest at a rate other than the Daily Rate or the Weekly Rate;

(iii) the Bank's close of business on the date of receipt by the Bank of a certificate from the Trustee confirming that the Trustee is required to terminate the Letter of Credit in accordance with the terms of the Indenture;

(iv) the date on which the Bank receives and honors an acceleration drawing certificate; or

(v) the Bank's close of business on the date which is 30 days after receipt by the Trustee of written notice from the Bank of an Event of Default under the Credit Agreement and instructing the Trustee to draw under the Letter of Credit.

Pursuant to the Credit Agreement, the Company is obligated to reimburse the Bank for all amounts drawn under the Letter of Credit, and to pay interest on all such amounts. The Company has also agreed to pay the Bank and the Administrative Agent fees for issuing and maintaining the Letter of Credit.

The Reimbursement Agreement

The Reimbursement Agreement, through incorporation of the terms of the Credit Agreement, imposes various covenants and agreements, including various financial and operating covenants, on the Company. Such covenants include, but are not limited to, covenants relating to (i) inspection of the books and financial records of the Company; (ii) mergers or consolidations; (iii) disposition of assets and (iv) capitalization ratios. Any such covenants may be amended, waived or modified at any time by the Bank and without the consent of the Trustee or the holders of the Bonds. Under certain circumstances, the failure of the Company to comply with such covenants may result in a mandatory tender or acceleration of the Bonds.

An Event of Default under the Credit Agreement will constitute an Event of Default under the Reimbursement Agreement. The following events will constitute an Event of Default under the Credit Agreement:

(i) the Company shall fail to pay when due any principal on any Reimbursement Obligations; or

(ii) the Company shall fail to pay when due any interest on the Reimbursement Obligations, any fee or any other amount payable under the Credit Agreement or under any other Loan Document for five (5) days following the date such payment becomes due thereunder; or

(iii) the Company shall fail to observe or perform certain covenants or agreements contained in the Credit Agreement, including those related to mergers, disposition of assets and capitalization ratios; or

(iv) the Company shall fail to give notice of a Default or Event of Default under the Credit Agreement within a specified number of days following knowledge of such occurrence; or

(v) the Company shall fail to observe or perform any covenant or agreement contained in the Credit Agreement or any other Loan Document (other than those covered above) for thirty (30) days after written notice thereof has been given to the defaulting party by the administrative agent, or at the request of the required lenders; or

(vi) any representation, warranty or certification made by the Company in the Credit Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or

(vii) the Company shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Material Debt or a trustee on its or their behalf to cause, such Material Debt to become due prior to its stated maturity; or

(viii) the Company shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(ix) an involuntary case or other proceeding shall be commenced against the Company seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismitted and unstayed for a period of 60 days; or an order for relief shall be entered against the Company under the Bankruptcy Code; or

(x) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of

ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or

(xi) the Company shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against the Company that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(xii) a Change of Control shall have occurred;

For purposes of the foregoing:

“Change of Control” means (i) the acquisition by any person, or two or more persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own 80% or more of the outstanding shares of the voting stock in the Company.

“Material Debt” means debt (other than debt under the Loan Documents) of the Company in a principal or face amount exceeding \$50,000,000

Appendix C of the Reoffering Circular is hereby amended to read in its entirety as follows:

Sumitomo Mitsui Banking Corporation, New York Branch

The information under this heading has been provided solely by Sumitomo Mitsui Banking Corporation, New York Branch and is believed to be reliable. This information has not been verified independently by the Company, the Issuer or the Remarketing Agent. The Company, the Issuer and the Remarketing Agent make no representation whatsoever as to the accuracy, adequacy or completeness of such information.

Sumitomo Mitsui Banking Corporation

Sumitomo Mitsui Banking Corporation (*Kabushiki Kaisha Mitsui Sumitomo Ginko*) (“SMBC”) is a joint stock corporation with limited liability (*Kabushiki Kaisha*) under the laws of Japan. The registered head office of SMBC is located at 1-2, Yurakucho 1-chome, Chiyoda-ku, Tokyo, Japan.

SMBC was established in April 2001 through the merger of two leading banks, The Sakura Bank, Limited and The Sumitomo Bank, Limited. In December 2002, Sumitomo Mitsui Financial Group, Inc. (“SMFG”) was established through a stock transfer as a holding company under which SMBC became a wholly owned subsidiary. SMFG reported ¥ 123,159,513 million in consolidated total assets as of March 31, 2010.

SMBC is one of the world’s leading commercial banks and provides an extensive range of banking services to its customers in Japan and overseas. In Japan, SMBC accepts deposits, makes loans and extends guarantees to corporations, individuals, governments and governmental entities. It also offers financing solutions such as syndicated lending, structured finance and project finance. SMBC also underwrites and deals in bonds issued by or under the guarantee of the Japanese government and local government authorities, and acts in various administrative and advisory capacities for certain types of corporate and government bonds. Internationally, SMBC operates through a network of branches, representative offices, subsidiaries and affiliates to provide many financing products including syndicated lending and project finance.

The New York Branch of SMBC is licensed by the State of New York Banking Department to conduct branch banking business at 277 Park Avenue, New York, New York, and is subject to examination by the State of New York Banking Department and the Federal Reserve Bank of New York.

Financial and Other Information

Audited consolidated financial statements for SMFG and its consolidated subsidiaries for the fiscal years ended March 31, 2010, as well as certain unaudited financial information for SMFG and SMBC for the fiscal period ended through December 31, 2010, as well as other corporate data, financial information and analyses are available in English on the website of the Parent at www.smfg.co.jp/english.

The information herein has been obtained from SMBC, which is solely responsible for its content. The delivery of the Reoffering Circular shall not create any implication that there has been no change in the affairs of SMBC since the date hereof, or that the information contained or referred herein is correct as of any time subsequent to its date.

Appendix A of the Reoffering Circular is hereby amended to read in its entirety as follows:

Kentucky Utilities Company –

Financial Statements and Additional Information

This Appendix A includes a description of the Business of Kentucky Utilities Company (“KU”), certain risk factors associated with KU, Selected Financial Information, Management’s Discussion and Analysis, and the Consolidated Financial Statements as of December 31, 2010 and 2009 and for the Years Ended December 31, 2010, 2009, and 2008 (Audited).

The information contained in this Appendix A relates to and has been obtained from KU and from other sources as shown herein. The delivery of this Supplement shall not create any implication that there has been no change in the affairs of KU since the date hereof, or that the information contained or incorporated by reference in this Appendix A is correct at any time subsequent to its date. In this Appendix A, “KU”, “the Company”, “we”, “us” or “our” refer to Kentucky Utilities Company.

Summary

Kentucky Utilities Company

Kentucky Utilities Company, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electric service to approximately 514,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and to less than 10 customers in Tennessee. Our service area covers approximately 6,600 noncontiguous square miles. Approximately 98% of the electricity generated by us is produced by our coal-fired electric generating stations. The remainder is generated by natural gas and oil fueled combustion turbines and a hydroelectric power plant. In Virginia, we operate under the name Old Dominion Power Company. We also sell wholesale electric energy to 12 municipalities.

KU is a wholly-owned subsidiary of LG&E and KU Energy LLC. On November 1, 2010, PPL Corporation purchased all of the interests of LG&E and KU Energy LLC and, indirectly, all of the stock of the Company from E.ON AG, making KU an indirect wholly-owned subsidiary of PPL Corporation. KU’s affiliate, Louisville Gas and Electric Company (“LG&E”), is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and natural gas in Kentucky.

Kentucky Utilities Company

Financial Statements and Additional Information

As of December 31, 2010 and 2009 and

for the years ended December 31, 2010, 2009 and 2008

Index of Abbreviations

AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CATR	Clean Air Transport Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
CMRG	Carbon Management Research Group
Company	Kentucky Utilities Company
CT	Combustion Turbine
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EEI	Electric Energy, Inc.
EKPC	East Kentucky Power Cooperative, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC and Subsidiaries
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
GAAP	U.S. Generally Accepted Accounting Principles
GAC	Group Annuity Contract
GHG	Greenhouse Gas
Gwh	Gigawatt hours or one thousand Mwh
IBEW	International Brotherhood of Electrical Workers
IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
IRS	Internal Revenue Service
KCCS	Kentucky Consortium for Carbon Storage
KDAQ	Kentucky Division for Air Quality
Kentucky Commission	Kentucky Public Service Commission
KIUC	Kentucky Industrial Utility Consumers, Inc.
KU	Kentucky Utilities Company
kWh	Kilowatt hours
LG&E	Louisville Gas and Electric Company
LIBOR	London Interbank Offered Rate
LKE	LG&E and KU Energy LLC and Subsidiaries (formerly E.ON U.S. LLC and Subsidiaries)
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British thermal units

Index of Abbreviations

Moody's	Moody's Investor Services, Inc.
MVA	Megavolt-ampere
Mw	Megawatts
Mwh	Megawatt hours
NAAQS	National Ambient Air Quality Standards
NERC	North American Electric Reliability Corporation
NO ₂	Nitrogen Dioxide
NOV	Notice of Violation
NOx	Nitrogen Oxide
OATT	Open Access Transmission Tariff
OMU	Owensboro Municipal Utilities
OVEC	Ohio Valley Electric Corporation
PPL	PPL Corporation
Predecessor	The Company during the time period prior to November 1, 2010
PUHCA 2005	Public Utility Holding Company Act of 2005
RSG	Revenue Sufficiency Guarantee
S&P	Standard & Poor's Rating Service
SCR	Selective Catalytic Reduction
SERC	SERC Reliability Corporation
Servco	LG&E and KU Services Company (formerly E.ON U.S. Services Inc.)
SIP	State Implementation Plan
SO ₂	Sulfur Dioxide
SPP	Southwest Power Pool, Inc
Successor	The Company during the time period after October 31, 2010
TC1	Trimble County Unit 1
TC2	Trimble County Unit 2
TVA	Tennessee Valley Authority
Utilities	KU and LG&E
VDT	Value Delivery Team Process
Virginia Commission	Virginia State Corporation Commission

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Forward-Looking Information

KU uses forward-looking statements in this annual report. Statements that are not historical facts are forward-looking statements, and are based on beliefs and assumptions of management, and on information currently available to management. Forward-looking statements include statements preceded by, followed by or using such words as “believe,” “expect,” “anticipate,” “plan,” “estimate” or similar expressions. Such statements speak only as of the date they are made, and the Company undertakes no obligation to update publicly any of them in light of new information or future events. Actual results may materially differ from those implied by forward-looking statements due to known and unknown risks and uncertainties. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- fuel supply availability;
- weather conditions affecting generation production, customer energy use and operating costs;
- operation, availability and operating costs of existing generation facilities;
- transmission and distribution system conditions and operating costs;
- collective labor bargaining negotiations;
- the outcome of litigation against the Company;
- potential effects of threatened or actual terrorism or war or other hostilities;
- commitments and liabilities;
- market demand and prices for energy, capacity, transmission services, emission allowances and delivered fuel;
- competition in retail and wholesale power markets;
- liquidity of wholesale power markets;
- defaults by counterparties under the Company’s energy, fuel or other power product contracts;
- market prices of commodity inputs for ongoing capital expenditures;
- capital market conditions, including the availability of capital or credit, changes in interest rates, and decisions regarding capital structure;
- the fair value of debt and equity securities and the impact on defined benefit costs and resultant cash funding requirements for defined benefit plans;
- interest rates and their effect on pension and retiree medical liabilities;
- volatility in or the impact of other changes in financial or commodity markets and economic conditions;
- profitability and liquidity, including access to capital markets and credit facilities;
- new accounting requirements or new interpretations or applications of existing requirements;
- securities and credit ratings;
- current and future environmental conditions and requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- political, regulatory or economic conditions in states, regions or countries where the Company conducts business;
- receipt of necessary governmental permits, approvals and rate relief;
- new state or federal legislation, including new tax, environmental, health care or pension-related legislation;
- state or federal regulatory developments;
- the impact of any state or federal investigations applicable to the Company and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;

- performance of new ventures; and
- asset acquisitions and dispositions.

In light of these risks and uncertainties, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than the Company has described. For additional details regarding these and other risks and uncertainties, see Risk Factors.

Business

General

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electric service to approximately 514,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in five counties in southwestern Virginia and less than ten customers in Tennessee. KU's service area covers approximately 6,600 noncontiguous square miles. Approximately 98% of the electricity generated by KU is produced by its coal-fired electric generating stations. The remainder is generated by natural gas and oil fueled CTs and a hydroelectric power plant. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

On November 1, 2010, KU became an indirect wholly owned subsidiary of PPL, when PPL acquired all of the outstanding limited liability company interests in the Company's direct parent, LKE, from E.ON US Investments Corp. LKE, a Kentucky limited liability company, also owns the affiliate, LG&E, a regulated utility engaged in the generation, transmission, distribution and sale of electric energy and distribution and sale of natural gas in Kentucky. Following the acquisition, the Company's business has not changed. KU and LG&E are continuing as subsidiaries of LKE, which is now an intermediary holding company in the PPL group of companies.

Headquartered in Allentown, Pennsylvania, PPL is an energy and utility holding company that was incorporated in 1994. Through its subsidiaries, PPL owns or controls about 19,000 megawatts of generating capacity in the U.S., sells energy in key U.S. markets and delivers electricity and natural gas to about 5.3 million customers in the U.S. and the U.K.

Predecessor and Successor

KU's historical financial results are presented using "Predecessor" or "Successor" to designate the periods before or after PPL's acquisition of LKE. Predecessor covers the time period prior to November 1, 2010. Successor covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL accounting policies and the cost basis of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor period are not comparable to the Predecessor period.

Despite the separate presentation, the core operations of the Company have not changed. See Note 1, Summary of Significant Accounting Policies, for the major differences in Predecessor and Successor accounting policies. See Note 2, Acquisition by PPL, for information regarding the acquisition and the purchase accounting adjustments.

Operations

Dollars are in millions unless otherwise noted.

The sources of operating revenues and volumes of sales for the following periods in 2010, 2009 and 2008 were as follows:

	Successor		Predecessor					
	November 1, 2010 through December 31, 2010		January 1, 2010 through October 31, 2010		Year Ended December 31, 2009		Year Ended December 31, 2008	
	Revenues	Volumes (Gwh)	Revenues	Volumes (Gwh)	Revenues	Volumes (Gwh)	Revenues	Volumes (Gwh)
Residential	\$ 106	1,394	\$ 440	5,788	\$ 480	6,594	\$ 462	6,803
Industrial and commercial	117	1,876	588	9,152	637	10,171	636	10,709
Municipals	15	326	88	1,676	91	1,848	92	1,971
Other retail	20	273	114	1,453	118	1,647	108	1,707
Wholesale	5	68	18	376	29	660	107	2,894
	<u>\$ 263</u>	<u>3,937</u>	<u>\$ 1,248</u>	<u>18,445</u>	<u>\$ 1,355</u>	<u>20,920</u>	<u>\$ 1,405</u>	<u>24,084</u>

KU's peak load in 2010 was 4,517 Mw on December 15, 2010, when the temperature dropped to a low of 3 degrees Fahrenheit in Lexington. KU's all time peak load was 4,640 Mw and occurred on January 16, 2009, when the temperature dropped to a low of -2 degrees Fahrenheit in Lexington.

The Company's power generating system includes coal-fired steam generating stations, with natural gas and oil fueled CTs which supplement the system during peak or emergency periods. As of December 31, 2010, KU's system capacity was:

Fuel/Plant	Total Summer Mw Capacity (a)	% Ownership	Ownership or Lease Interest in Mw	Location
Coal (steam)				
Ghent	1,918	100.00	1,918	Carroll County, KY
E.W. Brown	684	100.00	684	Mercer County, KY
Green River	163	100.00	163	Muhlenberg County, KY
Tyrone	71	100.00	71	Woodford County, KY
OVEC - Clifty Creek (b)	1,304	2.50	33	Jefferson County, IN
OVEC - Kyger Creek (b)	1,086	2.50	27	Gallia County, OH
Total steam	5,226		2,896	
Natural gas/oil (combustion turbines)				
E.W. Brown Units 8-11	480	100.00	480	Mercer County, KY
Trimble County Units 7-10 (c)	640	63.00	403	Trimble County, KY
Trimble County Units 5-6 (c)	320	71.00	227	Trimble County, KY
E.W. Brown Units 6-7 (c)	338	62.00	214	Mercer County, KY
Paddy's Run (c)	158	47.00	74	Jefferson County, KY
E.W. Brown Unit 5	129	47.00	63	Mercer County, KY
Haefling	36	100.00	36	Fayette County, KY
Total combustion turbines	2,101		1,497	

Fuel/Plant	Total Summer Mw Capacity (a)	% Ownership	Ownership or Lease Interest in Mw	Location
Hydro				
Dix Dam Hydroelectric Station	24	100.00	24	Mercer County, KY
Total hydro	24		24	
Total system capacity	<u>7,351</u>		<u>4,417</u>	

- (a) The capacity of generation units is based on a number of factors, including the operating experience and physical conditions of the units and may be revised periodically to reflect changed circumstances.
- (b) KU is contractually entitled to 2.50% of OVEC's output based on a power purchase agreement which is comprised of annual minimum debt service payments, as well as contractually-required reimbursement of plant operating, maintenance and other expenses. OVEC's capacity is shown at unit nameplate ratings.
- (c) Units are jointly owned with LG&E. See Note 14, Jointly Owned Electric Utility Plant, for further information.

With limited exceptions the Company took care, custody and control of TC2 on January 22, 2011, and has dispatched the unit to meet customer demand since that date. KU and the contractor agreed to a further amendment of the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. Unit 2 is coal-fired and has a capacity of 760 Mw, of which KU's share is 462 Mw.

On December 31, 2010, KU's transmission system included 132 substations (54 of which are shared with the distribution system) with transformer capacity of approximately 13,136 MVA and approximately 4,076 miles of lines. The distribution system included 480 substations (54 of which are shared with the transmission system) with transformer capacity of approximately 7,044 MVA, and approximately 14,123 miles of overhead lines and 2,221 miles of underground conduit.

KU had a power supply contract with OMU that was terminated by OMU in May 2010. KU owns 20% of EEI's common stock and 2.5% of OVEC's common stock. KU has power purchase rights for its portion of OVEC's output. Additional information regarding this relationship is provided in Note 1, Summary of Significant Accounting Policies and Note 13, Commitments and Contingencies.

KU contracts with the TVA to act as KU's transmission reliability coordinator and SPP to function as KU's independent transmission operator, pursuant to FERC requirements. The TVA and SPP contracts provide services through August 31, 2011 and August 31, 2012, respectively. See Note 3, Rates and Regulatory Matters, for further information.

KU and LG&E jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has

excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are recorded as intercompany wholesale sales and purchases and are recorded by each company at a price equal to the seller's fuel cost. Savings realized from purchasing electricity intercompany instead of generating from their own higher costs units or purchasing from the market are shared equally between the Utilities. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

Substantially all of KU's real and tangible property located in Kentucky is subject to a mortgage lien, securing its first mortgage bonds. See Note 11, Long-Term Debt, for further information.

Rates and Regulations

PPL, KU's ultimate parent, is a holding company under PUHCA 2005. PPL, its utility subsidiaries, including KU, and certain of its non-utility subsidiaries are subject to extensive regulation by the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. KU believes that it has adequate authority (including financing authority) under existing FERC Orders and regulations to conduct its business and will seek additional authorization when necessary.

The Company is subject to the jurisdiction of the FERC, Kentucky Commission, Virginia Commission and the Tennessee Regulatory Authority in virtually all matters related to electric utility regulation, and as such, its accounting is subject to the regulated operations guidance of the FASB ASC. Given its competitive position in the marketplace and the status of regulation in Kentucky, Virginia and Tennessee there are no plans or intentions to discontinue the application of the regulated operations guidance of the FASB ASC.

On April 28, 2010, E.ON U.S. announced that a Purchase and Sale Agreement (the "Agreement") had been entered into among E.ON US Investments Corp., PPL and E.ON.

The transaction was subject to customary closing conditions, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Act, receipt of required regulatory approvals (including the FERC and state regulators in Kentucky, Virginia and Tennessee) and the absence of injunctions or restraints imposed by governmental entities.

Change of control and financing-related applications were filed on May 28, 2010, with the Kentucky Commission and on June 15, 2010, with the Virginia Commission and the Tennessee Regulatory Authority. An application with the FERC was filed on June 28, 2010. During the second quarter of 2010, a number of parties were granted intervenor status in the Kentucky Commission proceedings and data request filings and responses occurred. Early termination of the Hart-Scott-Rodino waiting period was received on August 2, 2010.

A hearing in the Kentucky Commission proceedings was held on September 8, 2010, at which time a unanimous settlement agreement was presented. In the settlement, KU committed that no base rate increases would take effect before January 1, 2013. The KU rate increases that took effect on August 1,

2010, were not impacted by the settlement. Under the terms of the settlement, KU retains the right to seek approval for the deferral of “extraordinary and uncontrollable costs.” Interim rate adjustments will continue to be permissible during that period for existing fuel, environmental and demand-side management cost trackers. The agreement also substitutes an acquisition savings shared deferral mechanism for the requirement that the Company file a synergies plan with the Kentucky Commission. This mechanism, which will be in place until the earlier of five years or the first day of the year in which a base rate increase becomes effective, permits KU to earn up to a 10.75% return on equity. Any earnings above a 10.75% return on equity will be shared with customers on a 50%/50% basis. On September 30, 2010, the Kentucky Commission issued an Order approving the transfer of ownership of KU via the acquisition of E.ON U.S. by PPL, incorporating the terms of the submitted settlement. On October 19, 2010 and October 21, 2010, respectively, Orders approving the acquisition of E.ON U.S. by PPL were received from the Virginia Commission and the Tennessee Regulatory Authority. The Commissions’ Orders contained a number of other commitments with regard to operations, workforce, community involvement and other matters.

In mid-September 2010, KU and other applicants in the FERC change of control proceeding reached an agreement with the protesters, whereby such protests have been withdrawn. The agreement, which was filed for consideration with the FERC, includes various conditional commitments, such as a continuation of certain existing undertakings with protesters in prior cases, an agreement not to terminate certain KU municipal customer contracts prior to January 2017, an exclusion of any transaction-related costs from wholesale energy and tariff customer rates to the extent that KU agreed not to seek the same transaction-related cost from retail customers and agreements to coordinate with protesters in certain open or ongoing matters. A FERC Order approving the transaction was received on October 26, 2010, and the transaction was completed on November 1, 2010.

In January 2010, KU filed an application with the Kentucky Commission requesting an increase in electric base rates of approximately 12%, or \$135 million annually. In June 2010, KU and all of the intervenors, except the AG, agreed to a stipulation providing for an increase in electric base rates of \$98 million annually and filed a request with the Kentucky Commission to approve such settlement. An Order in the proceeding was issued in July 2010, approving all the provisions in the stipulation, including a return on equity range of 9.75-10.75%. The new rates became effective on August 1, 2010.

In June 2009, KU filed an application with the Virginia Commission requesting an increase in electric base rates for its Virginia jurisdictional customers in an amount of \$12 million annually or approximately 21%. The proposed increase reflected a proposed rate of return on rate base of 8.586% based on a return on equity of 12%. As permitted, pursuant to a Virginia Commission Order, KU elected to implement the proposed rates effective November 1, 2009, on an interim basis. During December 2009, KU and the Virginia Commission Staff agreed to a Stipulation and Recommendation authorizing a base rate revenue increase of \$11 million annually and a return on rate base of 7.846% based on a 10.5% return on common equity. In March 2010, the Virginia Commission issued an Order approving the stipulation, with the increased rates to be put into effect as of April 1, 2010. As part of the stipulation, KU refunded approximately \$1 million in interim rate amounts in excess of the ultimate approved rates.

In January 2009, a significant ice storm passed through KU’s service area causing approximately 199,000 customer outages, followed closely by a severe wind storm in February 2009 causing approximately 44,000 customer outages. The Company filed an application with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset and defer for future

recovery approximately \$62 million in incremental operation and maintenance expenses related to the storm restoration. In September 2009, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to \$62 million based on its actual costs for storm damages and service restoration due to the January and February 2009 storms. In September 2009, the Company established a regulatory asset of \$57 million for actual costs incurred. KU received approval in its 2010 base rate case to recover this asset over a ten year period with recovery beginning August 1, 2010.

In September 2008, high winds from the remnants of Hurricane Ike passed through the service area causing significant outages and system damage. In October 2008, KU filed an application with the Kentucky Commission requesting approval to establish a regulatory asset and defer for future recovery approximately \$3 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to \$3 million based on its actual costs for storm damages and service restoration due to Hurricane Ike. In December 2008, the Company established a regulatory asset of \$2 million for actual costs incurred. The Company received approval in its 2010 base rate case to recover this asset over a ten year period beginning August 1, 2010.

In September 2008, KU filed an application with the FERC for increases in electric base rates applicable to wholesale power sales contracts or interchange agreements involving, collectively, twelve Kentucky municipalities. The application requested a shift from an all-in stated unit charge rates to an unbundled formula rate, including an annual adjustment mechanism. In May 2009, the FERC issued an Order approving a settlement among the parties in the case, incorporating increases of approximately 3% from prior rates and a return on equity of 11%. In May 2010, KU submitted to the FERC the proposed current annual adjustments to the formula rates, which incorporated certain proposed increases. Updated rates, including certain further adjustments from a review process involving wholesale requirements customers, became effective as of July 1, 2010.

By mutual agreement, the parties' settlement of the 2008 application left outstanding the issue of whether KU must allocate to the municipal customers a portion of renewable resources it may be required to procure on behalf of its retail ratepayers. An Order was issued by the FERC in July 2010, indicating that KU is not required to allocate a portion of any renewable resources to the twelve municipalities, thus resolving the remaining issue.

In July 2008, KU filed an application with the Kentucky Commission requesting an increase in electric base rates. In January 2009, KU, the AG, the KIUC and all other parties to the rate case filed a settlement agreement with the Kentucky Commission, under which KU's electric base rates decreased by \$9 million annually. An Order approving the settlement agreement was received in February 2009. The new rates were implemented effective February 6, 2009.

For a further discussion of regulatory matters, see Note 3, Rates and Regulatory Matters.

Coal Supply

Coal-fired generating units provided approximately 98% of KU's net kWh generation for 2010. The remaining net generation was provided by natural gas and oil fueled CTs and a hydroelectric plant. Coal is expected to be the predominant fuel used by KU in the foreseeable future, with natural gas and oil

being used for peaking capacity and flame stabilization in coal-fired boilers or in emergencies. The Company has no nuclear generating units and has no plans to build any in the foreseeable future.

Fuel inventory is maintained at levels estimated to be necessary to avoid operational disruptions at the coal-fired generating units. Reliability of coal deliveries can be affected periodically by a number of factors including fluctuations in demand, coal mine production issues and other supplier or transporter operating difficulties.

KU has entered into coal supply agreements with various suppliers for coal deliveries for 2011 and beyond and normally augments its coal supply agreements with spot market purchases. The Company has a coal inventory policy which it believes provides adequate protection under most contingencies.

KU expects to continue purchasing most of its coal, which has sulfur content in the 0.7% - 3.5% range, from western and eastern Kentucky, West Virginia, southern Indiana, southern Illinois, Ohio and Wyoming for the foreseeable future. This supply, in combination with the installation of FGDs (SO₂ removal systems), KU expects its use of higher sulfur coal to increase, the combination of which is expected to enable KU to continue to provide electric service in compliance with existing environmental laws and regulations. Coal is delivered to KU's generating stations by a mix of transportation modes, including barge, truck and rail.

Seasonality

Demand for and market prices for electricity are affected by weather. As a result, KU's overall operating results in the future may fluctuate substantially on a seasonal basis, especially when more severe weather conditions such as heat waves or winter storms make such fluctuations more pronounced. The pattern of this fluctuation may change depending on the type and location of the facilities KU owns and the terms of its contracts to purchase or sell electricity.

Environmental Matters

General

Protection of the environment is a major priority for KU and a significant element of its business activities. KU's properties and operations are subject to extensive environmental-related oversight by federal, state and local regulatory agencies, including via air quality, water quality, waste management and similar laws and regulations. Therefore, KU must conduct its operations in accordance with numerous permit and other requirements issued under or contained in such laws or regulations.

Climate Change

Recent developments continue to indicate an increased possibility of significant climate change or GHG legislation or regulation, at the international, federal, regional and state levels. During December 2009, as part of the United Nation's Copenhagen Accord, the United States agreed to a non-binding goal to reduce GHG emissions to 17% below 2005 levels by 2020. Additionally, during 2009, the U.S. House of Representatives passed comprehensive GHG legislation, which included a number of measures to limit GHG emissions and achieve GHG emission reduction targets below 2005 levels of 3% by 2012, 17% by 2020 and 83% by 2050. Similar legislation has been considered in the U.S. Senate, but the prospects for

passage remain uncertain. In late 2009, the EPA issued a final endangerment finding relating to mobile sources of GHGs and a GHG reporting requirement beginning in 2010. In 2010, the EPA issued a final rule requiring implementation of best available control technology for GHG emissions from new or modified power plants, effective January 2011. In December 2010, the EPA announced that it intends to propose New Source Performance Standards addressing GHG emissions from new and existing power plants, with a proposed rule expected in July 2011. Finally, a number of U.S. states, although not currently including Kentucky, have adopted GHG-reduction legislation or regulation of various sorts. The developing GHG initiatives include a number of differing structures and formats, including direct limitations on GHG sources, issuance of allowances for GHG emissions, cap-and-trade programs for such allowances, renewable or alternative generation portfolio standards and mechanisms relating to demand reduction, energy efficiency, smart-grid, transmission expansion, carbon-sequestration or other GHG-reducing efforts. While the final terms and impacts of such initiatives cannot be estimated, KU, as a primarily coal-fired utility, could be highly affected by such proceedings.

Among other emissions, GHGs include carbon-dioxide, which is produced via the combustion of fossil fuels such as coal and natural gas. KU's generating fleet is approximately 66% coal-fired, 34% oil/natural gas-fired and less than 1% hydroelectric based on capacity. During 2010, KU produced approximately 98% of its electricity from coal, 2% from natural gas combustion and less than 1% from hydroelectric generation, based on Mwh. During 2010, KU's emissions of GHGs were approximately 16.4 million metric tons of carbon-dioxide equivalents from KU's owned or controlled generation sources. While its generation activities account for the bulk of its GHG emissions, other GHG sources at KU include operation of motor vehicles and powered equipment, leakage or evaporation associated with natural gas pipelines, refrigerating equipment and similar activities.

Ultimately, environmental matters or potential environmental matters can represent an important element of current or future potential capital requirements, future unit retirement or replacement decisions, supply and demand for electricity, operating and maintenance expenses or compliance risks for the Company. Based on prior regulatory precedent, KU currently anticipates that many of such direct costs may be recoverable through rates or other regulatory mechanisms, particularly with respect to coal-related generation, but the availability, timing or completeness of such rate recovery cannot be assured. Ultimately, climate change and other environmental matters will likely increase the level of capital expenditures and operating and maintenance costs incurred by the Company during the next several years. With respect to NAAQS, CATR, CAMR replacement and coal combustion byproducts developments, based on a preliminary analysis of proposed regulations, the Company may be required to consider actions such as upgrading existing emissions controls, installing additional emissions controls, upgrading byproducts disposal and storage and possible early replacement of coal-fired units. In order to comply with the coal combustion residual rules and the above referenced air rules, capital expenditures for KU are preliminarily estimated to be in the \$1.5 to \$1.7 billion range over the next ten years, although final costs may substantially vary. This estimate does not include compliance with GHG rules or contemplated water-related environmental changes. See Risk Factors, Management's Discussion and Analysis and Note 13, Commitments and Contingencies, for further information.

State Executive or Legislative Matters

In November 2008, the Commonwealth of Kentucky issued an action plan to create efficient, sustainable energy solutions and strategies and move toward state energy independence. The plan outlines the following seven strategies to work toward these goals:

- Improve the energy efficiency of Kentucky's homes, buildings, industries and transportation fleet
- Increase Kentucky's use of renewable energy
- Sustainably grow Kentucky's production of biofuels
- Develop a coal-to-liquids industry in Kentucky to replace petroleum-based liquids
- Implement a major and comprehensive effort to increase natural gas supplies, including coal-to-natural gas in Kentucky
- Initiate aggressive carbon capture/sequestration projects for coal-generated electricity in Kentucky
- Examine the use of nuclear power for electricity generation in Kentucky

In December 2009, the Governor of Kentucky's Executive Task Force on Biomass and Biofuels issued a final report to establish potential strategic actions to develop biomass and biofuels industries in Kentucky. The plan noted the potential importance of biomass as a renewable energy source available to Kentucky and discussed various goals or mechanisms, such as the use of approximately 25 million tons of biomass for generation fuel annually, allotment of electricity and natural gas taxes and state tax credits to support biomass development.

In January 2010, a state-established Kentucky Climate Action Plan Council (the "Council") commenced formal activities. The Council, which includes governmental, industry, consumer and other representatives, seeks to identify possible Kentucky responses to potential climate change and federal legislation, including increasing statewide energy efficiency, energy independence and economic growth. The Council has established various technical work groups, including in the areas of energy supply and energy efficiency/conservation, to provide input, data and recommendations.

During the current session of the Kentucky General Assembly, as during prior legislative sessions, legislators have introduced or are expected to introduce various bills with respect to environmental or utility matters, including potential requirements relating to renewable energy portfolios, energy conservation measures, coal mining or coal byproduct operations and other matters. The current session is scheduled to end in March 2011 and until such time the prospects and final terms of any such legislation cannot be determined. Legislative and regulatory actions as a result of these proposals and their impact on KU, which may be significant, cannot currently be predicted.

Franchises and Licenses

KU provides electric delivery service in its various service areas pursuant to certain franchises, licenses, statutory service areas, easements and other rights or permissions granted by state legislatures, cities or municipalities or other entities.

Competition

There are currently no other electric utilities operating within the electric service areas of KU. Neither the Kentucky General Assembly nor the Kentucky Commission has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of any legislative or regulatory actions regarding industry restructuring and their impact on KU, which may be significant, cannot currently be predicted. Virginia, formerly a competitive jurisdiction, has enacted legislation which implements a hybrid model of cost-based regulation. See Note 3, Rates and Regulatory Matters, for further information.

Employees and Labor Relations

KU had 974 employees at December 31, 2010, consisting of 973 full-time employees and 1 part-time employee. Of the total employees, 145, or 15%, were operating, maintenance and construction employees represented by the IBEW Local 2100 and the United Steelworkers of America (“USWA”) Local 9447-01. In August 2009, the Company and its employees represented by the IBEW Local 2100 entered into a three-year collective bargaining agreement that provides for negotiated increases or changes to wages, benefits or other provisions and annual wage re-openers. In August 2008, the Company and its employees represented by the USWA Local 9447-01 entered into a three-year collective bargaining agreement that provides for negotiated increases or changes to wages, benefits or other provisions and annual wage re-openers.

Officers of the Company

Officers are elected annually by the Board of Directors. There are no family relationships among any of the executive officers, nor is there any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

Except as may be set forth in Legal Proceedings, there have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

Listed below are the executive officers at December 31, 2010.

Name	Age	Positions Held During the Past Five Years	Dates
Victor A. Staffieri	55	Chairman of the Board, President and Chief Executive Officer	May 2001 – present
John R. McCall	67	Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer	July 1994 – present
Chris Hermann	63	Senior Vice President – Energy Delivery	February 2003 – present
Paula H. Pottinger	53	Senior Vice President – Human Resources	January 2006 – present
S. Bradford Rives	52	Chief Financial Officer	September 2003 – present
Paul W. Thompson	53	Senior Vice President – Energy Services	June 2000 – present

Officers generally serve in the same capacities at the Company, LKE and LG&E.

Risk Factors

Any of the events or circumstances described as risks below could result in a significant or material adverse effect on the business, results of operations, cash flows or financial condition. The risks and uncertainties described below may not be the only risks and uncertainties that KU faces. Additional risks and uncertainties not currently known or that KU currently deems immaterial may also result in a significant or material adverse effect on the business, results of operations, cash flow or financial condition.

KU's business is subject to significant and complex governmental regulation.

Various federal and state entities, including but not limited to the FERC, Kentucky Commission, Virginia Commission and the Tennessee Regulatory Authority, regulate many aspects of utility operations of KU, including the following:

- the rates that KU may charge and the terms and conditions of the Company's service and operations;
- financial and capital structure matters;
- siting and construction of facilities;
- mandatory reliability and safety standards and other standards of conduct;
- accounting, depreciation and cost allocation methodologies;
- tax matters;
- affiliate restrictions;
- acquisition and disposal of utility assets and securities; and
- various other matters.

Such regulations or changes thereto may subject KU to higher operating costs or increased capital expenditures and failure to comply could result in sanctions or possible penalties. In any rate-setting proceedings, federal or state agencies, intervenors and other permitted parties may challenge rate requests and ultimately reduce, alter or limit the rates the Company seeks.

The profitability of KU is highly dependent on its ability to recover the costs of providing energy and utility services to its customers and earn an adequate return on its capital investments. KU currently provides services to retail customers at rates approved by one or more federal or state regulatory commissions, including those commissions referred to above. While these rates are generally regulated based on an analysis of their costs incurred in a base year, the rates KU is allowed to charge may or may not match its costs at any given time. While rate regulation is premised on providing a reasonable opportunity to earn a reasonable rate of return on invested capital, there can be no assurance that the applicable regulatory commissions will consider all of the costs to have been prudently incurred or that the regulatory process in which rates are determined will always result in rates that will produce full recovery of KU's costs or an adequate return on KU's capital investments. If the Company's costs are not adequately recovered through rates, it could have an adverse affect on the business, results of operations, cash flows or financial condition.

As part of the PPL acquisition commitments, KU has agreed, subject to certain limited exceptions such as fuel and environmental cost recoveries, that no base rate increase would take effect for Kentucky retail customers before January 1, 2013.

Transmission and interstate market activities of KU, as well as other aspects of the business, are subject to significant FERC regulation.

KU is subject to extensive regulation by the FERC covering matters including rates charged to transmission users, market-based or cost-based rates applicable to wholesale customers; interstate power market structure; construction and operation of transmission facilities; mandatory reliability standards; standards of conduct and affiliate restrictions and other matters. Existing FERC regulation, changes thereto or issuances of new rules or situations of non-compliance, including but not limited to the areas of market-based tariff authority, RSG resettlements in the MISO market, mandatory reliability standards and natural gas transportation regulation can affect the earnings, operations or other activities of KU.

Changes in transmission and wholesale power market structures could increase costs or reduce revenues.

Wholesale sales fluctuate with regional demand, fuel prices and contracted capacity. Changes to transmission and wholesale power market structures and prices may occur in the future, are not estimable and may result in unforeseen effects on energy purchases and sales, transmission and related costs or revenues. These can include commercial or regulatory changes affecting power pools, exchanges or markets in which KU participates.

KU undertakes significant capital projects and these activities are subject to unforeseen costs, delays or failures, as well as risk of inadequate recovery of resulting costs.

KU's business is capital intensive and requires significant investments in energy generation and distribution and other infrastructure projects, such as projects for environmental compliance. The completion of these projects without delays or cost overruns is subject to risks in many areas, including the following:

- approval, licensing and permitting;
- land acquisition and the availability of suitable land;
- skilled labor or equipment shortages;
- construction problems or delays, including disputes with third party intervenors; increases in commodity prices or labor rates;
- contractor performance;
- environmental considerations and regulations;
- weather and geological issues; and
- political, labor and regulatory developments.

Failure to complete capital projects on schedule or on budget, or at all, could adversely affect the Company's financial performance, operations and future growth.

The costs of compliance with, and liabilities under, environmental laws are significant and are subject to continual changes.

Extensive federal, state and local environmental laws and regulations are applicable to KU's air emissions, water discharges and the management of hazardous and solid waste, among other areas; and

the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, KU's costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc., and may impact the costs of their products or their demand for KU's services.

KU is subject to operational and financial risks regarding certain on-going developments concerning environmental regulation.

A number of regulatory initiatives have been implemented or are under development which could have the effect of significantly increasing the environmental regulation or operational or compliance costs related to a number of emissions or operating activities which are associated with the combustion of coal as occurs at the Company's generating stations. Such developments could include potential new or revised federal or state legislation or regulation regarding emissions of NO_x, SO₂, mercury and other particulates generally and regarding storage of coal combustion byproducts. Additional regulatory initiatives may occur in other areas involving the Company's operations, including revision of limitations on water discharge or intake activities or increased standards relating to polychlorinated biphenyl usage. Compliance with any new laws or regulations in these matters could result in significant changes to KU's operations, significant capital expenditures by the Company or significant increases in the cost of conducting business.

Operating results are affected by weather conditions, including storms and seasonal temperature variations, as well as by significant man-made or accidental disturbances, including terrorism or natural disasters.

These weather or other factors can significantly affect the finances or operations of KU by changing demand levels; causing outages; damaging infrastructure or requiring significant repair costs; affecting capital markets and general economic conditions or impacting future growth.

KU is subject to operational and financial risks regarding potential developments concerning global climate change.

Various regulatory and industry initiatives have been implemented or are under development to regulate or otherwise reduce emissions of GHGs, which are emitted from the combustion of fossil fuels such as coal and natural gas, as occurs at the Company's generating stations. Such developments could include potential federal or state legislation or industry initiatives allocating or limiting GHG emissions; establishing costs or charges on GHG emissions or on fuels relating to such emissions; requiring GHG capture and sequestration; establishing renewable portfolio standards or generation fleet-diversification requirements to address GHG emissions; promoting energy efficiency and conservation; changes in transmission grid construction, operation or pricing to accommodate GHG-related initiatives; or other measures. The generation fleet of KU is predominantly coal-fired and may be highly impacted by developments in this area. Compliance with any new laws or regulations regarding the reduction of GHG emissions could result in significant changes to KU's operations, significant capital expenditures by the Company and a significant increase in the cost of conducting business. KU may face strong

competition for, or difficulty in obtaining, required GHG-compliance related goods and services, including construction services, emissions allowances and financing, insurance and other inputs relating thereto. Increases in KU's costs or prices of producing or selling electric power due to GHG-related developments could materially reduce or otherwise affect the demand, revenue or margin levels applicable to its power, thus adversely affecting its financial condition or results of operations.

KU is subject to physical, market and economic risks relating to potential effects of climate change.

Climate change may produce changes in weather or other environmental conditions, including temperature or precipitation changes, such as warming or drought. These changes may affect farm and agriculturally-dependent businesses and activities, which are an important part of Kentucky's economy, and thus may impact consumer demand for electric power. Temperature increases could result in increased overall electricity volumes or peaks and precipitation changes could result in altered availability of water for plant cooling operations. These or other meteorological changes could lead to increased operating costs, capital expenses or power purchase costs by KU. Conversely, climate change could have a number of potential impacts tending to reduce demand. Changes may entail more frequent or more intense storm activity, which, if severe, could temporarily disrupt regional economic conditions and adversely affect electricity demand levels. As discussed in other risk factors, storm outages and damage often directly decrease revenues or increase expenses, due to reduced usage and higher restoration charges, respectively. GHG regulation could increase the cost of electric power, particularly power generated by fossil fuels, and such increases could have a depressive effect on the regional economy. Reduced economic and consumer activity in the service area of KU, both in general and specific to certain industries and consumers accustomed to previously low-cost power, could reduce demand for KU's electricity. Also, demand for services could be similarly lowered should consumers' preferences or market factors move toward favoring energy efficiency, low-carbon power sources or reduced electric usage generally.

The business of KU is subject to risks associated with local, national and worldwide economic conditions.

The consequences of prolonged recessionary conditions may include a lower level of economic activity and uncertainty or volatility regarding energy prices and the capital and commodity markets. A lower level of economic activity might result in a decline in energy consumption, unfavorable changes in energy and commodity prices and slower customer growth, which may adversely affect KU's future revenues and growth. Instability in the financial markets, as a result of recession or otherwise, also may affect the cost of capital and the ability to raise capital. A deterioration of economic conditions may lead to decreased production by KU's industrial customers and, therefore, lower consumption of electricity. Decreased economic activity may also lead to fewer commercial and industrial customers and increased unemployment, which may in turn impact residential customers' ability to pay. Further, worldwide economic activity has an impact on the demand for basic commodities needed for utility infrastructure. Changes in global demand may impact the ability to acquire sufficient supplies and the cost of those commodities may be higher than expected.

KU's business is concentrated in the Midwest United States, specifically Kentucky and Virginia.

Although the business of KU is concentrated in Kentucky and Virginia, it also operates in Tennessee. Local and regional economic conditions, such as population growth, industrial growth, expansion and economic development or employment levels, as well as the operational or financial performance of major industries or customers, can affect the demand for energy and KU's results of operations. Significant industries and activities in the service area of KU include aluminum and steel smelting and fabrication; chemical processing; coal, mineral and ceramic related activities; educational institutions; health care facilities; paper and pulp processing; metal fabrication; and water and sewer utilities. Any significant downturn in these industries or activities or in local and regional economic conditions in KU's service area may adversely affect the demand for electricity in the service area.

KU is subject to operational risks relating to KU's generating plants, transmission facilities, distribution equipment, information technology systems and other assets and activities.

Operation of power plants, transmission and distribution facilities, information technology systems and other assets and activities subjects KU to many risks, including the breakdown or failure of equipment; accidents; security breaches, viruses or outages affecting information technology systems; labor disputes; obsolescence; delivery/transportation problems and disruptions of fuel supply and performance below expected levels. Occurrences of these events may impact the ability of KU to conduct its business efficiently or lead to increased costs, expenses or losses.

Although KU maintains customary insurance coverage for certain of these risks common to utilities, it does not have insurance covering the transmission and distribution systems, other than substations, because it has found the cost of such insurance to be prohibitive. If KU is unable to recover the costs incurred in restoring transmission and distribution properties following damage resulting from ice storms, tornados or other natural disasters or to recover the costs of other liabilities arising from the risks of its business, through a change in rates or otherwise, or if such recovery is not received on a timely basis, it may not be able to restore losses or damages to its properties without an adverse effect on its financial condition, results of operations or its reputation.

KU is subject to liability risks relating to its generation, transmission, distribution and retail businesses.

The conduct of the physical and commercial operations of KU subjects it to many risks, including risks of potential physical injury, property damage or other financial affects, caused to or caused by employees, customers, contractors, vendors, contractual or financial counterparties and other third parties.

KU could be negatively affected by rising interest rates, downgrades to bond credit ratings or other negative developments in its ability to access capital markets.

In the ordinary course of business, KU is reliant upon adequate long-term and short-term financing means to fund significant capital expenditures, debt interest or maturities and operating needs. As a capital-intensive business, the Company is sensitive to developments in interest rate levels; credit rating considerations; insurance, security or collateral requirements; market liquidity and credit availability and

refinancing steps necessary or advisable to respond to credit market changes. Changes in these conditions could result in increased costs and decreased liquidity available to the Company.

KU is subject to commodity price risk, credit risk, counterparty risk and other risks associated with the energy business.

General market or pricing developments or failures by counterparties to perform their obligations relating to energy, fuels, other commodities, goods, services or payments could result in potential increased costs to the Company.

KU is subject to risks associated with defined benefit retirement plans, health care plans, wages and other employee-related matters.

KU sponsors pension and postretirement benefit plans for its employees. Risks with respect to these plans include adverse developments in legislation or regulation, future costs or funding levels, returns on investments, market fluctuations, interest rates and actuarial matters. Changes in health care rules, market practices or cost structures can affect current or future funding requirements or liabilities. Without sustained growth in respective investments over time to increase the value of plan assets, KU could be required to fund plans with significant amounts of cash. KU is also subject to risks related to changing wage levels, whether related to collective bargaining agreements or employment market conditions, ability to attract and retain key personnel and changing costs of providing health care benefits.

KU is subject to risks associated with federal and state tax regulations.

Changes in taxation as well as the inherent difficulty in quantifying potential tax effects of business decisions could negatively impact results of operations. KU is required to make judgments in order to estimate its obligations to taxing authorities. These tax obligations include income, property, sales and use and employment-related taxes. KU also estimates its ability to utilize tax benefits and tax credits. Due to the revenue needs of the states and jurisdictions in which KU operates, various tax and fee increases may be proposed or considered. KU cannot predict whether legislation or regulation will be introduced or the effect on the Company of any such changes. If enacted, any changes could increase tax expense and could have a negative impact on its results of operations and cash flows.

Legal Proceedings

Rates and Regulatory Matters

For a discussion of current rates and regulatory matters, including recent electric base rate increase proceedings, rate commitments in change-of-control proceedings, TC2 proceedings, FERC, Kentucky Commission and Virginia Commission proceedings and other rates or regulatory matters affecting KU, see Note 3, Rates and Regulatory Matters, and Note 13, Commitments and Contingencies.

Environmental

For a discussion of environmental matters, including potential coal combustion byproduct or ash pond regulation; additional reductions in SO₂, NO_x and other regulated emissions; NOV's and other emissions proceedings; environmental permit challenges; and other environmental items affecting KU, see Risk Factors, Note 3, Rates and Regulatory Matters, and Note 13, Commitments and Contingencies.

Climate Change

For a discussion of matters relating to potential climate change, GHG emission or global warming developments, including increased legislative and regulatory activity which could limit or increase costs applicable to fossil fuel generation sources, legal proceedings claiming damages relating to global warming, GHG reporting requirements and other matters, see Business, Risk Factors, Management's Discussion and Analysis and Note 13, Commitments and Contingencies.

Litigation

In connection with an administrative proceeding alleging a violation by a former Argentine affiliate under that country's 2002-2003 emergency currency exchange laws, claims are pending against the affiliate's then directors, including two individuals who are executive officers of the Company, in a specialized Argentine financial criminal court. Under applicable Argentine laws, directors of a local company may be liable for monetary penalties for a subject company's violations of the currency laws. The affiliate and the relevant executive officers believe their actions were in compliance with the relevant laws and have presented defenses in the administrative and criminal proceedings. LKE has standard indemnification arrangements with its executive officers. The former affiliate is now owned by a third party, which has agreed to indemnify LKE and the relevant executive officers.

For a discussion of litigation matters, see Note 13, Commitments and Contingencies.

Other

In the normal course of business, other lawsuits, claims, environmental actions and other governmental proceedings arise against KU. To the extent that damages are assessed in any of these lawsuits, the Company believes that its insurance coverage is adequate. Management, after consultation with legal counsel, does not anticipate that liabilities arising out of currently pending or threatened lawsuits and claims will have a material adverse effect on KU's financial position or results of operations.

Selected Financial Data

Dollars are in millions unless otherwise noted.

	Successor	Predecessor				
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31,			
			2009	2008	2007	2006
Operating revenues	<u>\$ 263</u>	<u>\$ 1,248</u>	<u>\$ 1,355</u>	<u>\$ 1,405</u>	<u>\$ 1,272</u>	<u>\$ 1,210</u>
Operating income	<u>\$ 65</u>	<u>\$ 285</u>	<u>\$ 269</u>	<u>\$ 260</u>	<u>\$ 267</u>	<u>\$ 235</u>
Net income	<u>\$ 35</u>	<u>\$ 140</u>	<u>\$ 133</u>	<u>\$ 158</u>	<u>\$ 167</u>	<u>\$ 152</u>
Total assets	<u>\$ 6,059</u>	<u>\$ 5,145</u>	<u>\$ 4,956</u>	<u>\$ 4,518</u>	<u>\$ 3,796</u>	<u>\$ 3,148</u>
Long-term debt obligations (including amounts due within one year)	<u>\$ 1,841</u>	<u>\$ 1,682</u>	<u>\$ 1,682</u>	<u>\$ 1,532</u>	<u>\$ 1,264</u>	<u>\$ 843</u>

Management's Discussion and Analysis and Notes to Financial Statements should be read in conjunction with the above information.

Management's Discussion and Analysis

Management's Discussion and Analysis should be read in conjunction with the Financial Statements and Notes for the years ended December 31, 2010, 2009 and 2008. Dollars are in millions unless otherwise noted.

The purpose of "Management's Discussion and Analysis" is to provide information about KU's performance in implementing its' strategies and managing risks and challenges. Specifically:

- "Overview" provides background regarding KU's business and identifies significant matters with which management is primarily concerned in evaluation of KU's financial condition and operating results.
- "Results of Operations" provides a description of KU's operating results in 2010, 2009 and 2008, including a review of earnings and a brief outlook for 2011.
- "Financial Condition" provides an analysis of KU's liquidity position and credit profile, including its sources of cash (including bank credit facilities and sources of operating cash flow) and uses of cash (including contractual obligations and capital expenditure requirements) and the key risks and uncertainties that impact KU's past and future liquidity position and financial condition. This subsection also includes a discussion of KU's current credit ratings.
- "Application of Critical Accounting Policies and Estimates" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of KU and that require its management to make significant estimates, assumptions and other judgments.

Overview

KU is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. See the Business section for a description of the business. The rates KU charges its customers requires approval of the appropriate regulatory government agency. See Note 3, Rates and Regulatory Matters, for information regarding rate cases, regulatory assets and liabilities and other regulatory matters.

KU and its affiliate, LG&E, are wholly owned subsidiaries of LKE, a Kentucky limited liability company. PPL acquired LKE on November 1, 2010. Headquartered in Allentown, Pennsylvania, PPL is an energy and utility holding company that was incorporated in 1994. Through its subsidiaries, PPL owns or controls about 19,000 megawatts of generating capacity in the U.S., sells energy in key U.S. markets and delivers electricity and natural gas to about 5.3 million customers in the U.S. and the U.K. Following the acquisition, both KU and LG&E continue operating as subsidiaries of LKE, which is now an intermediary holding company in the PPL group of companies. See Note 2, Acquisition by PPL, for further information regarding the acquisition.

In operating its business, the Company faces several risks including credit risks, liquidity risks, interest rate risks and commodity and price risks. For instance, the Company has credit risks from counterparties, customers and effects of its' own credit ratings. KU attempts to manage these risks through the adoption of financial and operational risk management programs that, among other things, are designed to monitor and reduce its' exposure to these risks. Identified within "Management's

Discussion and Analysis” of “Financial Condition” and “Results of Operations” are risks KU’s management currently consider material; these risks are not the only risks faced by KU. Additional risks not presently known or currently deemed immaterial may also impair KU’s business operations. See Risk Factors and Financial Condition - Risk Management for further discussion.

Predecessor and Successor Financial Presentation

KU’s financial statements and related financial and operating data include the periods before or after PPL’s acquisition of LKE on November 1, 2010, and are labeled as Predecessor or Successor. KU applied push-down accounting to account for the acquisition. For accounting purposes only, push-down accounting is considered to create a new entity due to new cost basis assigned to assets, liabilities and equity as of the acquisition date. Consequently, KU’s results of operations and cash flows for the Predecessor and Successor periods in 2010 are shown separately, rather than combined, in its audited financial statements.

In the “Management’s Discussion and Analysis” of “Results of Operations” and “Financial Condition”, the Company has included disclosure of the combined Predecessor and Successor results of operations and cash flows. Such presentation is considered to be a non-GAAP disclosure. KU has included such disclosure because the Company believes it facilitates the comparison of 2010 operating and financial performance to 2009 and 2008, and because the core operations of the Company have not changed as a result of the acquisition.

Competition

See the Business section for information concerning competition.

Environmental Matters

General

Protection of the environment is a major priority for KU and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to KU’s air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc., and may impact the costs of their products or their demand for KU’s services.

Climate Change

Recent developments continue to indicate an increased possibility of significant climate change or GHG legislation or regulation, at the international, federal, regional and state levels. During December 2009, as part of the United Nation’s Copenhagen Accord, the United States agreed to a non-binding goal to reduce GHG emissions to 17% below 2005 levels by 2020. Additionally, during 2009, the U.S. House of

Representatives passed comprehensive GHG legislation, which included a number of measures to limit GHG emissions and achieve GHG emission reduction targets below 2005 levels of 3% by 2012, 17% by 2020 and 83% by 2050. Similar legislation has been considered in the U.S. Senate, but the prospects for passage remain uncertain. In late 2009, the EPA issued a final endangerment finding relating to mobile sources of GHGs and a GHG reporting requirement beginning in 2010. In 2010, the EPA issued a final rule requiring implementation of best available control technology for GHG emissions from new or modified power plants, effective January 2011. In December 2010, the EPA announced that it intends to propose New Source Performance Standards addressing GHG emissions from new and existing power plants, with a proposed rule expected in July 2011. Finally, a number of U.S. states, although not currently including Kentucky, have adopted GHG-reduction legislation or regulation of various sorts. The developing GHG initiatives include a number of differing structures and formats, including direct limitations on GHG sources, issuance of allowances for GHG emissions, cap-and-trade programs for such allowances, renewable or alternative generation portfolio standards and mechanisms relating to demand reduction, energy efficiency, smart-grid, transmission expansion, carbon-sequestration or other GHG-reducing efforts. While the final terms and impacts of such initiatives cannot be estimated, KU, primarily a coal-fired utility, could be highly affected by such proceedings.

Other Environmental Regulatory Initiatives

The EPA has proposed or announced that it intends to propose a number of additional environmental regulations that could substantially impact utilities with coal-fired generating assets. These regulatory initiatives include revisions to the ambient air quality standards for SO₂, NO₂, ozone and particulate matter 2.5 microns in size or less, rules aimed at mitigating the interstate transport of SO₂ and NO_x, a program governing emissions of hazardous air pollutants from utility generating units, a program for the management of coal combustion residuals, revised effluent guidelines for utility generating facilities and standards for cooling water intake structures. Such requirements could potentially mandate upgrade of existing emission controls, installation of additional emission controls such as FGDs, SCRs, fabric filter bag houses, activated carbon injection, wet electrostatic precipitators, closure of ash ponds and retrofit of landfills, installation of cooling towers, deployment of new water treatment technologies and retirement of facilities that cannot be retrofitted on a cost effective basis.

The cost to KU and the effect on KU's business of complying with potential GHG restrictions and other environmental regulatory initiatives will depend upon provisions of any final rules and how the rules are implemented by the EPA. Some of the design elements which may have the greatest effect on KU include (a) the required levels and timing of emissions caps, discharge limits or similar standards, (b) the sources covered by such requirements, (c) transition and mitigation provisions, such as phase-in periods, free allowances or price caps, (d) the availability and pricing of relevant mitigation or control technologies, goods or services and (e) economic, market and customer reaction to electricity price and demand changes due to environmental concerns.

Ultimately, environmental matters or potential environmental matters can represent an important element of current or future potential capital requirements, future unit retirement or replacement decisions, supply and demand for electricity, operating and maintenance expenses or compliance risks for the Company. Based on prior regulatory precedent, KU currently anticipates that many of such direct costs may be recoverable through rates or other regulatory mechanisms, particularly with respect to coal-related generation, but the availability, timing or completeness of such rate recovery cannot be assured. Ultimately, climate change and other environmental matters will likely increase the level of

capital expenditures and operating and maintenance costs incurred by the Company during the next several years. With respect to NAAQS, CATR, CAMR replacement and coal combustion byproducts developments, based on a preliminary analysis of proposed regulations, the Company may be required to consider actions such as upgrading existing emissions controls, installing additional emissions controls, upgrading byproducts disposal and storage and possible early replacement of coal-fired units. In order to comply with the coal combustion residual rules and the above referenced air rules, capital expenditures for KU are preliminarily estimated to be in the \$1.5 to \$1.7 billion range over the next ten years, although final costs may substantially vary. This estimate does not include compliance with GHG rules or contemplated water-related environmental changes. See Risk Factors and Note 13, Commitments and Contingencies, for further information.

Results of Operations

The utility business is affected by seasonal temperatures. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. Revenue and earnings are generally highest during the first and third quarters, and lowest in the second quarter, due to weather.

Net Income

The following table summarizes the significant components of net income for 2010, 2009 and 2008 and the changes therein:

	Combined	Successor	Predecessor		
	Year Ended December 31, 2010	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009	2008
Total operating revenues	\$ 1,511	\$ 263	\$ 1,248	\$1,355	\$ 1,405
Total operating expenses	<u>1,161</u>	<u>198</u>	<u>963</u>	<u>1,086</u>	<u>1,145</u>
Operating income	350	65	285	269	260
Equity in earnings of unconsolidated venture	3	-	3	1	30
Interest expense	14	8	6	6	14
Interest expense to affiliated companies	64	2	62	69	58
Other income (expense) – net	<u>(2)</u>	<u>-</u>	<u>(2)</u>	<u>5</u>	<u>8</u>
Income before income taxes	273	55	218	200	226
Income tax expense	<u>98</u>	<u>20</u>	<u>78</u>	<u>67</u>	<u>68</u>
Net income	<u>\$ 175</u>	<u>\$ 35</u>	<u>\$ 140</u>	<u>\$ 133</u>	<u>\$ 158</u>

The change in KU's net income was as follows:

	Increase (Decrease)	
	2010 vs. 2009	2009 vs. 2008
Total operating revenues	\$ 156	\$ (50)
Total operating expenses	75	(59)
Operating income	81	9
Equity in earnings of unconsolidated venture	2	(29)
Interest expense	8	(8)
Interest expense to affiliated companies	(5)	11
Other income (expense) – net	(7)	(3)
Income (loss) before income taxes	73	(26)
Income taxes	31	(1)
Net income	<u>\$ 42</u>	<u>\$ (25)</u>

Operating Revenues

The \$156 million increase from 2009 to 2010 and \$50 million decrease from 2008 to 2009 in operating revenues were primarily due to:

	Increase (Decrease)	
	2010 vs. 2009	2009 vs. 2008
Retail sales volumes (a)	\$ 73	\$ (43)
Base rate price variance (b)	39	(5)
Demand revenue (c)	16	(1)
Sales to municipal customers (d)	12	(1)
Increased recoverable capital spending billed through the ECR	8	50
Other operating revenue primarily due to late payment charges	6	6
FAC price variance (e)	5	(2)
Merger surcredit termination in February 2009	2	13
Transmission sales	1	-
Increased recoverable program spending billed through the DSM	1	9
Wholesale sales (f)	(7)	(77)
VDT surcredit termination in August 2008	-	1
	<u>\$ 156</u>	<u>\$ (50)</u>

- (a) Retail sales volumes increased during 2010 compared to 2009 as a result of increased consumption primarily due to increased heating degree days during the first and fourth quarters of 2010 and increased cooling degree days during the second and third quarters of 2010. Additionally, improved economic conditions in 2010 and significant storm outages in 2009 contributed to the increased volumes.

The decrease in retail sales volumes during 2009 compared to 2008 was attributable to reduced consumption by retail customers, as a result of milder weather and weakened economic conditions, in addition to significant storm outages during 2009.

- (b) The increase in revenues due to the base rate price variance during 2010 compared to 2009 resulted from higher base rates effective August 1, 2010. See Note 3, Rates and Regulatory Matters, for further discussion of the 2010 Kentucky rate case.

The decrease in revenues due to the base rate price variance during 2009 compared to 2008 resulted from a reduction in base energy rates effective February 6, 2009. See Note 3, Rates and Regulatory Matters, for further discussion of the 2008 Kentucky rate case.

- (c) Demand revenues increased during 2010 compared to 2009 as a result of higher demand rates effective August 1, 2010 and higher customer peak demand. See Note 3, Rates and Regulatory Matters, for further discussion of the 2010 Kentucky rate case.
- (d) The increase in sales to municipal customers during 2010 compared to 2009 was primarily due to increased volumes as a result of increased cooling and heating degree days, improved economic conditions and a decline in storm outages.
- (e) FAC revenues increased during 2010 compared to 2009 as a result of increased recoverable fuel costs billed to customers through the FAC due to higher fuel prices.

The decrease in the FAC revenue during 2009 compared to 2008 resulted from lower fuel costs billed to customers through the FAC (\$2 million) due to a refund of power purchased costs from OMU (\$6 million) partially offset by increased recoverable fuel costs (\$4 million) billed to retail customers through the FAC.

- (f) The decrease in wholesale sales during 2010 compared to 2009 was primarily due to increased consumption by industrial customers, as a result of improved economic conditions, increased consumption by residential customers, as a result of increased cooling and heating degree days and an increase in LG&E's coal-fired generation outages in the first six months of 2010. See Note 15, Related Party Transactions, for further discussion of the mutual agreement for wholesale sales and purchases between KU and LG&E.

The decrease in wholesale sales during 2009 compared to 2008 was primarily due to lower sales volumes to LG&E and third-parties due to lower economic capacity, caused by low spot market pricing and higher scheduled coal-fired generation outages. See Note 15, Related Party Transactions, for further discussion of the mutual agreement for wholesale sales and purchases between KU and LG&E.

Operating Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the FERC, Kentucky Commission, Virginia Commission and the Tennessee Regulatory Authority. Operating expenses and the changes therein for 2010, 2009 and 2008 follow:

	Combined		Successor		Predecessor		
	Year Ended December 31, 2010	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009	2008		
Fuel for electric generation	\$ 495	\$ 78	\$ 417	\$ 434	\$ 513		
Power purchased	175	28	147	199	221		
Other operation and maintenance expenses	346	66	280	320	275		
Depreciation and amortization	145	26	119	133	136		
	<u>\$ 1,161</u>	<u>\$ 198</u>	<u>\$ 963</u>	<u>\$ 1,086</u>	<u>\$ 1,145</u>		

The changes in operating expenses were as follows:

	Increase (Decrease)	
	2010 vs. 2009	2009 vs. 2008
Fuel for electric generation	\$ 61	\$ (79)
Power purchased	(24)	(22)
Other operation and maintenance expenses	26	45
Depreciation and amortization	12	(3)
	<u>\$ 75</u>	<u>\$ (59)</u>

Fuel for Electric Generation

The \$61 million increase from 2009 to 2010 and \$79 million decrease from 2008 to 2009 were primarily due to:

	Increase (Decrease)	
	2010 vs. 2009	2009 vs. 2008
Fuel usage volumes (a)	\$ 77	\$ (97)
Commodity costs for coal	(15)	18
Other	(1)	-
	<u>\$ 61</u>	<u>\$ (79)</u>

- (a) Fuel usage volumes increased in 2010 compared 2009 due to increased native load sales. Fuel usage volumes decreased in 2009 compared to 2008 due to decreased native load and wholesale sales.

Power Purchased Expense

The \$24 million decrease from 2009 to 2010 and \$22 million decrease from 2008 to 2009 were primarily due to:

	Increase (Decrease)	
	2010 vs. 2009	2009 vs. 2008
Power purchased from OMU	\$ (40)	\$ 12
Purchases from LG&E due to volume (a)	(5)	(2)
Demand payments for third party purchases	(2)	1
Prices for purchases used to serve retail customers	7	(14)
Third party purchased volumes for native load (b)	7	(6)
OMU settlement received in 2009	6	(6)
Purchases from LG&E due to prices	3	(7)
	<u>\$ (24)</u>	<u>\$ (22)</u>

- (a) Purchased volumes from LG&E decreased in 2010 compared to 2009 primarily due to increased consumption by residential customers at LG&E as the result of increased cooling and heating degree days, increased coal-fired generation outages in the first six months of 2010 and higher energy usage by industrial customers as a result of improved economic conditions.

Purchased volumes from LG&E decreased in 2009 compared to 2008 due to LG&E's increased scheduled outages at coal-fired generation units during the fourth quarter of 2009. See Note 15, Related Party Transactions, for further discussion of the mutual agreement for wholesale sales and purchases between the Utilities.

- (b) Third party purchase volumes with counterparties other than OMU increased in 2010 compared to 2009 primarily due to the termination of the OMU agreement. Third party purchase volumes with counterparties other than OMU decreased in 2009 compared to 2008 primarily due to availability of power for native load customers from the OMU agreement. See Note 13, Commitments and Contingencies, for further discussion of the OMU settlement.

Other Operation and Maintenance Expenses

The \$26 million increase from 2009 to 2010 was primarily due to \$22 million of increased other operation expenses and \$4 million of increased maintenance expenses. The \$45 million increase from 2008 to 2009 was primarily due to \$30 million of increased other operation expenses and \$15 million of increased maintenance expenses.

Other Operation Expenses:

The \$22 million increase from 2009 to 2010 and \$30 million increase from 2008 to 2009 were primarily due to:

	Increase (Decrease)	
	2010 vs. 2009	2009 vs. 2008
Administrative and general expense (a)	\$ 9	\$ 3
Transmission expense (b)	5	-
Bad debt expense (c)	4	(1)
Steam expense (d)	4	7
Generation expense	2	(2)
DSM program spending	-	9
Legal expenses (e)	-	(6)
Other power supply	(1)	-
Pension expense (f)	(2)	20
Other	1	-
	<u>\$ 22</u>	<u>\$ 30</u>

- (a) Administrative and general expense increased in 2010 compared 2009 primarily due to higher labor expense and insurance expense, partially offset by lower IT expense related to the implementation of the Customer Care Solution system in 2009. Administrative and general expense increased in 2009 compared to 2008 primarily due to increased consulting fees for software training and increased labor and benefit costs.
- (b) Transmission expense increased in 2010 compared to 2009 primarily due to a settlement agreement with a third party and the establishment of a regulatory asset approved by the Kentucky Commission for the EKPC settlement in 2009, net of twelve months of amortization expense recorded in 2010.
- (c) Bad debt expense increased in 2010 compared to 2009 due to higher billed revenues, higher late payment charges and a higher net charge-off percentage.
- (d) Steam expense increased in 2010 compared to 2009 primarily due to increased generation in 2010. Steam expense increased in 2009 compared to 2008 primarily due to the utilization of SCRs year-round.
- (e) Legal expenses decreased in 2009 compared to 2008 primarily due to OMU expenses in 2008. See Note 13, Commitments and Contingencies, for further information regarding the OMU settlement.
- (f) Pension expense decreased in 2010 compared to 2009 primarily due to favorable asset performance in 2009 and increased in 2009 compared to 2008 primarily due to unfavorable asset performance in 2008.

Other Maintenance Expenses:

The \$4 million increase from 2009 to 2010 and \$15 million increase from 2008 to 2009 were primarily due to:

	Increase (Decrease)	
	2010 vs. 2009	2009 vs. 2008
Generation expense (a)	\$ 3	\$ -
Steam expense (b)	2	7
Administrative and general expense	2	1
Transmission expense	-	2
Distribution expense (c)	(3)	5
	<u>\$ 4</u>	<u>\$ 15</u>

- (a) Generation expense increased in 2010 compared to 2009 primarily due to the overhaul of Paddy's Run Unit 13.
- (b) Steam expense increased in 2009 compared to 2008 due to increased scope of work for scheduled outages.
- (c) Distribution expense decreased in 2010 compared to 2009 primarily due to higher storm cost in 2009, partially offset by higher tree trimming expense in 2010. Distribution expense increased in 2009 compared to 2008 primarily due to increased repairs, higher tree trimming expense and higher storm related expense.

Equity in Earnings of Unconsolidated Venture

The \$2 million increase in equity in earnings of unconsolidated venture, from 2009 to 2010, was primarily due to higher earnings from EEI resulting from increased market prices for electric energy and the \$29 million decrease from 2008 to 2009 was primarily due to lower earnings resulting from decreased market prices for electric energy.

Interest Expense

The \$3 million increase from 2009 to 2010 and \$3 million increase from 2008 to 2009 were primarily due to:

	Increase (Decrease)	
	2010 vs. 2009	2009 vs. 2008
Bond interest expense (a)	\$ 8	\$ (8)
Interest expense to affiliated companies (b)	(5)	11
	<u>\$ 3</u>	<u>\$ 3</u>

- (a) Bond interest expense increased in 2010 compared to 2009 due to the issuance of first mortgage bonds in November 2010. Bond interest expense decreased in 2009 compared to 2008 due to lower interest rates on pollution control bonds. See Note 11, Long-Term Debt, for further information.
- (b) Interest expense to affiliated companies decreased in 2010 compared to 2009 primarily due to notes payable to Fidelia being paid in full in November 2010, as a result of the PPL acquisition. Interest expense to affiliated companies increased in 2009 compared to 2008 primarily due to the

issuance of additional debt (\$13 million), which was partially offset by lower interest rates on intercompany short-term borrowings.

Other Income (Expense) – Net

The \$7 million decrease in other income (expense) – net from 2009 to 2010 and the \$3 million decrease in other income (expense) – net from 2008 to 2009 were primarily due to the discontinuance of the allowance for funds used during construction on ECR projects as a result of the FERC rate case.

Income Tax Expense

See Note 10, Income Taxes, for a reconciliation of differences between the U.S. federal income tax expense at statutory rates and KU's income tax expense.

2011 Outlook

KU projects higher earnings in 2011 compared with 2010 as a net result of higher retail revenues and lower financing costs due to the issuance of first mortgage bonds in late 2010, partially offset by higher operation and maintenance expenses and depreciation. Retail revenues are expected to increase as a result of the 2010 Kentucky rate case and recoveries associated with its environmental investments. Operation and maintenance expenses and depreciation are expected to increase due to placing TC2 in service in January 2011. See Risk Factors for a discussion of the risk factors that may impact the 2011 outlook.

Financial Condition

Liquidity and Capital Resources

KU expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents and its credit facilities. KU currently has no plans to access debt capital markets in 2011.

KU's cash flows from operations and access to cost-effective bank and capital markets are subject to risks and uncertainties including, but not limited to, the following:

- changes in market prices for electricity;
- potential ineffectiveness of the trading, marketing and risk management policy and programs used to mitigate KU's risk exposure to adverse electricity and fuel prices and interest rates;
- operational and credit risks associated with selling and marketing products in the wholesale power markets;
- unusual or extreme weather that may damage KU's transmission and distribution facilities or affect energy sales to customers;
- unavailability of generating units (due to unscheduled or longer than anticipated generation outages, weather and natural disasters) and the resulting loss of revenues and additional costs of replacement electricity;
- ability to recover and timeliness and adequacy of recovery of costs;
- costs of compliance with existing and new environmental laws;

- any adverse outcome of legal proceedings and investigations with respect to KU's current and past business activities;
- deterioration in the financial markets that could make obtaining new sources of bank and capital markets funding more difficult and more costly; and
- a downgrade in KU's credit ratings that could adversely affect its ability to access capital and increase the cost of credit facilities and any new debt.

See the Risk Factors section for further discussion of risks and uncertainties affecting KU's cash flows.

At December 31, KU had the following:

	Successor	Predecessor
	2010	2009
Cash and cash equivalents	\$ 3	\$ 2
Current portion of long-term debt (a)	\$ -	\$ 228
Current portion of long-term debt to affiliated company (b)	-	33
Notes payable to affiliated companies (c)	10	45
	<u>\$ 10</u>	<u>\$ 306</u>

- (a) 2009 amount represents Carroll County 2002 Series A and B, 2004 Series A, 2006 Series B and 2008 Series A; Muhlenberg County 2002 Series A; and Mercer County 2000 Series A and 2002 Series A pollution control bonds subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. The Successor has classified these bonds as long-term because the Company has the intent and ability to utilize its \$400 million credit facility which matures in December 2014, to fund any mandatory purchases. The Predecessor classified these bonds as the current portion of long-term debt due to the tender for purchase provisions. The Predecessor presentation and the Successor presentation are both appropriate under GAAP. See Note 1, Summary of Significant Accounting Policies, and Note 11, Long-Term Debt, for further information.
- (b) 2009 amount represents debt owed to an E.ON affiliate, which was repaid in November 2010. See Note 11, Long-Term Debt, for further information.
- (c) Amounts represent borrowings under KU's intercompany money pool agreement wherein LKE and/or LG&E make funds available to KU at market-based rates of up to \$400 million. See Note 12, Notes Payable and Other Short-Term Obligations, for further information.

A condensed table of cash flows for the following periods in 2010, 2009 and 2008 is presented below. The Predecessor period, January 1, 2010 through October 31, 2010, and the Successor period, November 1, 2010 through December 31, 2010, were aggregated without further adjustment for purposes of comparison with the same periods in 2009 and 2008.

	Combined	Successor	Predecessor	
	Year Ended December 31, 2010	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009 2008
Net cash provided by (used in) operating activities	\$ 372	\$ 28	\$ 344	\$ 253 \$ 292
Net cash provided by (used in) investing activities	(427)	(87)	(340)	(507) (695)
Net cash provided by (used in) financing activities	56	58	(2)	254 405
Change in cash and cash equivalents	<u>\$ 1</u>	<u>\$ (1)</u>	<u>\$ 2</u>	<u>\$ -</u> <u>\$ 2</u>

Operating Activities

Net cash provided by operating activities increased by 47%, or \$119 million, in 2010 compared with 2009, primarily as a result of increased earnings, increased collections from the ECR mechanism and lower storm expenses. These increases in cash flow were partially offset by higher interest payments due to an accelerated settlement with the previous owner and higher 2010 income tax payments due to higher taxable income and investment tax credit benefits received in 2009.

Net cash provided by operating activities decreased by 13%, or \$39 million, in 2009 compared with 2008, primarily as a result of higher storm expenses, decreased earnings and unfavorable changes in working capital. These decreases in cash flow were partially offset by lower income tax payments due to lower taxable income and investment tax credit benefits received.

KU expects to achieve relatively stable cash flows from operations during the next three years although future cash flows may be significantly impacted by changes in economic conditions or new environmental and tax regulations.

Investing Activities

The primary use of cash in investing activities is capital expenditures. See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2011 through 2013.

Net cash used in investing activities decreased by 16%, or \$80 million, in 2010 compared with 2009, primarily as a result of a decrease of \$89 million in capital expenditures, partially offset by a decrease of \$9 million from restricted cash collections.

Net cash used in investing activities decreased by 27%, or \$188 million, in 2009 compared with 2008, primarily as a result of a decrease of \$180 million in capital expenditures and a increase of \$8 million from restricted cash collections.

Financing Activities

Net cash provided by financing activities was \$56 million in 2010 compared with \$254 million in 2009. In spite of significant new debt issuances associated with the repayments to E.ON affiliates in connection with PPL's acquisition of the Company, cash provided by financing was less in 2010 due to lower increases in debt in 2010 and the payment of dividends in 2010; whereas, KU received equity contributions in 2009.

Net cash provided by financing activities was \$254 million in 2009 compared with \$405 million in 2008. The lower level of cash provided by financing in 2009 was the result of lower debt issuance to affiliated companies and lower levels of equity contributions received.

In the two months of 2010 following the acquisition, cash provided by financing activities of the Successor primarily consisted of the issuance of first mortgage bonds totaling \$1,489 million after discounts and the issuance of intercompany notes totaling \$1,331 million to a PPL subsidiary to repay debt due to an E.ON affiliate upon the closing of the sale. These amounts were offset by the repayment of \$1,331 million to an E.ON affiliate upon the closing of the sale, the repayment of \$1,331 million to a PPL affiliate upon the issuance of the first mortgage bonds, the repayment of \$83 million of short-term borrowings due to an affiliated company and the payment of \$17 million of debt issuance costs.

In 2010, cash used in financing activities by the Predecessor primarily consisted of the payment of \$50 million of dividends to LKE mostly offset by increases in short-term borrowings due to an affiliated company totaling \$48 million.

In 2009, cash provided by financing activities primarily consisted of the issuance of \$150 million of intercompany notes to an E.ON affiliate, the receipt of capital contributions from LKE totaling \$75 million and a \$29 million increase in short-term borrowings due to an affiliated company.

In 2008, cash provided by financing activities primarily consisted of the issuance of \$250 million of intercompany notes to an E.ON affiliate, the receipt of capital contributions from LKE totaling \$145 million and a \$7 million reduction in short-term borrowings due to an affiliated company. In addition, KU reacquired pollution control bonds totaling \$80 million, reissued \$63 million of that \$80 million and issued \$77 million of new pollution control bonds. Of the \$77 million, \$60 million was used to retire prior pollution control bonds, including the remaining \$17 million which had been reacquired by the Company. This resulted in a cash receipt of \$17 million to KU.

KU's debt financing activity in 2010 was:

	<u>Issuances (a)</u>	<u>Retirements</u>
Short-term borrowings from affiliated company – net change	\$ -	\$ (35)
Other borrowings from affiliated company	1,331	(1,331)
Borrowings from an E.ON affiliate	-	(1,331)
Issuance of bonds	<u>1,489</u>	<u>-</u>
Net change in debt financing	<u>\$ 2,820</u>	<u>\$ (2,697)</u>

(a) Issuances are net of pricing discounts, where applicable.

See Note 11, Long-Term Debt, for further information.

Working Capital Deficiency

As of December 31, 2009, KU had a working capital deficiency of \$203 million, primarily due to the current portion of long-term debt to affiliated company totaling \$33 million and \$228 million of tax-exempt bonds which allow the investors to put the bonds back to the Company causing them to be classified as “Current portion of long-term debt.” As of December 31, 2010, the Company no longer had a working capital deficiency because the current portion of long-term debt to affiliated company was paid off in conjunction with the PPL acquisition, and the \$228 million of tax-exempt bonds were no longer classified as “Other current liabilities” by the Successor because the Company has the intent and ability to utilize its \$400 million credit facility which expires in December 2014 to fund any mandatory purchases. See Note 11, Long-Term Debt, for further information.

Auction Rate Securities

Auctions for auction rate securities issued by KU continued to fail throughout 2010. See Note 11, Long-Term Debt, for further discussion.

Forecasted Sources of Cash

KU expects to continue to have adequate sources of cash available in the near term, including access to external financing, financing from affiliates and/or infusions of capital from LKE. Regulatory approvals are required for KU to incur additional debt. The FERC and the Virginia Commission authorize the issuance of short-term debt while the Kentucky Commission, Virginia Commission and the Tennessee Regulatory Authority authorize the issuance of long-term debt. In November 2009, KU received a two-year authorization from the FERC to borrow up to \$400 million in short-term funds. KU also has authorization from the Virginia Commission that expires at the end of 2011, allowing short-term borrowing of up to \$400 million. Short-term funds are made available via the Company’s participation in an intercompany money pool agreement wherein LKE and/or LG&E make funds available to KU at market-based rates (based on highly rated commercial paper issues) up to \$400 million or via the \$400 million Revolving Credit Agreement discussed below. KU currently believes this authorization and these facilities, together with the Company’s credit facilities discussed below, provide the necessary flexibility to address any liquidity needs.

Credit Facilities

On November 1, 2010, KU entered into a \$400 million unsecured Revolving Credit Agreement with a group of banks. Under this new credit facility, which expires on December 31, 2014, KU has the ability to make cash borrowings and to request the lenders to issue letters of credit. Borrowings will generally bear interest at LIBOR-based rates plus a spread, depending upon KU’s senior unsecured long-term debt rating. The new credit facility contains financial covenants requiring KU’s debt to total capitalization to not exceed 70% and other customary covenants. As of December 31, 2010, KU’s debt to total capitalization was 41% as calculated pursuant to the credit agreement. Under certain conditions, KU may request that the facility’s capacity be increased by up to \$100 million. This new credit facility

replaced an existing bilateral line of credit totaling \$35 million that was terminated November 1, 2010. As of December 31, 2010, there was no outstanding balance under the new credit facility, but there were \$198 million of letters of credit outstanding to support outstanding bonds totaling \$195 million. KU will utilize unused credit facility and money pool balances to fund working capital needs as they arise. See Note 12, Notes Payable and Other Short-Term Obligations, for further information regarding the Company's credit facilities.

Contributions from LKE

LKE may make capital contributions to KU, which can be used for general business purposes.

Long-Term Debt

KU currently does not plan to issue any new long-term debt in 2011.

Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as fuel for electric generation, power purchased, payroll and taxes; KU currently expects to incur future cash outflows for capital expenditures, various contractual obligations and the payment of dividends.

Capital Requirements

KU's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. KU plans to fund capital expenditures through operating cash flows, the credit facility and, if needed, the issuance of long-term debt. KU expects its capital expenditures for the three year period ending December 31, 2013, to total approximately \$1,406 million, consisting primarily of the following:

Construction of coal combustion residual storage structures	\$ 346
Construction of environmental controls and capacity replacement	302
Construction of distribution and metering assets	260
Construction of generation assets	206
Construction of transmission assets	129
Recoverable environmental assets	99
Information technology projects	39
Other projects	25
	<u>\$ 1,406</u>

The Company's capital program will focus primarily on compliance with existing or anticipated EPA environmental regulations, aging infrastructure and the need for increased storage capacity for coal combustion by-product materials over the next several years. This program may also be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, changes in commodity prices and labor rates and other regulatory requirements. In particular, climate change initiatives, whether via legislative, regulatory or market channels, could restrict or disadvantage power generation from higher-

carbon sources. Therefore, KU has included estimates regarding significant additional capital expenditures related to pending environmental regulations and legislation. These estimates are subject to final regulations and least cost analysis based on engineering studies. To the extent financial markets see climate change as a potential risk, KU may face reduced access to or increased costs in capital markets. Capital expenditures for KU associated with such actions are preliminarily estimated to be in the \$1.5 to \$1.7 billion range over the next ten years, although final costs may substantially vary.

See the Contractual Obligations table below and Note 13, Commitments and Contingencies, for further information concerning commitments.

Contractual Obligations

The following is provided to summarize contractual cash obligations for periods after December 31, 2010. KU anticipates cash from operations and external financing will be sufficient to fund future obligations. See the Statements of Capitalization.

	Payments Due by Period						Total
	2011	2012	2013	2014	2015	Thereafter	
Short-term debt (a)	\$ 10	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10
Long-term debt (b)	-	-	-	-	250	1,601	1,851
Interest on long-term debt (c)	67	69	72	75	78	1,414	1,775
Operating leases (d)	8	7	5	5	3	1	29
Unconditional power purchase obligations (e)	9	10	10	10	10	114	163
Coal and natural gas purchase obligations (f)	439	200	144	93	91	14	981
Pension benefit plan obligations (g)	18	24	28	10	7	60	147
Postretirement benefit plan obligations (h)	5	6	6	6	6	33	62
Construction obligations (i)	113	3	-	-	-	-	116
Other obligations (j)	3	3	-	-	-	-	6
	<u>\$ 672</u>	<u>\$ 322</u>	<u>\$ 265</u>	<u>\$ 199</u>	<u>\$ 445</u>	<u>\$ 3,237</u>	<u>\$ 5,140</u>

This table does not reflect contingent obligations. See Note 13, Commitments and Contingencies, for further information on contingent obligations.

- (a) Represents borrowings due to affiliates within one year.
- (b) Reflects principal maturities only based on legal maturity dates and includes the current portion of long-term debt.
- (c) Assumes interest payments through maturity. The payments herein are subject to change as payments for debt that is or becomes variable-rate debt have been estimated.
- (d) Represents future operating lease payments.
- (e) Represents future minimum payments under OVEC power purchase agreements through March 13, 2026.
- (f) Represents contracts to purchase coal, natural gas and natural gas transportation.

- (g) Represents projected cash flows for funding the pension benefit plans as calculated by the actuary. For pension funding information see Note 9, Pension and Other Postretirement Benefit Plans.
- (h) Represents projected cash flows for the postretirement benefit plan as calculated by the actuary. For postretirement funding information, see Note 9, Pension and Other Postretirement Benefit Plans.
- (i) Represents construction commitments, including commitments for the Brown SCR and the Brown and Ghent landfill construction including associated material transport systems for coal combustion residual.
- (j) Represents other contractual obligations including the SPP and TVA coordination agreements.

Pension and Postretirement Benefit Plans

See Application of Critical Accounting Policies and Estimates for discussion regarding discretionary contributions to the pension and postretirement benefit plans in 2011.

Dividends

Future dividends may be declared at the discretion of KU's Board of Directors, payable to its sole shareholder, LKE. As discussed in Note 12, Notes Payable and Other Short-Term Obligations, KU's dividend payments are limited under a covenant in its \$400 million revolving line of credit facility. This covenant restricts the debt to total capital ratio to not more than 70%. KU is subject to Section 305(a) of the Federal Power Act, which makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in capital account." The meaning of this limitation has never been clarified under the Federal Power Act. KU believes, however, that this statutory restriction, as applied to its circumstances, would not be construed or applied by the FERC to prohibit the payment from retained earnings of dividends that are not excessive and are for lawful and legitimate business purposes.

Purchase, Redemption or Remarketing of Debt Securities

KU will continue to evaluate purchasing, redeeming or remarketing outstanding debt securities and may decide to take action depending upon prevailing market conditions and available cash.

Credit Ratings

KU's credit ratings reflect the views of three national rating agencies. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency. In October 2010, one national rating agency revised downward the short-term credit rating of the pollution control bonds and the issuer rating of the Company as a result of the then pending acquisition by PPL. Another raised the long-term rating of the pollution control bonds as a result of the addition of the first mortgage bonds as collateral. In October 2010, a third national rating agency provided an initial rating of the Company's pollution control bonds and first mortgage bonds. See Note 11, Long-Term Debt, for a discussion of downgrade actions in 2009 and 2008 related to the pollution control bonds caused by a change in the rating of the entity insuring those bonds.

Ratings Triggers

KU has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel and commodity transportation, which contain provisions requiring KU to post additional collateral, or permit the counterparty to terminate the contract if KU's credit rating were to fall below investment grade. See Note 5, Derivative Financial Instruments, for a discussion of Credit Risk Related Contingent Features, including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at December 31, 2010. At December 31, 2010, if KU's credit ratings had been below investment grade, KU would have been required to prepay or post an additional \$16 million of collateral to counterparties for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations.

Off-Balance Sheet Arrangements

KU has very limited off-balance sheet activity. See Note 13, Commitments and Contingencies, for further discussion.

Risk Management

Credit Risk

KU is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. KU maintains credit policies and procedures to limit counterparty credit risk including evaluating credit ratings and financial information along with having certain counterparties post margin if the credit exposure exceeds certain thresholds. See Note 5, Derivative Financial Instruments, for information regarding risk management activities.

KU is exposed to potential losses as a result of nonpayment by customers. The Company maintains an allowance for doubtful accounts composed of accounts aged more than four months. Accounts are written off as management determines them uncollectible. See Application of Critical Accounting Policies and Estimates and Note 1, Summary of Significant Accounting Policies, for further discussion.

Certain of the Company's derivative instruments contain provisions that require it to provide immediate and on-going collateralization on derivative instruments in net liability positions based upon the Company's credit ratings from each of the major credit rating agencies. See Note 5, Derivative Financial Instruments, for information regarding exposure and the risk management activities.

Liquidity Risk

KU expects to continue to have access to adequate sources of liquidity through operating cash flows, cash and cash equivalents, credit facilities and/or infusion of capital from its parent. See Financial Condition - Liquidity and Capital Resources for an expanded discussion of KU's liquidity position and a discussion of its forecasted sources of cash.

Securities Price Risk

KU has securities price risk through its participation in defined benefit pension and postretirement benefit plans. Declines in the market price of debt and equity securities could impact contribution requirements. See Application of Critical Accounting Policies and Estimates - Defined Benefits for a discussion of the assumptions and sensitivities regarding the defined benefit pension and postretirement benefit plans assumptions.

Interest Rate and Commodity Price Risk

KU is subject to interest rate and commodity price risk related to on-going business operations. It currently manages commodity risks using derivative instruments, including swaps and forward contracts. The Company's policies allow for the interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate swaps. At December 31, 2010, no interest rate swaps were in effect for KU. At December 31, 2010, the Company's annual exposure to increased interest expense, based on a 10% increase in interest rates, was less than \$1 million.

KU manages price risk by conducting energy trading activities through forward financial transactions. The following chart sets forth the net fair value of KU's commodity derivative contracts. See Note 5 Derivative Financial Instruments, for further information.

	Successor	Predecessor	
	December 31, 2010 (a)	October 31, 2010 (a)	December 31, 2009
Fair value of contracts outstanding at the beginning of the period	\$ -	\$ -	\$ 1
Contracts realized or otherwise settled during the period	-	-	-
Fair value of new contracts entered into during the period	-	-	-
Changes in fair value attributable to changes in valuation techniques	-	-	-
Other changes in fair value	-	-	(1)
Fair value of contracts outstanding at the end of the period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(a) 2010 activity is less than \$1 million.

Related Party Transactions

KU and its Parent, LKE and subsidiaries of LKE engage in related party transactions. See Note 15, Related Party Transactions, for further information.

KU is not aware of any material ownership interest or operating responsibility by the executive officers of KU in outside partnerships, including leasing transactions with variable interest entities, or entities doing business with KU.

Acquisitions, Development and Divestitures

KU and LG&E have been constructing a new 760-Mw capacity base-load, coal-fired unit, TC2, which is jointly owned by KU (60.75%) and LG&E (14.25%), together with IMEA and IMPA (combined 25%). With limited exceptions the Company took care, custody and control of TC2 on January 22, 2011, and has dispatched the unit to meet customer demand since that date. KU and the contractor agreed to a further amendment of the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. See Note 13, Commitments and Contingencies, for further information.

KU continuously re-examines development projects based on market conditions and other factors to determine whether to proceed, to cancel or to expand the projects.

Application of Critical Accounting Policies and Estimates

The financial statements of KU are prepared in compliance with GAAP. The application of these principles necessarily involves judgments regarding future events, including legal and regulatory challenges and anticipated recovery of costs. These judgments could materially impact the financial statements and disclosures based on varying assumptions, which may be appropriate to use. In addition, the financial and operating environment also may have a significant effect, not only on the operation of the business, but also on the results reported through the application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies applied has not changed. KU's senior management has reviewed the significant and critical accounting policies with the relevant governing bodies of the Company and its parent, as applicable.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used or if changes in the estimate that are reasonably possible could materially impact the financial statements. Management believes the following critical accounting policies reflect the significant estimates and assumptions used in the preparation of the Financial Statements.

Price Risk Management

See Financial Condition - Risk Management.

Regulatory Mechanisms

KU is a cost-based rate-regulated utility. As a result, the financial statements reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise be charged to expense. Likewise, regulatory liabilities are recognized for obligations expected to be returned through future regulated customer rates. The effect of such transactions or events would otherwise be reflected as income. In certain cases, regulatory liabilities are recorded based on the understanding with the regulator that current rates are being set to recover costs that are expected to be incurred in the future. The regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting

for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC, the Kentucky Commission, the Virginia Commission or the Tennessee Regulatory Authority. See Note 3, Rates and Regulatory Matters, for additional detail regarding regulatory assets and liabilities.

Defined Benefits

KU employees benefit from both funded and unfunded retirement benefit plans. See Note 1, Summary of Significant Accounting Policies, for information about policy changes between the Predecessor and Successor and the accounting for defined benefits including KU's method of amortizing gains and losses. KU makes various assumptions in arriving at pension and other postretirement benefit costs and obligations. The major assumptions include:

- KU's selection of discount rates is based on the Mercer Pension Discount Yield Curve (Predecessor) and the Towers Watson Yield Curve (Successor).
- KU's selection of rate of salary growth is based on historical data that includes employees' periodic pay increases and promotions, which are used to project employees' pension benefits at retirement.
- KU determines the expected long-term return on plan assets based on the current level of expected return on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the current asset allocation.
- KU's management projects health care cost trends based on past health care costs, the near-term outlook and an assessment of likely long-term trends.

The performance of the capital markets affects the values of the assets that are held in trust to satisfy future obligations under the defined benefit pension plans. The return on investments within the plans was approximately 12% for the year ended December 31, 2010. The benefit plan assets and obligations are re-measured annually using a December 31 measurement date. Due to the PPL acquisition, the benefit plan assets and obligations were also re-measured at October 31, 2010. The Company's 2010 pension cost was approximately \$3 million less than 2009. The Company anticipates its 2011 pension cost will be approximately \$3 million less than the 2010 expense. The amount of future funding will depend upon the actual return on plan assets, the discount rate and other factors, but the Company funds its pension obligations in a manner consistent with the Pension Protection Act of 2006. The Company made discretionary contributions to its pension plan of \$13 million in 2010 and 2009, respectively. In January 2011, KU contributed \$43 million to its pension plan. See Note 18, Subsequent Events, for further information.

See Note 9, Pension and Other Postretirement Benefit Plans, for further information on defined benefits including sensitivity analysis expressing potential changes in expected returns that would result from hypothetical changes to assumptions and estimates, expected rate of return assumptions and health care trends.

Asset Impairment

KU performs a quarterly review to determine if an impairment analysis is required for long-lived assets that are subject to depreciation or amortization. This review identifies changes in circumstances indicating that a long-lived asset's carrying value may not be recoverable. An impairment analysis will be performed if warranted based on the review. For these long-lived assets, such events or changes in circumstances which may indicate an impairment analysis is required include:

- a significant decrease in the market price of an asset;
- a significant adverse change in the manner in which an asset is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset;
- a current-period operating or cash flow loss combined with a history of losses or a forecast that demonstrates continuing losses;
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of before the end of its previously estimated useful life; and
- a significant change in the physical condition of an asset.

For a long-lived asset, impairment is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying value to its estimated fair value. Management must make significant judgments to estimate future cash flows including the useful lives of long-lived assets, the fair value of the assets and management's intent to use the assets. KU did not recognize an impairment of any long-lived asset in 2010.

Effective with PPL's acquisition of LKE on November 1, 2010, KU recorded \$607 million of goodwill. At December 31, 2010, KU's goodwill remained unchanged. GAAP requires goodwill to be tested for impairment on an annual basis or more frequently if events or circumstances indicate that assets may be impaired. KU performs its annual goodwill impairment test in the fourth quarter. See Note 7, Goodwill and Intangible Assets, for further discussion.

Goodwill is tested for impairment using a two-step approach. In step 1, the Company identifies a potential impairment by comparing the estimated fair value of the Company (the goodwill reporting unit) to its carrying value, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

The second step requires a calculation of the implied fair value of goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value is allocated to all of KU's assets and liabilities as if KU had been acquired in a business combination and the estimated fair value of KU was the price paid. The excess of the estimated fair value of KU over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of goodwill is then compared with the carrying amount of that goodwill. If the

carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of the reporting unit's goodwill.

Determining the fair value of KU is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions can include revenue growth rates and operating margins used to calculate projected future cash flows, risk adjusted discount rates and future economic and market conditions.

KU tested goodwill for impairment in the fourth quarter of 2010 and no impairment was recognized. See Note 7, Goodwill and Intangible Assets, for further discussion.

Loss Accruals

KU accrues losses for the estimated impacts of various conditions, situations or circumstances involving uncertain or contingent future outcomes. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." KU does not record the accrual of contingencies that might result in gains, unless recovery is assured. KU continuously assesses potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events.

The accounting aspects of estimated loss accruals include (1) the initial identification and recording of the loss, (2) the determination of triggering events for reducing a recorded loss accrual and (3) the ongoing assessment as to whether a recorded loss accrual is sufficient. All three of these aspects require significant judgment by KU's management. KU uses its internal expertise and outside experts (such as lawyers and engineers), as necessary, to help estimate the probability that a loss has been incurred and the amount or range of the loss.

KU has identified certain other events that could give rise to a loss, but that do not meet the conditions for accrual. Such events are disclosed, but not recorded, when it is reasonably possible that a loss has been incurred. Accounting guidance defines "reasonably possible" as cases in which "the future event or events occurring is more than remote, but less than likely to occur." See Note 13, Commitments and Contingencies, for disclosure of other potential loss contingencies that have not met the criteria for accrual.

When an estimated loss is accrued, KU identifies, where applicable, the triggering events for subsequently adjusting the loss accrual. The triggering events generally occur when the contingency has been resolved and the actual loss is incurred, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the adjustment of certain recorded loss accruals:

- Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or underlying amounts are ultimately collected.
- Environmental and other litigation contingencies are reduced when the contingency is resolved, KU makes actual payments, a better estimate of the loss is determined or the loss is no longer considered probable.

KU reviews its loss accruals on a regular basis to assure that the recorded potential loss exposures are appropriate. This involves ongoing communication and analyses with internal and external legal counsel, engineers, operation management and other parties. This review may result in the increase or decrease of the loss accrual.

Asset Retirement Obligations

KU is required to recognize a liability for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. An equivalent amount is recorded as an increase in the value of the capitalized asset and allocated to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the Statements of Income, for changes in the obligation due to the passage of time. An offsetting regulatory asset is recognized to reverse the depreciation and accretion expense related to the ARO such that there is no income statement impact. The regulatory asset is relieved when the ARO has been settled. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that considers estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of various AROs and the related assets, are reviewed periodically to ensure that any material changes are incorporated into the estimate of the obligations. Any change to the capitalized asset is amortized over the remaining life of the associated long-lived asset. See Note 4, Asset Retirement Obligations, for further information on AROs.

At December 31, 2010, KU had AROs totaling \$54 million recorded on the Balance Sheets. Of the total amount, \$35 million, or 65%, relates to KU’s ash ponds and landfills. The most significant assumptions surrounding AROs are the forecasted retirement costs, the discount rates and the inflation rates. A variance in the forecasted retirement costs, the discount rates or the inflation rates could have a significant impact on the ARO liabilities.

The following chart reflects the sensitivities related to KU’s ARO liabilities for ash ponds and landfills as of December 31, 2010:

	<u>Change in Assumption</u>	<u>Impact on ARO Liability</u>
Retirement cost	10%/(10)%	\$4/\$ (4)
Discount rate	0.25%/(0.25)%	\$(2)/\$1
Inflation rate	0.25%/(0.25)%	\$2/\$ (2)

Income Tax Uncertainties

Significant management judgment is required in developing KU's provision for income taxes primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. KU evaluates its tax positions following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. KU's management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, KU reassesses its uncertain tax positions by considering information known at the reporting date. Based on management's assessment of new information, KU may subsequently recognize a tax benefit for a previously unrecognized tax position, de-recognize a previously recognized tax position or re-measure the benefit of a previously recognized tax position. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact KU financial statements in the future.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. KU classifies unrecognized tax benefits as current, to the extent management expects to settle an uncertain tax position, by payment or receipt of cash, within one year of the reporting date. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized by KU to account for an uncertain tax position. See Note 10, Income Taxes, for the required disclosures.

At December 31, 2010, KU's existing reserve exposure to either increases or decreases in unrecognized tax benefits during the next 12 months is less than \$1 million. This change could result from subsequent recognition, de-recognition and/or changes in the measurement of uncertain tax positions. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitations.

Purchase Price Allocation

On November 1, 2010, PPL completed the acquisition of KU's parent. In accordance with accounting guidance on business combinations, the identifiable assets acquired and the liabilities assumed were measured at fair value at the acquisition date. Fair value is defined as the price that would be received to

sell an asset or paid to transfer a liability in an orderly transaction between market participants. The excess of the purchase price over the estimated fair value of the identifiable net assets is recorded as goodwill.

The determination and allocation of fair value to the identifiable assets acquired and liabilities assumed was based on various assumptions and valuation methodologies requiring considerable management judgment, including estimates based on key assumptions of the acquisition and historical and current market data. The most significant variables in these valuations were the discount rates, the number of years on which to base cash flow projections, as well as the assumptions and estimates used to determine cash inflows and outflows. Although the assumptions applied were reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

For purposes of measuring the fair value of the majority of property, plant and equipment and regulatory assets acquired and regulatory liabilities assumed, KU determined that fair value was equal to net book value at the acquisition date because KU's operations are conducted in a regulated environment and the regulatory commissions allow for earning a rate of return on the book value of a majority of the regulated asset bases at rates determined to be fair and reasonable. As there is no current prospect for deregulation in KU's operating area, it is expected that these operations will remain in a regulated environment for the foreseeable future, therefore management has concluded that the use of these assets in the regulatory environment represents their highest and best use and a market participant would measure the fair value of these assets using the regulatory rate of return as the discount rate, thus resulting in fair value equal to book value.

The fair value of intangible assets and liabilities (e.g. contracts that have favorable or unfavorable terms relative to market), including coal contracts and power purchase agreements, as well as emission allowances, have been reflected on the Balance Sheets with offsetting regulatory assets or liabilities. Prior to the acquisition, KU recovered the cost of the coal contracts, power purchases and emission allowances and this rate treatment will continue after the acquisition. As a result, management believes the regulatory assets and liabilities created to offset the fair value adjustments meet the recognition criteria established by existing accounting guidance and eliminate any ratemaking impact of the fair value adjustments. KU's customer rates will continue to reflect these items (e.g. coal, purchased power, emission allowances) at their original contracted prices.

KU also considered whether a separate fair value should be assigned to KU's rights to operate within its various electric service areas but concluded that these rights only provided the opportunity to earn a regulated return and barriers to market entry, which in management's judgment is not considered a separately identifiable intangible asset under applicable accounting guidance; rather, it is considered going-concern value, or goodwill.

See Note 2, Acquisition by PPL and Note 7, Goodwill and Intangible Assets, for further information.

New Accounting Guidance

Recent accounting pronouncements affecting KU are detailed in Note 1, Summary of Significant Accounting Policies.

Other Information

PPL's Audit Committee has approved the audit fees and audit-related services. The audit-related services include services in connection with regulatory filings, reviews of offering documents and registration statements and internal control reviews.

Management's Report of Internal Controls Over Financial Reporting

Through December 31, 2010, the Company was not subject to the internal control and other requirements of the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently is not required to evaluate the effectiveness of its internal control over financial reporting pursuant to Section 404 of the Act. However, management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. A company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework*. Management has concluded that, as of December 31, 2010, the Company's internal control over financial reporting was effective based on those criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2010, has been audited by PricewaterhouseCoopers LLP, an independent accounting firm, as stated in its report which is included herein.

Kentucky Utilities Company
Statements of Income
(millions)

	Successor	Predecessor		
	November 1 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31 2009 2008	
Operating revenues (Note 15)	\$ 263	\$ 1,248	\$ 1,355	\$ 1,405
Operating expenses:				
Fuel for electric generation	78	417	434	513
Power purchased (Notes 13 and 15).....	28	147	199	221
Other operation and maintenance expenses.....	66	280	320	275
Depreciation and amortization	<u>26</u>	<u>119</u>	<u>133</u>	<u>136</u>
Total operating expenses	<u>198</u>	<u>963</u>	<u>1,086</u>	<u>1,145</u>
Operating income	65	285	269	260
Equity in earnings of unconsolidated venture (Note 1)	-	3	1	30
Interest expense (Notes 11 and 12)	8	6	6	14
Interest expense to affiliated companies (Notes 11, 12 and 15).....	2	62	69	58
Other income (expense) - net	<u>-</u>	<u>(2)</u>	<u>5</u>	<u>8</u>
Income before income taxes	55	218	200	226
Income tax expense (Note 10).....	<u>20</u>	<u>78</u>	<u>67</u>	<u>68</u>
Net income.....	<u>\$ 35</u>	<u>\$ 140</u>	<u>\$ 133</u>	<u>\$ 158</u>

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

Kentucky Utilities Company
Statements of Retained Earnings
(millions)

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, <u>2009</u> <u>2008</u>	
Balance at beginning of period.....	\$ 1,418	\$ 1,328	\$ 1,195	\$ 1,037
Effect of PPL acquisition.....	<u>(1,418)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at November 1, 2010.....	-	1,328	1,195	1,037
Net income	35	140	133	158
Cash dividends declared (Note 15).....	<u>-</u>	<u>(50)</u>	<u>-</u>	<u>-</u>
Balance at end of period	<u>\$ 35</u>	<u>\$ 1,418</u>	<u>\$ 1,328</u>	<u>\$ 1,195</u>

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

Kentucky Utilities Company
Statements of Comprehensive Income
(millions)

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009 2008	
Net income	\$ 35	\$ 140	\$ 133	\$ 158
Equity investee's other comprehensive loss, net of tax expense of \$0, \$1, \$0 and \$0, respectively (Note 1).....	_____ -	_____ (2)	_____ -	_____ -
Comprehensive income	<u>\$ 35</u>	<u>\$ 138</u>	<u>\$ 133</u>	<u>\$ 158</u>

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

Kentucky Utilities Company
Balance Sheets
(millions)

	Successor December 31, 2010	Predecessor December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 3	\$ 2
Accounts receivable (less allowance for doubtful accounts: 2010, \$6; 2009, \$3):		
Customer	90	79
Affiliated companies	12	9
Other.....	20	18
Unbilled revenues.....	89	76
Fuel, materials and supplies:		
Fuel (predominantly coal).....	95	98
Other materials and supplies	41	39
Other intangible assets	22	-
Regulatory assets (Note 3)	9	32
Prepayments and other current assets.....	15	13
Total current assets.....	396	366
Investment in unconsolidated venture (Note 1).....	30	12
Property, plant and equipment:		
Regulated utility plant – electric	3,630	4,892
Accumulated depreciation.....	(14)	(1,838)
Net regulated utility plant.....	3,616	3,054
Construction work in progress	955	1,257
Property, plant and equipment – net.....	4,571	4,311
Deferred debits and other assets:		
Regulatory assets (Notes 3 and 9):		
Pension benefits	117	105
Other regulatory assets.....	105	117
Goodwill (Notes 2 and 7).....	607	-
Other intangibles assets (Notes 2 and 7)	175	-
Cash surrender value of key man life insurance.....	39	38
Other assets	19	7
Total deferred debits and other assets.....	1,062	267
Total assets	\$ 6,059	\$ 4,956

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

Kentucky Utilities Company
Balance Sheets (continued)
(millions)

	Successor December 31, 2010	Predecessor December 31, 2009
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt (Note 11).....	\$ -	\$ 228
Current portion of long-term debt to affiliated company (Notes 11 and 15)	-	33
Notes payable to affiliated companies (Notes 12 and 15).....	10	45
Accounts payable	67	107
Accounts payable to affiliated companies (Note 15)	45	88
Accrued taxes	25	14
Customer deposits	23	22
Regulatory liabilities (Note 3).....	41	4
Accrued interest	8	1
Employee accruals.....	15	13
Other current liabilities.....	18	14
Total current liabilities	252	569
Long-term debt:		
Long-term bonds (Note 11).....	1,841	123
Long-term debt to affiliated company (Notes 11 and 15).....	-	1,298
Total long-term debt	1,841	1,421
Deferred credits and other liabilities:		
Deferred income taxes (Note 10)	376	336
Accumulated provision for pensions (Note 9)	113	160
Investment tax credits (Note 10)	104	104
Asset retirement obligations (Notes 3 and 4)	54	34
Regulatory liabilities (Note 3):		
Accumulated cost of removal of utility plant.....	348	335
Other regulatory liabilities	186	25
Other liabilities	94	20
Total deferred credits and other liabilities	\$ 1,275	\$ 1,014

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

Kentucky Utilities Company
Balance Sheets (continued)
(millions)

	Successor December 31, 2010	Predecessor December 31, 2009
Equity:		
Common stock, without par value – authorized 80,000,000 shares, outstanding 37,817,878 shares	\$ 308	\$ 308
Additional paid-in capital	2,348	316
Retained earnings:		
Retained earnings	35	1,318
Undistributed earnings from unconsolidated venture	-	10
Total equity.....	<u>2,691</u>	<u>1,952</u>
Total liabilities and equity	<u>\$ 6,059</u>	<u>\$ 4,956</u>

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

Kentucky Utilities Company
Statements of Cash Flows
(millions)

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009 2008	
Cash flows from operating activities:				
Net income	\$ 35	\$ 140	\$ 133	\$ 158
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	26	119	133	136
Deferred income taxes – net.....	4	23	50	(13)
Investment tax credits (Note 10).....	-	-	24	25
Provision for pension and postretirement benefits.....	5	13	26	10
Other – net.....	2	(3)	-	1
Change in current assets and liabilities:				
Accounts receivable	(15)	13	11	13
Unbilled revenues.....	(32)	19	(15)	(1)
Fuel, materials and supplies	5	(6)	(28)	(33)
Regulatory assets.....	(2)	19	-	-
Other current assets	9	(9)	(3)	(1)
Accounts payable	9	(17)	(32)	2
Accounts payable to affiliated companies	(41)	46	29	7
Accrued taxes	15	(5)	6	8
Regulatory liabilities	12	3	-	-
Other current liabilities.....	(2)	2	2	(3)
Pension and postretirement funding (Note 9).....	(2)	(18)	(20)	(5)
Storm restoration regulatory asset (Note 3).....	-	-	(57)	(2)
Other regulatory assets	1	8	-	-
Other regulatory liabilities	-	(10)	-	-
Other – net.....	(1)	7	(6)	(10)
Net cash provided by (used in) operating activities	<u>28</u>	<u>344</u>	<u>253</u>	<u>292</u>
Cash flows from investing activities:				
Construction expenditures.....	(87)	(292)	(516)	(686)
Purchases of assets from affiliate.....	-	(48)	-	(10)
Change in restricted cash.....	-	-	9	1
Net cash provided by (used in) investing activities	<u>\$ (87)</u>	<u>\$ (340)</u>	<u>\$ (507)</u>	<u>\$ (695)</u>

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

Kentucky Utilities Company
Statements of Cash Flows (continued)
(millions)

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010,	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009 2008	
Cash flows from financing activities:				
Issuance of bonds (Note 11).....	\$ 1,489	\$ -	\$ -	\$ 77
Short-term borrowings from affiliated company – net (Note 12)	(83)	48	29	(7)
Other borrowings from affiliated companies (Note 11).....	1,331	-	150	250
Repayments on other borrowings from affiliated companies (Note 11)	(1,331)	-	-	-
Repayments to E.ON affiliate (Note 11)...	(1,331)	-	-	-
Debt issuance costs.....	(17)	-	-	-
Retirement of pollution control bonds.....	-	-	-	(60)
Acquisition of outstanding bonds.....	-	-	-	(80)
Reissuance of reacquired bonds	-	-	-	63
Retirement of reacquired bonds	-	-	-	17
Payment of dividends	-	(50)	-	-
Capital contribution (Note 15)	-	-	75	145
Net cash provided by (used in) financing activities	<u>58</u>	<u>(2)</u>	<u>254</u>	<u>405</u>
Change in cash and cash equivalents.....	(1)	2	-	2
Cash and cash equivalents at beginning of period	<u>4</u>	<u>2</u>	<u>2</u>	<u>-</u>
Cash and cash equivalents at end of period...	<u>\$ 3</u>	<u>\$ 4</u>	<u>\$ 2</u>	<u>\$ 2</u>
Supplemental disclosures of cash flow information:				
Cash paid (received) during the year for:				
Interest – net of amount capitalized	\$ 22	\$ 62	\$ 70	\$ 66
Income taxes – net.....	(12)	74	(9)	46

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

Kentucky Utilities Company
Statements of Capitalization
(millions)

	Successor December 31, 2010	Predecessor December 31, 2009
Long-term debt (Note 11):		
Pollution control series:		
Mercer Co. 2000 Series A, due May 1, 2023, variable %.....	\$ 13	\$ 13
Carroll Co. 2007 Series A, due February 1, 2026, 5.75%.....	18	18
Carroll Co. 2002 Series A, due February 1, 2032, variable %.....	21	21
Carroll Co. 2002 Series B, due February 1, 2032, variable %.....	2	2
Muhlenberg Co. 2002 Series A, due February 1, 2032, variable %.	2	2
Mercer Co. 2002 Series A, due February 1, 2032, variable %.....	8	8
Carroll Co. 2008 Series A, due February 1, 2032, variable %.....	78	78
Carroll Co. 2002 Series C, due October 1, 2032, variable %.....	96	96
Carroll Co. 2006 Series B, due October 1, 2034, variable %.....	54	54
Trimble Co. 2007 Series A, due March 1, 2037, 6.0%	9	9
Carroll Co. 2004 Series A, due October 1, 2034, variable %	<u>50</u>	<u>50</u>
Total pollution control series	<u>351</u>	<u>351</u>
First mortgage bonds:		
First mortgage bond 2015 Series, due November 1, 2015, 1.625%	250	-
First mortgage bond 2020 Series, due November 1, 2020, 3.25%	500	-
First mortgage bond 2040 Series, due November 1, 2040, 5.125%	<u>750</u>	<u>-</u>
Total first mortgage bonds.....	<u>\$ 1,500</u>	<u>\$ -</u>

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

Kentucky Utilities Company
Statements of Capitalization (continued)
(millions)

	Successor December 31, 2010	Predecessor December 31, 2009
Long-term debt to affiliated company:		
Due November 24, 2010, 4.24%, unsecured.....	\$ -	\$ 33
Due January 16, 2012, 4.39%, unsecured	-	50
Due April 30, 2013, 4.55%, unsecured	-	100
Due August 15, 2013, 5.31%, unsecured	-	75
Due December 19, 2014, 5.45%, unsecured	-	100
Due July 8, 2015, 4.735%, unsecured.....	-	50
Due December 21, 2015, 5.36%, unsecured	-	75
Due October 25, 2016, 5.675%, unsecured.....	-	50
Due April 24, 2017, 5.28%, unsecured	-	50
Due June 20, 2017, 5.98%, unsecured	-	50
Due July 25, 2018, 6.16%, unsecured.....	-	50
Due August 27, 2018, 5.645%, unsecured	-	50
Due December 17, 2018, 7.035%, unsecured	-	75
Due July 29, 2019, 4.81%, unsecured.....	-	50
Due October 25, 2019, 5.71%, unsecured.....	-	70
Due November 25, 2019, 4.445%, unsecured.....	-	50
Due February 7, 2022, 5.69%, unsecured	-	53
Due May 22, 2023, 5.85%, unsecured	-	75
Due September 14, 2028, 5.96%, unsecured	-	100
Due June 23, 2036, 6.33%, unsecured	-	50
Due March 30, 2037, 5.86%, unsecured	-	75
Total long-term debt to affiliated company	-	1,331
Total long-term debt outstanding	1,851	1,682
Purchase accounting adjustments and discounts.....	(10)	-
Less current portion of long-term debt.....	-	261
Long-term debt.....	<u>\$ 1,841</u>	<u>\$ 1,421</u>

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

Kentucky Utilities Company
Statements of Capitalization (continued)
(millions)

	Successor December 31, 2010	Predecessor December 31, 2009
Common equity:		
Common stock, without par value – authorized 80,000,000 shares, outstanding 37,817,878 shares.....	\$ 308	\$ 308
Additional paid-in-capital	2,348	316
Retained earnings:		
Retained earnings.....	35	1,318
Undistributed subsidiary earnings.....	-	10
Total retained earnings	<u>35</u>	<u>1,328</u>
Total common equity.....	<u>2,691</u>	<u>1,952</u>
Total capitalization	<u>\$ 4,532</u>	<u>\$ 3,373</u>

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

Kentucky Utilities Company
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

General

Terms and abbreviations are explained in the index of abbreviations. Dollars are in millions unless otherwise noted.

Business

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electric service to approximately 514,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in five counties in southwestern Virginia and less than ten customers in Tennessee. KU's service area covers approximately 6,600 noncontiguous square miles. Approximately 98% of the electricity generated by KU is produced by its coal-fired electric generating stations. The remainder is generated by natural gas and oil fueled CTs and a hydroelectric power plant. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

On November 1, 2010, KU became an indirect wholly owned subsidiary of PPL, when PPL acquired all of the outstanding limited liability company interests in the Company's direct parent, LKE, from E.ON US Investments Corp. LKE, a Kentucky limited liability company, also owns the affiliate, LG&E, a regulated utility engaged in the generation, transmission, distribution and sale of electric energy and distribution and sale of natural gas in Kentucky. Following the acquisition, the Company's business has not changed. KU and LG&E are continuing as subsidiaries of LKE, which is now an intermediary holding company in the PPL group of companies.

Headquartered in Allentown, Pennsylvania, PPL is an energy and utility holding company that was incorporated in 1994. Through its subsidiaries, PPL owns or controls about 19,000 megawatts of generating capacity in the U.S., sells energy in key U.S. markets and delivers electricity and natural gas to about 5.3 million customers in the U.S. and the U.K.

Basis of Accounting

KU's basis of accounting incorporates the business combinations guidance of the FASB ASC as of the date of the acquisition, which requires the recognition and measurement of identifiable assets acquired and liabilities assumed at fair value as of the acquisition date. KU's financial statements and accompanying footnotes have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor covers the time period prior to November 1, 2010. Successor covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL accounting policies, which are discussed below, and the cost basis of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Predecessor period are not comparable to the Successor period.

Despite the separate presentation, the core operations of the Company have not changed. See Note 2, Acquisition by PPL, for information regarding the acquisition and the purchase accounting adjustments.

Changes in Classification

Certain reclassification entries have been made to the Predecessor's previous years' financial statements to conform to the 2010 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows. These reclassifications mainly consist of those necessary to identify amounts for prior periods that are separately disclosed in the financial statements.

Regulatory Accounting

KU is a cost-based rate-regulated utility. As a result, the financial statements reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise be charged to expense. Likewise, regulatory liabilities may be recognized for obligations expected to be returned through future regulated customer rates. The effect of such transactions or events would otherwise be reflected as income, or, in certain cases, regulatory liabilities are recorded based on the understanding with the regulator that current rates are being set to recover costs that are expected to be incurred in the future. The regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. Offsetting regulatory assets or liabilities for fair value purchase accounting adjustments have also been recorded to eliminate any ratemaking impact of the fair value adjustments. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC, Kentucky Commission, Virginia Commission or the Tennessee Regulatory Authority. See Note 3, Rates and Regulatory Matters, for additional detail regarding regulatory assets and liabilities.

Management's Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported assets and liabilities, the disclosure of contingent 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.

Derivative Financial Instruments

KU enters into energy trading contracts to manage price risk and to maximize the value of power sales from the physical assets it owns. The energy trading contracts are non-hedging derivatives and the change in value is recognized in earnings on a mark-to-market basis. The Predecessor and Successor presentation are both appropriate under GAAP. The Predecessor and Successor determine the classification of energy trading contracts based on the settlement date of the individual contracts. Energy trading contracts classified as current are recognized in "Prepayments and other current assets" or "Other current liabilities" on the Balance Sheets. Energy trading contracts classified as non-current are recognized in "Other assets" or "Other liabilities" on the Balance Sheets. Cash inflows and outflows

related to derivative instruments are included as a component of operating activity on the Statements of Cash Flows, due to the underlying nature of the hedged items.

The Company does not net collateral against derivative instruments.

See Note 5, Derivative Financial Instruments, and Note 6, Fair Value Measurements, for further information on derivative instruments.

Revenue and Accounts Receivable

The operating revenues line item in the Statements of Income contains revenues from the following:

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31,	
			2009	2008
Residential	\$ 106	\$ 440	\$ 480	\$ 462
Industrial and commercial	117	588	637	636
Municipals	15	88	91	92
Other retail	20	114	118	108
Wholesale	5	18	29	107
	\$ 263	\$ 1,248	\$ 1,355	\$ 1,405

Revenue Recognition

Revenues are recorded based on service rendered to customers through month-end. Operating revenues are recorded based on energy deliveries through the end of the calendar month. Unbilled retail revenues result because customers' meters are read and bills are rendered throughout the month, rather than all being read at the end of the month. Unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh by the estimated average cents per kWh.

Accounts Receivable

Accounts receivable are reported in the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts.

Allowance for Doubtful Accounts

The allowance for doubtful accounts included in "Accounts receivable – customer" is based on the ratio of the amounts charged-off during the last twelve months to the retail revenues billed over the same period, multiplied by the retail revenues billed over the last four months. Accounts with no payment activity are charged-off after four months, although collection efforts continue thereafter. The allowance for doubtful accounts included in "Accounts receivable – other" is composed of accounts aged more than four months. Accounts are written off as management determines them uncollectible.

The changes in the allowance for doubtful accounts were:

	Successor	Predecessor		
	December 31, 2010	October 31, 2010	December 31, 2009	December 31, 2008
Balance at beginning of period (a) \$	-	\$ 3	\$ 3	\$ 2
Charged to income	1	(6)	(4)	(2)
Charged to balance sheets	5	6	4	3
Balance at end of period	\$ 6	\$ 3	\$ 3	\$ 3

(a) Successor beginning of period reflects revaluation of accounts receivable due to purchase accounting.

Cash

Cash Equivalents

All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Restricted Cash

Bank deposits and other cash equivalents that are restricted by agreement or that have been clearly designated for a specific purpose are classified as restricted cash. The change in restricted cash is reported as an investing activity on the Statements of Cash Flows. On the Balance Sheets, restricted cash is included in "Prepayments and other current assets". For KU, the December 31, 2010, balance of restricted cash was less than \$1 million.

Fair Value Measurements

KU values certain financial assets and liabilities at fair value. Generally, the most significant fair value measurements relate to derivative assets and liabilities, investments in securities including investments in the pension and postretirement benefit plans and cash and cash equivalents. KU uses, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques) and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions that market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

KU prioritizes fair value measurements for disclosure by grouping them into one of three levels in the fair value hierarchy. The highest priority is given to measurements using level 1 inputs. The appropriate level assigned to a fair value measurement is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are as follows:

- Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - Other inputs that are directly or indirectly observable in the marketplace.
- Level 3 - Unobservable inputs which are supported by little or no market activity.

Assessing the significance of a particular input requires judgment that considers factors specific to the asset or liability. As such, KU’s assessment of the significance of a particular input may affect how the assets and liabilities are classified within the fair value hierarchy. See Note 5, Derivatives Financial Instruments, and Note 6, Fair Value Measurements, for further information on fair value measurements.

Investments

Equity Method Investment

KU’s equity method investment, included in “Investment in unconsolidated venture” on the Balance Sheets, consists of its investment in EEI. KU owns 20% of the common stock of EEI, which owns and operates a 1,002 Mw summer capacity coal-fired plant and a 74 Mw summer capacity natural gas facility in southern Illinois. Through a power marketer affiliated with its majority owner, EEI sells its output to third parties. Although KU holds investment interest in EEI, it is not the primary beneficiary and is therefore not consolidated into the Company’s financial statements. KU’s investment in EEI is accounted for under the equity method of accounting and as of December 31, 2010 and 2009, totaled \$30 million and \$12 million, respectively. KU’s direct exposure to loss as a result of its involvement with EEI is generally limited to the value of its investment. See Note 2, Acquisition by PPL, for further discussion regarding purchase accounting adjustments recognized for KU’s investment in EEI.

The results of operations and financial position of EEI, KU’s equity method investment, are summarized below.

Condensed income statement information for the years ended December 31 is as follows:

	2010 (unaudited)	2009	2008
Net sales	\$ 343	\$ 297	\$ 514
Net income	16	10	142
KU’s equity in earnings of EEI	3	1	30

Condensed balance sheet information as of December 31 is as follows:

	2010 (unaudited)	2009
Current assets	\$ 62	\$ 84
Long-lived assets	181	178
Total assets	<u>\$ 243</u>	<u>\$ 262</u>
Current liabilities	\$ 113	\$ 166
Long-term liabilities	72	50
Equity	<u>58</u>	<u>46</u>
Total liabilities and equity	<u>\$ 243</u>	<u>\$ 262</u>

Cost Method Investment

KU's cost method investment, included in "Investments in unconsolidated venture" on the Balance Sheets, consists of the Company's investment in OVEC. KU and 11 other electric utilities are owners of OVEC, which is located in Piketon, Ohio. OVEC owns and operates two coal-fired power plants, Kyger Creek Station in Ohio and Clifty Creek Station in Indiana with combined nameplate generating capacities of 2,390 Mw. OVEC's power is currently supplied to KU and 13 other companies affiliated with the various owners. Pursuant to current contractual agreements, KU owns 2.5% of OVEC's common stock and is contractually entitled to 2.5% of OVEC's output. Based on nameplate generating capacity, this would be approximately 60 Mw.

As of December 31, 2010 and 2009, KU's investment in OVEC totaled less than \$1 million. KU is not the primary beneficiary of OVEC; therefore, it is not consolidated into the Company's financial statements and is accounted for under the cost method of accounting. The direct exposure to loss as a result of the Company's involvement with OVEC is generally limited to the value of its investment; however, KU may be conditionally responsible for a pro-rata share of certain OVEC obligations. See Note 2, Acquisition by PPL, and Note 13, Commitments and Contingencies, for further discussion regarding purchase accounting adjustments recognized, and KU's ownership interest and power purchase rights.

Long-Lived and Intangible Assets

Regulated Utility Plant

Regulated utility plant was stated at original cost for the Predecessor and adjusted to the net book value on November 1, 2010, the acquisition date, for the Successor. KU determined that fair value was equal to net book value at the acquisition date since KU's operations are conducted in a regulated environment. Original cost includes payroll-related costs such as taxes, fringe benefits and administrative and general costs. Construction work in progress has been included in the rate base for determining retail customer rates. KU has not recorded significant allowance for funds used during construction in accordance with FERC.

The cost of plant retired or disposed of in the normal course of business is deducted from plant accounts and such cost is charged to the reserve for depreciation. When complete operating units are disposed of,

appropriate adjustments are made to the reserve for depreciation and gains and losses, if any, are recognized.

Capitalized Software Cost

Included in “Property, plant and equipment” on the Balance Sheets are capitalized costs of software projects that were developed or obtained for internal use. These capitalized costs are amortized ratably over the expected lives of the projects when they become operational, generally not to exceed five years. Following are capitalized software costs and the accumulated amortization:

Successor		Predecessor	
December 31, 2010		December 31, 2009	
Carrying Amount	Accumulated Amortization (a)	Carrying Amount	Accumulated Amortization
\$ 40	\$ 1	\$ 52	\$ 13

(a) The accumulated amortization as of November 1, 2010, was netted against the carrying amount of the software as the fair value was determined to be equal to net book value for property, plant and equipment.

Amortization expense of capitalized software costs was as follows:

Successor	Predecessor	
November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009 2008
\$ 1	\$ 6	\$ 6 \$ 5

The amortization of capitalized software is included in “Depreciation and amortization” on the Statements of Income.

Depreciation and Amortization

Depreciation is provided on the straight-line method over the estimated service lives of depreciable plant. The amounts provided as a percentage of depreciable plant were approximately:

Year	Percentage
2010	4.1%
2009	2.6%
2008	3.0%

Of the amount provided for depreciation, the following were related to the retirement, removal and disposal costs of long lived assets:

<u>Year</u>	<u>Percentage</u>
2010	0.6%
2009	0.4%
2008	0.5%

Goodwill, Intangible Assets and Asset Impairment

KU performs a quarterly review to determine if an impairment analyses is required for long-lived assets that are subject to depreciation or amortization. This review identifies changes in circumstances indicating that a long-lived asset's carrying value may not be recoverable. An impairment analysis will be performed if warranted, based on the review.

For a long-lived asset to be held and used, impairment exists when the carrying amount exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying amount to its fair value.

KU, as the result of PPL's acquisition of LKE, recorded the fair value of its coal contracts, emission allowances, EEI investment and OVEC power purchase contract. The difference between the fair value and the cost for these assets is being amortized over their useful lives based upon the pattern in which the economic benefits of the intangible assets are consumed or otherwise used. When determining the useful life of an intangible asset, including intangible assets that are renewed or extended, KU considers the expected use of the asset, the expected useful life of other assets to which the useful life of the intangible asset may relate and legal, regulatory, or contractual provisions that may limit the useful life. See Note 2, Acquisition by PPL, for methods used to determine the long-lived intangible assets' fair values. See Note 7, Goodwill and Intangible Assets, for the fair value amounts and amortization periods. The current intangible assets and long-term intangible assets are included in "Other intangible assets" on the Balance Sheets.

The Predecessor reported emission allowances in "Other materials and supplies" on the Balance Sheets. The emission allowances were not amortized; rather, they were expensed when consumed. The Predecessor did not recognize the coal contracts or the OVEC power purchase contract as these intangible assets were not derivatives.

In connection with PPL's acquisition of LKE, KU recorded goodwill on November 1, 2010. Goodwill represents the excess of the purchase price paid over the estimated fair value of the assets acquired and liabilities assumed in the acquisition of a business. Goodwill is tested annually for impairment during the fourth quarter and more frequently if management determines that a triggering event may have occurred that would more likely than not reduce the fair value of an operating unit below its carrying value. Goodwill impairment charges are not subject to rate recovery. See Note 7, Goodwill and Intangible Assets, for further discussion regarding the Company's goodwill and current test results.

Asset Retirement Obligations

KU recognizes various legal obligations associated with the retirement of long-lived assets as liabilities in the financial statements. Initially this obligation is measured at fair value. An equivalent amount is recorded as an increase in the value of the capitalized asset and allocated to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the Statements of Income, for changes in the obligation due to the passage of time. An offsetting regulatory asset is recognized to reverse the depreciation and accretion expense related to the ARO such that there is no income statement impact. The regulatory asset is relieved when the ARO has been settled. Estimated ARO costs and settlement dates, which affect the carrying value of various AROs and the related assets, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the obligations. See Note 4, Asset Retirement Obligations, for further information on AROs.

Defined Benefits

KU employees benefit from both funded and unfunded retirement benefit plans. An asset or liability is recorded to recognize the funded status of all defined benefit plans with an offsetting entry to regulatory assets or regulatory liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets.

The expected return on plan assets is determined based on the current level of expected return on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the current asset allocation.

The discount rate used for pensions, postretirement and post-employment plans by the Predecessor was determined using the Mercer Yield Curve. The expected return on assets assumption was 7.75%. Gains and losses in excess of 10% of the greater of the plan's projected benefit obligation or market value of assets were amortized on a straight-line basis over the average future service period of active participants. The market-related value of assets was equal to the fair market value of the assets.

The discount rate used by the Successor was determined by the Towers Watson Yield Curve based on the individual plan cash flows. The expected return on assets was reduced from 7.75% to 7.25%. The amortization period for the recognition of gains and losses for retirement plans was changed to reflect the Successor's amortization policy. Under the Successor's method, gains and losses in excess of 10% but less than 30% of the greater of the plan's projected benefit obligation or market-related value of assets, are amortized on a straight-line basis over the average future service period of active participants. Gains and losses in excess of 30% of the plan's projected benefit obligation or market-related value of assets are amortized on a straight-line basis over a period equal to one-half of the average future service period of active participants. The market-related value of assets for the qualified retirement plans will be equal to a five year smoothed asset value. Gains and losses in excess of the expected return will be phased-in over a five-year period, prospectively from November 1, 2010.

See Note 9, Pension and Other Postretirement Benefit Plans, for further information.

Other

Loss Accruals

Potential losses are accrued when information is available that indicates it is “probable” that a loss has been incurred, given the likelihood of uncertain future events, and the amount of the loss can be reasonably estimated. Accounting guidance defines “probable” as cases in which “the future event or events are likely to occur.” KU continuously assesses potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events.

KU does not record the accrual of contingencies that might result in gains unless recovery is assured.

Income Taxes

For the periods ended on or before October 31, 2010, KU was a subsidiary of E.ON U.S. and was part of E.ON U.S.’s direct parent’s, E.ON US Investments Corp., consolidated U.S. federal income tax return. On November 1, 2010, KU became a part of PPL’s consolidated U.S. federal income tax return.

Significant management judgment is required in developing KU’s provision for income taxes primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

KU evaluates tax positions following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of KU.

Deferred income taxes reflect the net future tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes, as well as the tax effects of net operating losses and tax credit carryforwards.

KU records valuation allowances to reduce deferred tax assets to the amounts that are more likely than not to be realized. KU considers the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies in initially recording and subsequently reevaluating the need for valuation allowances. If KU determines that it is able to realize deferred tax assets in the future in excess of recorded net deferred tax assets, adjustments to the valuation allowances increase income by reducing tax expense in the period that such determination is made. Likewise, if KU determines that it is not able to realize all or part of net deferred tax assets in the future, adjustments to the valuation allowances would decrease income by increasing tax expense in the period that such determination is made.

The provision for KU's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the regulators. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included on the Balance Sheets in "Regulatory liabilities".

KU defers investment tax credits when the credits are utilized and amortizes the deferred amounts over the average lives of the related assets.

See Note 10, Income Taxes, for further discussion regarding income taxes.

Leases

KU evaluates whether arrangements entered into contain leases for accounting purposes.

Materials and Supplies

Fuel and other materials and supplies inventories are accounted for using the average-cost method.

Fuel Costs

The cost of fuel for electric generation is charged to expense as used. See Note 3, Rates and Regulatory Matters, for a description of the FAC.

Debt

The Company's long-term debt includes \$228 million of pollution control bonds, which are subject to tender for purchase at the option of the holder and to mandatory tender for purchase on the occurrence of certain events. The Successor has classified these bonds as long term because the Company has the intent and ability to utilize its \$400 million credit facility, which matures in December 2014, to fund any mandatory purchases. Predecessor classified these bonds as current portion of long-term debt due to the tender for purchase provisions. The Predecessor presentation and the Successor presentation are both appropriate under GAAP. See Note 11, Long-Term Debt, and Note 12, Notes Payable and Other Short-Term Obligations, for more information on the Company's debt and credit facilities.

Unamortized Debt Expense

Debt expense is capitalized and amortized over the lives of the related bond issues using the straight line method, which approximates the effective interest method. Depending on the type of expense, the Successor capitalized debt expenses in long-term other regulatory assets or long-term other assets to align with the term of the debt the expenses were related. The Predecessor capitalized debt expenses in current or long-term other regulatory assets or other current or long-term other assets based on the amount of expense expected to be recovered within the next year through rate recovery. Both the Predecessor and the Successor amortize debt expenses over the lives of the related bond issues. The Predecessor presentation and the Successor presentation are both appropriate under regulatory practices and GAAP.

Recent Accounting Pronouncements

The following recent accounting pronouncement affected KU:

Fair Value Measurements

In January 2010, the FASB issued guidance related to fair value measurement disclosures requiring separate disclosure of amounts of significant transfers in and out of level 1 and level 2 fair value measurements and separate information about purchases, sales, issuances and settlements within level 3 measurements. This guidance is effective for the interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about the roll-forward of activity in level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. This guidance has no impact on the Company's results of operations, financial position, liquidity or disclosures.

Note 2 - Acquisition by PPL

On November 1, 2010, PPL completed its acquisition of LKE and its subsidiaries. The push-down basis of accounting was used to record the fair value adjustments of assets and liabilities on LKE at the acquisition date. PPL paid a cash consideration for LKE and its subsidiaries of \$2,493 million as well as a capital contribution on November 1, 2010, of \$1,565 million; included within this was the consideration paid for KU of \$2,656 million. The allocation of the KU purchase price was based on the fair value of assets acquired and liabilities assumed.

The allocation of the purchase price to the fair value of assets acquired and liabilities assumed is as follows:

Current assets	\$	364
Investments		30
Property, plant and equipment		4,531
Other intangible assets		178
Regulatory and other non-current assets		274
Current liabilities (excluding current portion of long-term debt)		(367)
Affiliated debt		(1,331)
Debt (current and non-current)		(352)
Other non-current liabilities		(1,278)
Net identifiable assets acquired		<u>2,049</u>
Goodwill		<u>607</u>
Total purchase price	\$	<u>2,656</u>

Goodwill represents value paid for the rate regulated business of KU, which is located in a defined service area with a constructive regulatory environment, which provides for future investment, earnings and cash flow growth, as well as the talented and experienced workforce. KU's franchise values are being attributed to the going concern value of the business, and thus were recorded as goodwill rather than a separately identifiable intangible asset. None of the goodwill recognized is deductible for income tax purposes or included in regulated customer rates.

Adjustments to KU's assets and liabilities that contributed to goodwill were as follows:

The fair value adjustment on the EEI investment was calculated using the discounted cash flow valuation method. The result was an increase in KU's value of the investment in EEI; the fair value of EEI was calculated to be \$30 million and a fair value adjustment of \$18 million was recorded on KU. The fair value adjustment to EEI is amortized over the expected remaining useful life of plant and equipment at EEI, which is estimated to be over 20 years.

The pollution control bonds on KU had a fair value adjustment of \$1 million. All variable bonds were valued at par while the fixed rate bonds were valued with a yield curve based on average credit spreads for similar bonds.

As a result of the purchase accounting associated with the acquisition, the following items had a fair value adjustment but no effect on goodwill as the offset was either a regulatory asset or liability. The regulatory asset or liability has been recorded to eliminate any ratemaking impact of the fair value adjustments:

- The value of OVEC was determined to be \$39 million based upon an announced transaction by another owner. KU's stock was valued at less than \$1 million and the power purchase agreement has been valued at \$39 million. An intangible asset was recorded with the offset to regulatory liability and will be amortized using the units of production method until the power purchase agreement ends in March 2026.
- KU recorded an emission allowance intangible asset and regulatory liability as the result of adjusting the fair value of the emission allowances at KU. The emission allowance intangible of \$9 million represents allocated and purchased SO₂ and NO_x emission allowances that are unused as of the valuation date or allocated for use in future years. KU had previously recorded emission allowances as other materials and supplies. To conform to PPL's accounting policy all emission allowances are now recorded as intangible assets. The emission allowance intangible asset is amortized as the emission allowances are consumed, which is expected to occur through 2040.
- KU recorded a coal contract intangible asset of \$145 million and non-current liability of \$22 million on the Balance Sheets. An offsetting regulatory asset was recorded for those contracts with unfavorable terms relative to market. An offsetting regulatory liability was recorded for those contracts that had favorable terms relative to market. All coal contracts held by KU, wherein it had entered into arrangements to buy amounts of coal at fixed prices from counterparties at a future date, were fair valued. The intangible assets and other liabilities, as well as the regulatory assets and liabilities, are being amortized over the same terms as the related contracts, which expire through 2016.

The fair value of intangible assets and liabilities (e.g. contracts that have favorable or unfavorable terms relative to market), including coal contracts and power purchase agreements, as well as emission allowances, have been reflected on the Balance Sheets with offsetting regulatory assets or liabilities. Prior to the acquisition, KU recovered the cost of the coal contracts, power purchases and emission allowances and this rate treatment will continue after the acquisition. As a result, management believes the regulatory assets and liabilities created to offset the fair value adjustments meet the recognition criteria established by existing accounting guidance and eliminate any ratemaking impact of the fair

value adjustments. KU's customer rates will continue to reflect these items (e.g. coal, purchased power, emission allowances) at their original contracted prices.

KU also considered whether a separate fair value should be assigned to KU's rights to operate within its various electric service areas but concluded that these rights only provided the opportunity to earn a regulated return and barriers to market entry, which in management's judgment is not considered a separately identifiable intangible asset under applicable accounting guidance; rather, it is considered going-concern value, or goodwill.

Note 3 - Rates and Regulatory Matters

The Company is subject to the jurisdiction of the FERC, Kentucky Commission, Virginia Commission and the Tennessee Regulatory Authority in virtually all matters related to electric utility regulation and as such, its accounting is subject to the regulated operations guidance of the FASB ASC. Given its position in the marketplace and the status of regulation in Kentucky and Virginia, there are no plans or intentions to discontinue the application of the regulated operations guidance of the FASB ASC.

KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and notes payable) including certain regulatory adjustments to exclude non-regulated investments and environmental compliance plans recovered separately through the ECR mechanism. No regulatory assets or regulatory liabilities recorded at the time base rates were determined were excluded from the return on capitalization utilized in the calculation of Kentucky base rates. Therefore, a return is earned on all Kentucky regulatory assets existing at the time base rates were determined, except where such regulatory assets were offset by associated liabilities and thus, have no net impact on capitalization.

As a result of purchase accounting, certain fair value amounts, reflecting contracts that have favorable or unfavorable terms relative to market, were recorded on the Balance Sheets with offsetting regulatory assets or liabilities. Prior to the acquisition, KU recovered in customer rates the cost of the coal contracts, power purchases and emission allowances and this rate treatment will continue after the recognition criteria established by existing accounting guidance and eliminate any ratemaking impact of the fair value adjustments. KU's customer rates will continue to reflect these items (e.g. coal, purchased power, emission allowances) at their original contracted prices.

KU's Virginia base rates are calculated based on a return on rate base. All regulatory assets and liabilities are excluded from the return on rate base utilized in the calculation of Virginia base rates.

KU's wholesale requirements rates for municipal customers are calculated based on annual updates to a rate formula that utilizes a return on rate base. All regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates.

2010 Purchase and Sale Agreement with PPL

On April 28, 2010, E.ON U.S. announced that a Purchase and Sale Agreement (the "Agreement") had been entered into among E.ON US Investments Corp., PPL and E.ON.

The transaction was subject to customary closing conditions, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Act, receipt of required regulatory approvals

(including the FERC and state regulators in Kentucky, Virginia and Tennessee) and the absence of injunctions or restraints imposed by governmental entities.

Change of control and financing-related applications were filed on May 28, 2010 with the Kentucky Commission and on June 15, 2010 with the Virginia Commission and the Tennessee Regulatory Authority. An application with the FERC was filed on June 28, 2010. During the second quarter of 2010, a number of parties were granted intervenor status in the Kentucky Commission proceedings and data request filings and responses occurred. Early termination of the Hart-Scott-Rodino waiting period was received on August 2, 2010.

A hearing in the Kentucky Commission proceedings was held on September 8, 2010 at which time a unanimous settlement agreement was presented. In the settlement, KU committed that no base rate increases would take effect before January 1, 2013. The KU rate increases that took effect on August 1, 2010, were not impacted by the settlement. Under the terms of the settlement, KU retains the right to seek approval for the deferral of “extraordinary and uncontrollable costs.” Interim rate adjustments will continue to be permissible during that period for existing fuel, environmental and demand-side management cost trackers. The agreement also substitutes an acquisition savings shared deferral mechanism for the requirement that the Utilities file a synergies plan with the Kentucky Commission. This mechanism, which will be in place until the earlier of five years or the first day of the year in which a base rate increase becomes effective, permits KU to earn up to a 10.75% return on equity. Any earnings above a 10.75% return on equity will be shared with customers on a 50%/50% basis. On September 30, 2010, the Kentucky Commission issued an Order approving the transfer of ownership of KU via the acquisition of E.ON U.S. by PPL, incorporating the terms of the submitted settlement. On October 19, 2010 and October 21, 2010, respectively, Orders approving the acquisition of E.ON U.S. by PPL were received from the Virginia Commission and the Tennessee Regulatory Authority. The Commissions’ Orders contained a number of other commitments with regard to operations, workforce, community involvement and other matters.

In mid-September 2010, KU and other applicants in the FERC change of control proceeding reached an agreement with the protesters, whereby such protests have been withdrawn. The agreement, which was filed for consideration with the FERC, includes various conditional commitments, such as a continuation of certain existing undertakings with protesters in prior cases, an agreement not to terminate certain KU municipal customer contracts prior to January 2017, an exclusion of any transaction-related costs from wholesale energy and tariff customer rates to the extent that KU has agreed not to seek the same transaction-related costs from retail customers and agreements to coordinate with protesters in certain open or ongoing matters. A FERC Order approving the transaction was received on October 26, 2010 and the transaction was completed November 1, 2010.

2010 Kentucky Rate Case

In January 2010, KU filed an application with the Kentucky Commission requesting an increase in electric base rates of approximately 12%, or \$135 million annually. In June 2010, KU and all of the intervenors, except the AG, agreed to stipulations providing for an increase in electric base rates of \$98 million annually and filed a request with the Kentucky Commission to approve such settlement. An Order in the proceeding was issued in July 2010, approving all the provisions in the stipulations, including a return on equity range of 9.75 – 10.75%. The new rates became effective on August 1, 2010.

Virginia Rate Case

In June 2009, KU filed an application with the Virginia Commission requesting an increase in electric base rates for its Virginia jurisdictional customers in an amount of \$12 million annually or approximately 21%. The proposed increase reflected a proposed rate of return on rate base of 8.586% based on a return on equity of 12%. During December 2009, KU and the Virginia Commission Staff agreed to a Stipulation and Recommendation authorizing base rate revenue increases of \$11 million annually and a return on rate base of 7.846% based on a 10.5% return on common equity. In March 2010, the Virginia Commission issued an Order approving the stipulation, with the increased rates to be put into effect as of April 1, 2010. As part of the stipulation, KU refunded \$1 million in interim rate amounts in excess of the ultimate approved rates.

FERC Wholesale Rate Case

In September 2008, KU filed an application with the FERC for increases in electric base rates applicable to wholesale power sales contracts or interchange agreements involving, collectively, twelve Kentucky municipalities. The application requested a shift from an all-in stated unit charge rate to an unbundled formula rate, including an annual adjustment mechanism. In 2009, the FERC issued an Order approving a settlement among the parties in the case, incorporating increases of approximately 3% from prior rates and a return on equity of 11%. In May 2010, KU submitted to the FERC the proposed current annual adjustments to the formula rates which incorporated certain proposed increases. Updated rates, including certain further adjustments from a review process involving wholesale requirements customers, became effective as of July 1, 2010, subject to certain review procedures by the wholesale requirements customers and the FERC.

By mutual agreement, the parties' settlement of the 2008 application left outstanding the issue of whether KU must allocate to the municipal customers a portion of renewable resources it may be required to procure on behalf of its retail ratepayers. An Order was issued by the FERC in July 2010, indicating that KU is not required to allocate a portion of any renewable resources to the twelve municipalities, thus resolving the remaining issue.

2008 Kentucky Rate Case

In July 2008, KU filed an application with the Kentucky Commission requesting an increase in electric base rates. In January 2009, KU, the AG, the KIUC and all other parties to the rate case filed a settlement agreement with the Kentucky Commission, under which KU's electric base rates decreased by \$9 million annually. An Order approving the settlement agreement was received in February 2009. The new rates were implemented effective February 6, 2009.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities were included in the Balance Sheets as of December 31:

	Successor 2010	Predecessor 2009
Current regulatory assets:		
ECR (a)	\$ -	\$ 28
FAC (a)	-	1
Coal contracts (b)	4	-
MISO exit (c)	-	2
Other (d)	5	1
Total current regulatory assets	<u>\$ 9</u>	<u>\$ 32</u>
Non-current regulatory assets:		
Pension and postretirement benefits (e)	\$ 117	\$ 105
Other non-current regulatory assets:		
Storm restoration (c)	57	59
ARO (f)	2	30
Unamortized loss on bonds (c)	12	12
Coal contracts (b)	14	-
MISO exit (a)	5	9
Unamortized debt expense	5	-
Other (d)	10	7
Subtotal other non-current regulatory assets	<u>105</u>	<u>117</u>
Total non-current regulatory assets	<u>\$ 222</u>	<u>\$ 222</u>
Current regulatory liabilities:		
Coal contracts	\$ 16	\$ -
ECR	12	-
FAC	2	-
DSM	5	3
Emission allowances	6	-
Other (g)	-	1
Total current regulatory liabilities	<u>\$ 41</u>	<u>\$ 4</u>
Non-current regulatory liabilities:		
Accumulated cost of removal of utility plant	\$ 348	\$ 335
Other non-current regulatory liabilities:		
Coal contracts	126	-
OVEC power purchase contract	38	-
Deferred income taxes – net	6	9
Postretirement benefits	10	9
Other (g)	6	7
Subtotal other non-current regulatory liabilities	<u>186</u>	<u>25</u>
Total non-current regulatory liabilities	<u>\$ 534</u>	<u>\$ 360</u>

- (a) The FAC and ECR regulatory assets have separate recovery mechanisms with recovery within twelve months.
- (b) Offsetting regulatory asset for fair value purchase accounting adjustments. See Note 2, Acquisition by PPL, for information on the purchase accounting adjustments.
- (c) These regulatory assets are recovered through base rates.
- (d) Other regulatory assets include:
 - The CMRG and KCCS contributions, an EKPC FERC transmission settlement agreement and rate case expenses, which are recovered through base rates.
 - The FERC jurisdictional portion of the EKPC FERC transmission settlement agreement included in current and non-current regulatory assets, recovered through the application of the annual OATT formula rate updates.
 - FERC jurisdictional pension expense, which will be requested in a future FERC rate case.
 - Offsetting regulatory asset for fair value purchase accounting adjustment for leases. See Note 2, Acquisition by PPL, for information on the purchase accounting adjustments.
 - The Virginia levelized fuel factor, which is a separate recovery mechanism with recovery within twelve months.
- (e) KU generally recovers this asset through pension expense included in the calculation of base rates.
- (f) When an asset with an ARO is retired, the related ARO regulatory asset will be offset against the associated ARO regulatory liability, ARO asset and ARO liability.
- (g) Other regulatory liabilities includes the emission allowance purchase accounting offset, MISO exit and a change in accounting method for FERC jurisdictional spare parts.

ECR

KU recovers the costs of complying with the Federal Clean Air Act pursuant to Kentucky Revised Statute 278-183 as amended and those federal, state or local environmental requirements which apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal, through the ECR mechanism. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

The Kentucky Commission requires reviews of the past operations of the environmental surcharge for six-month and two-year billing periods to evaluate the related charges, credits and rates of return, as well as to provide for the roll-in of ECR amounts to base rates each two-year period. In December 2010, the Kentucky Commission initiated a six-month review of the Utilities' environmental surcharge for the billing period ending October 2010. An order is expected in the second quarter of 2011. Also, in December 2010, an Order was issued approving the charges and credits billed through the ECR during the six-month period ending April 2010, as well as approving billing adjustments for under-recovered costs and the rate of return on capital. In May 2010, an Order was issued approving the amounts billed through the ECR during the six-month period ending October 2009, and the rate of return on capital and allowing recovery of the under-recovery position in subsequent monthly filings. In December 2009, an Order was issued approving the charges and credits billed through the ECR during the two-year period ending April 2009, an increase in the jurisdictional revenue requirement, a base rate roll-in and a revised rate of return on capital. In July 2009, an Order was issued approving the charges and credits billed through the ECR during the six-month period ending October 2008, as well as approving billing adjustments for under-recovered costs and the rate of return on capital. In August 2008, an Order was issued approving the charges and credits billed through the ECR during the six-month periods ending April

2008 and October 2007, and the rate of return on capital. In March 2008, an Order was issued approving the charges and credits billed through the ECR during the six-month and two-year periods ending October 2006 and April 2007, respectively, as well as approving billing adjustments, roll-in adjustments to base rates, revisions to the monthly surcharge filing and the rates of return on capital.

In June 2009, the Company filed an application for a new ECR plan with the Kentucky Commission seeking approval to recover investments in environmental upgrades and operations and maintenance costs at the Company's generating facilities. During 2009, KU reached a unanimous settlement with all parties to the case and the Kentucky Commission issued an Order approving KU's application. Recovery on customer bills through the monthly ECR surcharge for these projects began with the February 2010 billing cycle. At December 31, 2009, the Company had a regulatory asset of \$28 million, which changed to a regulatory liability in the first quarter of 2010, as a result of these roll-in adjustments to base rates. At December 31, 2010, the regulatory liability balance was \$12 million.

In February 2009, the Kentucky Commission approved a settlement agreement in the rate case which provides for an authorized return on equity applicable to the ECR mechanism of 10.63% effective with the February 2009 expense month filing, which represents a slight increase over the previously authorized 10.50%. The 10.63% return on equity for the ECR mechanism was affirmed in the 2010 rate case.

FAC

KU's retail rates contain an FAC, whereby increases and decreases in the cost of fuel for generation are reflected in the rates charged to retail customers. The FAC allows the Company to adjust billed amounts for the difference between the fuel cost component of base rates and the actual fuel cost, including transportation costs. Refunds to customers occur if the actual costs are below the embedded cost component. Additional charges to customers occur if the actual costs exceed the embedded cost component. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

The Kentucky Commission requires public hearings at six-month intervals to examine past fuel adjustments and at two-year intervals to review past operations of the fuel clause and transfer of the then current fuel adjustment charge or credit to the base charges. In December 2010, May 2010, November 2009, January 2009, June 2008 and January 2008, the Kentucky Commission issued Orders approving the charges and credits billed through the FAC for the six-month periods ending April 2010, August 2009, April 2009, April 2008, October 2007 and April 2007, respectively. In January 2009 the Kentucky Commission initiated routine examinations of the FAC for the two-year periods November 1, 2006 through October 31, 2008. The Kentucky Commission issued an Order in June 2009 approving the charges and credits billed through the FAC during the review periods.

KU also employs an FAC mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the coming year plus an adjustment for any over- or under-recovery of fuel expenses from the prior year. At December 31, 2010 and 2009, KU had a regulatory asset of \$5 million and less than \$1 million, respectively.

In February 2010, KU filed an application with the Virginia Commission seeking approval of a decrease in its fuel cost factor beginning with service rendered in April 2010. An Order was issued in April 2010, resulting in an agreed upon decrease of 23% from the fuel factor in effect for April 2009 through March 2010.

In February 2009, KU filed an application with the Virginia Commission seeking approval of a 29% increase in its fuel cost factor beginning with service rendered in April 2009. In February 2009, the Virginia Commission issued an Order allowing the requested change to become effective on an interim basis. The Virginia Staff testimony filed in April 2009 recommended a slight decrease in the factor filed by KU. The Company indicated the Virginia Staff proposal was acceptable. A hearing was held in May 2009, with general resolution of remaining issues. In May 2009, the Virginia Commission issued an Order approving the revised fuel factor, representing an increase of 24%, effective May 2009.

In February 2008, KU filed an application with the Virginia Commission seeking approval of a decrease in its fuel cost factor applicable during the billing period, April 2008 through March 2009. The Virginia Commission allowed the new rates to be in effect for the April 2008 customer billings. In April 2008, the Virginia Commission Staff recommended a change to the fuel factor KU filed in its application, to which KU agreed. Following a public hearing and an Order in May 2008, the recommended change became effective in June 2008, resulting in a decrease of 0.482 cents/kWh from the factor in effect for the April 2007 through March 2008 period.

Coal Contracts

In November 2010, purchase accounting adjustments were recorded for the fair value of KU's coal contracts. Offsetting regulatory asset or liability for fair value purchase accounting adjustments eliminate any ratemaking impact of the fair value adjustments.

MISO

Following receipt of applicable FERC, Kentucky Commission and other regulatory Orders, related to proceedings that had been underway since July 2003, KU withdrew from the MISO effective September 1, 2006. Since the exit from the MISO, KU has been operating under a FERC approved OATT. KU now contracts with the TVA to act as its transmission reliability coordinator and SPP to function as its independent transmission operator, pursuant to FERC requirements. The contractual obligations with the TVA extend through August 2011 and with SPP through August 2012.

KU and the MISO agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, the Company paid \$20 million to the MISO and made related FERC compliance filings. The Company's payment of this exit fee was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. KU and the MISO resolved their dispute regarding the calculation of the exit fee and, in November 2007, filed an application with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties' recalculation of the exit fee and the approved agreement providing KU with recovery of \$4 million, of which \$1 million was immediately recovered in 2008, with the remainder to be recovered over the seven years from 2008 through 2014 for credits realized from other payments the MISO will receive, plus interest.

In accordance with Kentucky Commission Orders approving the MISO exit, KU established a regulatory asset for the MISO exit fee, net of former MISO administrative charges collected via base rates through the base rate case test year ended April 30, 2008. The net MISO exit fee is subject to adjustment for possible future MISO credits and a regulatory liability for certain revenues associated with former MISO administrative charges, which were collected via base rates until February 6, 2009. The approved 2008 base rate case settlement provided for MISO administrative charges collected through base rates from May 1, 2008 to February 6, 2009, and any future adjustments to the MISO exit fee, to be established as a regulatory liability until the amounts can be amortized in future base rate cases. This regulatory liability balance as of October 31, 2009, was included in the base rate case application filed on January 29, 2010. MISO exit fee credit amounts subsequent to October 31, 2009, will continue to accumulate as a regulatory liability until they can be amortized in future base rate cases.

In November 2008, the FERC issued Orders in industry-wide proceedings relating to MISO RSG calculation and resettlement procedures. RSG charges are amounts assessed to various participants active in the MISO trading market which generally seek to compensate for uneconomic generation dispatch due to regional transmission or power market operational considerations, with some customer classes eligible for payments, while others may bear charges. The FERC Orders approved two requests for significantly altered formulas and principles, each of which the FERC applied differently to calculate RSG charges for various historical and future periods. Based upon the 2008 FERC Orders, the Company established a reserve during the fourth quarter of 2008 of less than \$1 million relating to potential RSG resettlement costs for the period ended December 31, 2008. However, in May 2009, after a portion of the resettlement payments had been made, the FERC issued an Order on the requests for rehearing on one November 2008 Order which changed the effective date and reduced almost all of the previously accrued RSG resettlement costs. Therefore, these costs were reversed and a receivable was established for amounts already paid of less than \$1 million. The MISO began refunding the amounts to the Company in June 2009 with full repayment by September 2009. In June 2009, the FERC issued an Order in the rate mismatch RSG proceeding, stating it will not require resettlements of the rate mismatch calculation from April 1, 2005 to November 4, 2007. An accrual had previously been recorded in 2008 for the rate mismatch issue for the time period April 25, 2006 to August 9, 2007, but no accrual had been recorded for the time period November 5, 2007 to November 9, 2008 based on the prior Order. Accordingly, the accrual for the former time period was reversed and an accrual for the latter time period was recorded in June 2009, with a net effect of \$1 million of expense, substantially all of which was paid by September 2009.

In August 2009, the FERC determined that the MISO had failed to demonstrate that its proposed exemptions to real-time RSG charges were just and reasonable. In November 2009, the MISO made a compliance filing incorporating the rulings of the FERC Orders and a related task force, with a primary open issue being whether certain of the tariff changes are applied prospectively only or retroactively to approximately January 6, 2009.

In November 2009, the Utilities filed an application with the FERC to approve certain independent transmission operator arrangements to be effective upon the expiration of their current contract with SPP in September 2010. The application sought authority for KU and LG&E to function after such date as the administrators of their own OATT for most purposes. However, due to the lack of FERC approval for such an approach and the approaching expiration of the SPP contract, the Utilities determined the approach was no longer reasonably achievable without unacceptable delay and uncertainty. In July 2010, the Utilities entered into a new agreement with SPP to provide independent transmission operator

services for a specified, limited time and removed its application for authority of administering its own OATT. The TVA, which currently acts as reliability coordinator, has also been retained under the existing service contract. The new agreement extends TVA services to August 2011 with no alterations or changes to the party's duties or responsibilities.

In August 2010, the FERC issued three Orders accepting most facets of several MISO RSG compliance filings. The FERC ordered the MISO to issue refunds for RSG charges that were imposed by the MISO on the assumption that there were rate mismatches for the period beginning November 5, 2007 through the present. There is no financial statement impact to the Company from this Order, as the MISO had anticipated that the FERC would require these refunds and had preemptively included them in the resettlements paid in 2009. The FERC denied the MISO's proposal to exempt certain resources from RSG charges, effective prospectively. The FERC accepted portions and rejected portions of the MISO's proposed RSG rate Redesign Proposal, which will be effective when the software is ready for implementation subject to further compliance filings. The impact of the Redesign Proposal on the Company cannot be estimated at this time.

Pension and Postretirement Benefits

KU accounts for pension and postretirement benefits in accordance with the compensation – retirement benefits guidance of the FASB ASC. This guidance requires employers to recognize the over-funded or under-funded status of a defined benefit pension and postretirement plan as an asset or liability on the Balance Sheets and to recognize through other comprehensive income the changes in the funded status in the year in which the changes occur. Under the regulated operations guidance of the FASB ASC, KU can defer recoverable costs that would otherwise be charged to expense or equity by non-regulated entities. Current rate recovery in Kentucky and Virginia is based on the compensation – retirement benefits guidance of the FASB ASC. Regulators have been clear and consistent with their historical treatment of such rate recovery; therefore, the Company has recorded a regulatory asset representing the change in funded status of its pension plan that is expected to be recovered and a regulatory liability representing the change in funded status of its postretirement benefit plan. The regulatory asset and liability will be adjusted annually as prior service cost and actuarial gains and losses are recognized in net periodic benefit cost.

Storm Restoration

In January 2009, a significant ice storm passed through KU's service area causing approximately 199,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 44,000 customer outages. An application was filed with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset and defer for future recovery approximately \$62 million in incremental operation and maintenance expenses related to the storm restoration. In September 2009, the Kentucky Commission issued an Order allowing the establishment of a regulatory asset of up to \$62 million based on actual costs for storm damages and service restoration due to the January and February 2009 storms. In September 2009, a regulatory asset of \$57 million was established for actual costs incurred and approval was received in KU's 2010 base rate case to recover this asset over a ten year period beginning August 1, 2010.

In September 2008, high winds from the remnants of Hurricane Ike passed through the service area causing significant outages and system damage. In October 2008, an application was filed with the

Kentucky Commission requesting approval to establish regulatory assets and defer for future recovery approximately \$3 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the establishment a regulatory asset of up to \$3 million based on actual costs for storm damages and service restoration due to Hurricane Ike. In December 2008, a regulatory asset of \$2 million was established for actual costs incurred and KU received approval in its 2010 base rate case to recover this asset over a ten year period, beginning August 1, 2010.

Unamortized Loss on Bonds

The costs of early extinguishment of debt, including call premiums, legal and other expenses, and any unamortized balance of debt expense are amortized using the straight-line method, which approximates the effective interest method, over the life of either the replacement debt (in the case of refinancing) or the original life of the extinguished debt.

CMRG and KCCS Contributions

In July 2008, KU and LG&E, along with Duke Energy Kentucky, Inc. and Kentucky Power Company, filed an application with the Kentucky Commission requesting approval to establish regulatory assets related to contributions to the CMRG for the development of technologies for reducing carbon dioxide emissions and the KCCS to study the feasibility of geologic storage of carbon dioxide. The filing companies proposed that these contributions be treated as regulatory assets to be deferred until recovery is provided in the next base rate case of each company, at which time the regulatory assets will be amortized over the life of each project: four years with respect to the KCCS and ten years with respect to the CMRG. KU and LG&E jointly agreed to provide \$2 million over two years to the KCCS and up to \$2 million over ten years to the CMRG. In October 2008, an Order approving the establishment of the requested regulatory assets was received. KU received approval from the Kentucky Commission in the Company's 2010 Kentucky base rate case to recover these regulatory assets over the requested period beginning August 1, 2010.

Rate Case Expenses

KU incurred \$1 million in expenses related to the development and support of the 2008 Kentucky base rate case. The Kentucky Commission approved the establishment of a regulatory asset for these expenses and authorized amortization over three years beginning in March 2009.

KU incurred \$2 million in expenses related to the development and support of the 2010 Kentucky base rate case. The Kentucky Commission approved the establishment of a regulatory asset for these expenses and authorized amortization over three years beginning in August 2010.

FERC Jurisdictional Pension Costs

Other regulatory assets include pension costs of \$5 million incurred by the Company and allocated to its FERC jurisdictional ratepayers. The Company will seek recovery of this asset in the next FERC rate proceeding.

Deferred Storm Costs

Based on an Order from the Kentucky Commission in June 2004, KU reclassified from maintenance expense to a regulatory asset \$4 million related to costs not reimbursed from the 2003 ice storm. These costs were amortized through June 2009. KU earned a return of these amortized costs, which were included in jurisdictional operating expenses.

DSM

DSM consists of energy efficiency programs which are intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information to become better managers of their energy usage and prepare for potential future legislation governing energy efficiency. KU's rates contain a DSM provision which includes a rate mechanism that provides for concurrent recovery of DSM costs and provides an incentive for implementing DSM programs. The provision allows KU to recover revenues from lost sales associated with the DSM programs based on program plan engineering estimates and post-implementation evaluations.

In July 2007, KU and LG&E filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs. The total annual budget for these programs is approximately \$26 million. In March 2008, the Kentucky Commission issued an Order approving the application, with minor modifications. KU and LG&E filed revised tariffs in April 2008, under authority of this Order, which were effective in May 2008.

Emission Allowances

In November 2010, purchase accounting adjustments were recorded for the fair market value of KU's SO₂, NO_x ozone season and NO_x annual emission allowances. Offsetting regulatory assets or liabilities for fair value purchase accounting adjustments eliminate any ratemaking impact of the fair value adjustments. KU is granted SO₂ emission allowances through 2040 and NO_x ozone season and NO_x annual emission allowances through 2011.

Accumulated Cost of Removal of Utility Plant

As of December 31, 2010 and 2009, KU segregated the cost of removal, previously embedded in accumulated depreciation, of \$348 million and \$335 million, respectively, in accordance with FERC Order No. 631. For reporting purposes on the Balance Sheets, KU presented this cost of removal as a "Regulatory liability" pursuant to the regulated operations guidance of the FASB ASC.

OVEC Power Purchase Contract

In November 2010, purchase accounting adjustments were recorded for the fair value of the power purchase agreement between KU and OVEC. Offsetting regulatory liability for fair value purchase accounting adjustment eliminate any ratemaking impact of the fair value adjustments.

Deferred Income Taxes – Net

These regulatory liabilities represent the future revenue impact from the reversal of deferred income taxes required for unamortized investment tax credits, the allowance for funds used during construction and deferred taxes provided at rates in excess of currently enacted rates.

Other Regulatory Matters

Kentucky Commission Report on Storms

In November 2009, the Kentucky Commission issued a report following review and analysis of the effects and utility response to the September 2008 wind storm and the January 2009 ice storm and possible utility industry preventative measures relating thereto. The report suggested a number of proposed or recommended preventative or responsive measures, including consideration of selective hardening of facilities, altered vegetation management programs, enhanced customer outage communications and similar measures. In March 2010, the Utilities filed a joint response reporting on their actions with respect to such recommendations. The response indicated implementation or completion of substantially all of the recommendations, including, among other matters, on-going reviews of system hardening and vegetation management procedures, certain test or pilot programs in such areas and fielding of enhanced operational and customer outage-related systems.

Wind Power Agreements

In August 2009, KU and LG&E filed a notice of intent with the Kentucky Commission indicating their intent to file an application for approval of wind power purchase contracts and cost recovery mechanisms. The contracts were executed in August 2009 and were contingent upon KU and LG&E receiving acceptable regulatory approvals. Pursuant to the proposed 20-year contracts, KU and LG&E would jointly purchase respective assigned portions of the output of two Illinois wind farms totaling an aggregate 109.5 Mw. In September 2009, the Utilities filed an application and supporting testimony with the Kentucky Commission. In October 2009, the Kentucky Commission issued an Order denying the Utilities' request to establish a surcharge for recovery of the costs of purchasing wind power. The Kentucky Commission stated that such recovery constitutes a general rate adjustment and is subject to the regulations of a base rate case. The Kentucky Commission Order provided for the request for approval of the wind power agreements to proceed independently from the request to recover the costs thereof via surcharges. In November 2009, KU and LG&E filed for rehearing of the Kentucky Commission's Order and requested that the matters of approval of the contract and recovery of the costs thereof remain the subject of the same proceeding. During December 2009, the Kentucky Commission issued data requests on this matter. In March 2010, the Utilities delivered notices of termination under provisions of the wind power contracts. The Utilities also filed a motion with the Kentucky Commission noting the termination of the contracts and seeking withdrawal of their application in the related regulatory proceeding. In April 2010, the Kentucky Commission issued an Order allowing the Utilities to withdraw their pending application.

Trimble County Asset Purchase and Depreciation

In July 2009, the Utilities notified the Kentucky Commission of the proposed sale from the Utilities of certain ownership interests in certain existing Trimble County generating station assets which were

anticipated to provide joint or common use in support of the jointly-owned TC2 generating unit under construction at the station. The undivided ownership interests sold provide KU an ownership interest in these common assets proportional to its interest in TC2 and the assets' role in supporting both TC1 and TC2. In December 2009, the Utilities completed the sale transaction at a price of \$48 million, representing the current net book value of the assets multiplied by the proportional interest being sold.

In August 2009, the Utilities jointly filed an application with the Kentucky Commission to approve new depreciation rates for applicable jointly-owned TC2-related generating, pollution control and other plant equipment and assets. During December 2009, the Kentucky Commission extended the data discovery process through January 2010 and authorized the Utilities on an interim basis to begin using the depreciation rates for TC2 as proposed in the application. In March 2010, the Kentucky Commission issued a final Order approving the use of the proposed depreciation rates on a permanent basis.

TC2 CCN Application and Transmission Matters

An application for a CCN for construction of TC2 was approved by the Kentucky Commission in November 2005. CCNs for two transmission lines associated with TC2 were issued by the Kentucky Commission in September 2005 and May 2006. All regulatory approvals and rights of way for one transmission line have been obtained.

KU's and LG&E's CCN for a transmission line associated with the TC2 construction has been challenged by certain property owners in Hardin County, Kentucky. Certain proceedings relating to CCN challenging and federal historic preservation permit requirements have concluded with outcomes in the Utilities' favor.

Completion of the transmission lines are also subject to standard construction permit, environmental authorization and real property or easement acquisition procedures. Certain Hardin County landowners have raised challenges to the transmission line in some of these forums as well.

With respect to the remaining on-going dispute, KU obtained various successful rulings during 2008 at the Hardin County Circuit Court confirming its condemnation rights. In August 2008, several landowners appealed such rulings to the Kentucky Court of Appeals and received a temporary stay preventing KU from accessing their properties. In May 2010, the Kentucky Court of Appeals issued an Order affirming the Hardin Circuit Court's finding that KU had the right to condemn easements on the properties. In May 2010, the landowners filed a petition for reconsideration with the Court of Appeals. In July 2010, the Court of Appeals denied that petition. In August, 2010, the landowners filed for discretionary review of that denial by the Kentucky Supreme Court.

Settlement discussions with the Hardin County property owners involved in the appeals of the condemnation proceedings have been unsuccessful to date. During the fourth quarter of 2008, KU and LG&E entered into settlements with certain Meade County landowners and obtained dismissals of prior litigation they brought challenging the same transmission line.

As a result of the aforementioned unresolved litigation delays encountered in obtaining access to certain properties in Hardin County, KU obtained easements to allow construction of temporary transmission facilities, bypassing those properties while the litigated issues are resolved. In September 2009, the Kentucky Commission issued an Order stating that a CCN was necessary for two segments of the

proposed temporary facilities. In December 2009, the Kentucky Commission granted the CCNs for the relevant segments and the property owners have filed various motions to intervene, stay and appeal certain elements of the Kentucky Commission's recent orders. In January 2010, in respect of two of such proceedings, the Franklin County circuit court issued Orders denying the property owners' request for a stay of construction and upholding the prior Kentucky Commission denial of their intervenor status.

Consistent with the regulatory authorizations and the favorable outcome of the legal proceedings, the Utilities completed construction activities on the permanent transmission line easements. During 2010, the Utilities placed the transmission line into operation. While the Utilities are not currently able to predict the ultimate outcome and possible financial effects of the remaining legal proceedings, the Utilities do not believe the matter involves relevant or continuing risks to operations.

Utility Competition in Virginia

The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave customers the ability to choose their electric supplier and capped electric rates through December 2010. KU subsequently received a legislative exemption from the customer choice requirements of this law. In April 2007, however, the Virginia General Assembly amended the Virginia Electric Utility Restructuring Act, thereby terminating this competitive market and commencing re-regulation of utility rates. The new act ended the cap on rates at the end of 2008. Pursuant to this legislation, the Virginia Commission adopted regulations revising the rules governing utility rate increase applications. As of January 2009, a hybrid model of regulation is being applied in Virginia. Under this model, utility rates are reviewed every two years. KU's exemption from the requirements of the Virginia Electric Utility Restructuring Act in 1999, however, discharges the Company from the requirements of the new hybrid model of regulation. In lieu of submitting an annual information filing, the Company has the option of requesting a change in base rates to recover prudently incurred costs by filing a traditional base rate case. KU is also subject to other utility regulations in Virginia, including, but not limited to, the recovery of prudently incurred fuel costs through an annual fuel factor charge and the submission of integrated resource plans.

Market-Based Rate Authority

In July 2006, the FERC issued an Order in KU's market-based rate proceeding accepting the Company's further proposal to address certain market power issues the FERC claimed would arise upon an exit from the MISO. In particular, the Company received permission to sell power at market-based rates at the interface of balancing areas in which it may be deemed to have market power, subject to a restriction that such power will not be collusively re-sold back into such balancing areas. However, restrictions exist on sales by KU of power at market-based rates in the KU and LG&E and Big Rivers Electric Company balancing areas. In June 2007, the FERC issued Order No. 697 implementing certain reforms to market-based rate regulations, including restrictions similar to those previously in place for the Company's power sales at balancing area interfaces. In December 2008, the FERC issued Order No. 697-B potentially placing additional restrictions on certain power sales involving areas where market power is deemed to exist. As a condition of receiving and retaining market-based rate authority, KU must comply with applicable affiliate restrictions set forth in the FERC regulation. During September 2008, the Company submitted a regular triennial update filing under market-based rate regulations.

In June 2009, the FERC issued Order No. 697-C which generally clarified certain interpretations relating to power sales and purchases at balancing area interfaces or into balancing areas involving market power. In July 2009, the FERC issued an Order approving the Company's September 2008 application for market-based rate authority. During July 2009, affiliates of KU completed a transaction terminating certain prior generation and power marketing activities in the Big Rivers Electric Company balancing area, which termination should ultimately allow a filing to request a determination that the Company no longer is deemed to have market power in such balancing area.

KU conducts certain of its wholesale power sales activities in accordance with existing market-based rate authority principles and interpretations. Future FERC proceedings relating to Orders 697 or market-based rate authority could alter the amount of sales made at market-based versus cost-based rates. The Company's sales under market-based rate authority totaled less than \$1 million for the year ended December 31, 2010.

Mandatory Reliability Standards

As a result of the EPCRA 2005, certain formerly voluntary reliability standards became mandatory in June 2007 and authority was delegated to various Regional Reliability Organizations ("RROs") by the NERC, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to \$1 million per day, as well as non-monetary penalties, depending upon the circumstances of the violation. The Utilities are members of the SERC, which acts as KU's and LG&E's RRO. During December 2009 and April, July and August 2010, the Utilities submitted ten self-reports relating to various standards, which self-reports remain in the early stages of RRO review, and therefore, the Utilities are unable to estimate the outcome of these matters. Mandatory reliability standard settlements commonly also include non-penalty elements, including compliance steps and mitigation plans. Settlements with SERC proceed to NERC and FERC review before becoming final. While the Utilities believe they are in compliance with the mandatory reliability standards, events of potential non-compliance may be identified from time-to-time. The Utilities cannot predict such potential violations or the outcome of self-reports described above.

Integrated Resource Planning

Integrated resource planning ("IRP") regulations in Kentucky require major utilities to make triennial IRP filings with the Kentucky Commission. In April 2008, KU and LG&E filed their 2008 joint IRP with the Kentucky Commission. The IRP provides historical and projected demand, resource and financial data and other operating performance and system information. The Kentucky Commission issued a staff report and Order closing this proceeding in December 2009. Pursuant to the Virginia Commission's December 2008 Order, KU filed its IRP in July 2009. The filing consisted of the 2008 Joint IRP filed by KU and LG&E with the Kentucky Commission along with additional data. The Virginia Commission has not established a procedural schedule for this proceeding. KU expects to file their next IRP in April 2011.

PUHCA 2005

PPL, KU's ultimate parent, is a holding company under PUHCA 2005. PPL, its utility subsidiaries, including KU, and certain of its non-utility subsidiaries, are subject to extensive regulation by the FERC

with respect to numerous matters, including electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. KU believes that it has adequate authority, including financing authority, under existing FERC Orders and regulations to conduct its business and will seek additional authorization when necessary.

EPAAct 2005

The EPAAct 2005 was enacted in August 2005. Among other matters, this comprehensive legislation contains provisions mandating improved electric reliability standards and performance; granting enhanced civil penalty authority to the FERC; providing economic and other incentives relating to transmission, pollution control and renewable generation assets; increasing funding for clean coal generation incentives; repealing the Public Utility Holding Company Act of 1935; enacting PUHCA 2005; and expanding FERC jurisdiction over public utility holding companies and related matters via the Federal Power Act and PUHCA 2005.

In February 2006, the Kentucky Commission initiated an administrative proceeding to consider the requirements of the EPAAct 2005, Subtitle E Section 1252, Smart Metering, which concerns time-based metering and demand response, and Section 1254, Interconnections. EPAAct 2005 requires each state regulatory authority to conduct a formal investigation and issue a decision on whether or not it is appropriate to implement certain Section 1252 standards within eighteen months after the enactment of EPAAct 2005 and to commence consideration of Section 1254 standards within one year after the enactment of EPAAct 2005. Following a public hearing with all Kentucky jurisdictional electric utilities, in December 2006, the Kentucky Commission issued an Order in this proceeding indicating that the EPAAct 2005 Section 1252 and Section 1254 standards should not be adopted. However, all five Kentucky Commission jurisdictional utilities were required to file real-time pricing pilot programs for their large commercial and industrial customers. KU developed a real-time pricing pilot program for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by KU for implementation within approximately eight months. The tariff was filed in October 2008, with an effective date of December 1, 2008. KU files annual reports on the program within 90 days of each plan year end for the three-year pilot period.

Green Energy Riders

In February 2007, KU and LG&E filed a Joint Application and Testimony for Proposed Green Energy Riders. In May 2007, a Kentucky Commission Order was issued authorizing KU to establish Small and Large Green Energy Riders, allowing customers to contribute funds to be used for the purchase of renewable energy credits. During November 2009, KU and LG&E filed an application to both continue and modify the existing Green Energy Programs. In February 2010, the Kentucky Commission approved the Utilities' application, as filed.

Home Energy Assistance Program

In July 2007, KU filed an application with the Kentucky Commission for the establishment of a Home Energy Assistance program. During September 2007, the Kentucky Commission approved the five-year

program as filed, effective in October 2007. The programs were scheduled to terminate in September 2012 and is funded through a \$0.10 per month meter charge. Effective February 6, 2009, as a result of the settlement agreement in the 2008 base rate case, the program is funded through a \$0.15 per month meter charge. As a condition in the settlement in the change of control proceeding before the Kentucky Commission in the PPL acquisition, the program was extended to September 2015.

Collection Cycle Revision

As part of its base rate case filed on July 29, 2008, LG&E proposed to change the due date for customer bill payments from 15 days to 10 days to align its collection cycle with KU. In addition, in its rate case filed on July 29, 2008, KU proposed to include a late payment charge if payment is not received within 15 days from the bill issuance date to align with LG&E. The settlement agreements approved in the rate cases in February 2009 changed the due date for customer bill payments to 12 days after bill issuance for both KU and LG&E and permitted KU's implementation of a late payment charge if payment is not received within 15 days from the bill issuance date.

Depreciation Study

In December 2007, KU filed a depreciation study with the Kentucky Commission as required by a previous Order. In August 2008, the Kentucky Commission issued an Order consolidating the depreciation study with the base rate case proceeding. The approved settlement agreements in the rate cases established new depreciation rates effective February 2009. KU also filed the depreciation study with the Virginia Commission which approved the implementation of the new depreciation rates effective February 2009. Approval by the Virginia Commission does not preclude the rates from being raised as an issue by any party in KU's future base rate cases in Virginia.

Brownfield Development Rider Tariff

In March 2008, KU received Kentucky Commission approval for a Brownfield Development Rider, which offers a discounted rate to electric customers who meet certain usage and location requirements, including taking new service at a Brownfield site, as certified by the appropriate Kentucky state agency. The rider permits special contracts with such customers which provide for a series of declining partial rate discounts over an initial five-year period of a longer service arrangement. The tariff is intended to promote local economic redevelopment and efficient usage of utility resources by aiding potential reuse of vacant Brownfield sites.

Interconnection and Net Metering Guidelines

In May 2008, the Kentucky Commission on its own motion initiated a proceeding to establish interconnection and net metering guidelines in accordance with amendments to existing statutory requirements for net metering of electricity. The jurisdictional electric utilities and intervenors in this case presented proposed interconnection guidelines to the Kentucky Commission in October 2008. In a January 2009 Order, the Kentucky Commission issued the Interconnection and Net Metering Guidelines – Kentucky that were developed by all parties to the proceeding. KU does not expect any financial or other impact as a result of this Order. In April 2009, KU filed revised net metering tariffs and application forms pursuant to the Kentucky Commission's Order. The Kentucky Commission issued an Order in April 2009, which suspended for five months all net metering tariffs filed by the jurisdictional

electric utilities. This suspension was intended to allow sufficient time for review of the filed tariffs by the Kentucky Commission Staff and intervening parties. In June 2009, the Kentucky Commission Staff held an informal conference with the parties to discuss issues related to the net metering tariffs filed by KU. Following this conference, the intervenors and KU resolved all issues and KU filed revised net metering tariffs with the Kentucky Commission. In August 2009, the Kentucky Commission issued an Order approving the revised tariffs.

EISA 2007 Standards

In November 2008, the Kentucky Commission initiated an administrative proceeding to consider new standards as a result of the Energy Independence and Security Act of 2007 (“EISA 2007”), part of which amends the Public Utility Regulatory Policies Act of 1978 (“PURPA”). There are four new PURPA standards and one non-PURPA standard applicable to electric utilities. The proceeding also considers two new PURPA standards applicable to natural gas utilities. EISA 2007 requires state regulatory commissions and non-regulated utilities to begin consideration of the rate design and smart grid investments no later than December 19, 2008 and to complete the consideration by December 19, 2009. The Kentucky Commission established a procedural schedule that allowed for data discovery and testimony through July 2009. In October 2009, the Kentucky Commission held an informal conference for the purpose of discussing issues related to the standard regarding the consideration of Smart Grid investments. A public hearing has not been scheduled in this matter.

Note 4 - Asset Retirement Obligations

A summary of KU’s net ARO assets, ARO liabilities and regulatory assets established under the asset retirement and environmental obligations guidance of the FASB ASC follows:

	ARO Net Assets	ARO Liabilities	Regulatory Assets
As of December 31, 2008, Predecessor	\$ 5	\$ (32)	\$ 28
ARO accretion and depreciation	<u>(1)</u>	<u>(2)</u>	<u>2</u>
As of December 31, 2009, Predecessor	4	(34)	30
ARO accretion and depreciation	-	(2)	2
Reclassification for retired assets	(1)	-	1
ARO revaluation - change in estimates	<u>22</u>	<u>(24)</u>	<u>2</u>
As of October 31, 2010, Predecessor	25	(60)	35
ARO accretion and depreciation	(1)	-	1
Purchase accounting - fair value adjustment	<u>28</u>	<u>6</u>	<u>(34)</u>
As of December 31, 2010, Successor	<u>\$ 52</u>	<u>\$ (54)</u>	<u>\$ 2</u>

In September 2010, the Company performed a revaluation of its AROs as a result of recently proposed environmental legislation and improved ability to forecast asset retirement costs due to recent construction and retirement activity.

In November 2010, the Company recorded a purchase accounting adjustment to fair value AROs due to the PPL acquisition.

Pursuant to regulatory treatment prescribed under the regulated operations guidance of the FASB ASC, an offsetting regulatory credit was recorded in “Depreciation and amortization” in the Statements of Income for the Successor of \$1 million in 2010 and \$2 million for the Predecessor for the ARO accretion and depreciation expense. The offsetting regulatory credit recorded was \$2 million in 2009 and 2008 for the ARO accretion and depreciation expense. The ARO liabilities are offset by cash settlements that have not yet been applied. Therefore, ARO net assets, ARO liabilities and regulatory assets balances do not net to zero due to the cash settlements.

KU’s AROs are primarily related to the final retirement of assets associated with generating units. KU transmission and distribution lines largely operate under perpetual property easement agreements which do not generally require restoration upon removal of the property. Therefore, under the asset retirement and environmental obligations guidance of the FASB ASC, no material asset retirement obligations are recorded for transmission and distribution assets.

Note 5 – Derivative Financial Instruments

KU is subject to interest rate and commodity price risk related to on-going business operations. The Company’s policies allow for the interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate swaps. Although the Company’s policies allow for the use of interest rate swaps, as of December 31, 2010 and 2009, KU had no interest rate swaps outstanding. At December 31, 2010, KU’s potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was less than \$1 million.

The Company does not net collateral against derivative instruments.

Energy Trading and Risk Management Activities

KU conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to manage price risk and are accounted for as non-hedging derivatives on a mark-to-market basis in accordance with the derivatives and hedging guidance of the FASB ASC.

Energy trading and risk management contracts are valued using prices based on active trades from Intercontinental Exchange Inc. In the absence of a traded price, midpoints of the best bids and offers are the primary determinants of valuation. When sufficient trading activity data is unavailable, other inputs include prices quoted by brokers or observable inputs other than quoted prices, such as one-sided bids or offers as of the balance sheet date. Quotes are verified quarterly using an independent pricing source of actual transactions. Quotes for combined off-peak and weekend timeframes are allocated between the two timeframes based on their historical proportional ratios to the integrated cost. No other adjustments are made to the forward prices. No changes to valuation techniques for energy trading and risk management activities occurred during 2010 or 2009. Changes in market pricing, interest rate and volatility assumptions were made during both years.

KU's financial assets and liabilities as of December 31, 2010 and December 31, 2009, arising from energy trading and risk management contracts not designated as hedging instruments accounted for at fair value total less than \$1 million and are recorded in prepayments and other current assets and other current liabilities, respectively.

The Company maintains credit policies intended to minimize credit risk in wholesale marketing and trading activities by assessing the creditworthiness of potential counterparties prior to entering into transactions with them and continuing to evaluate their creditworthiness once transactions have been initiated. To further mitigate credit risk, KU seeks to enter into netting agreements or require cash deposits, letters of credit and parental company guarantees as security from counterparties. The Company uses ratings of S&P, Moody's and definitive qualitative and quantitative data to assess the financial strength of counterparties on an on-going basis. If no external rating exists, KU assigns an internally generated rating for which it sets appropriate risk parameters. As risk management contracts are valued based on changes in market prices of the related commodities, credit exposures are revalued and monitored on a daily basis. At December 31, 2010, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better. The Company has reserved against counterparty credit risk based on KU's own creditworthiness (for net liabilities) and its counterparty's creditworthiness (for net assets). The Company applies historical default rates within varying credit ratings over time provided by S&P or Moody's. At December 31, 2010 and December 31, 2009, counterparty credit reserves related to energy trading and risk management contracts were less than \$1 million.

The net volume of electricity based financial derivatives outstanding at December 31, 2010 and December 31, 2009, was 129,199 Mwh and 315,600 Mwh, respectively. Cash collateral related to the energy trading and risk management contracts was less than \$1 million at December 31, 2010 and December 31, 2009. Cash collateral related to the energy trading and risk management contracts is recorded in "Prepayments and other current assets" on the Balance Sheets.

KU manages the price risk of its estimated future excess economic generation capacity using market-traded forward contracts. Hedge accounting treatment has not been elected for these transactions; therefore, realized and unrealized gains and losses are included in the Statements of Income.

The following table presents the effect of market-traded forward contract derivatives not designated as hedging instruments on income:

Loss Recognized in Income	Location	Successor	Predecessor	
		November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009 2008
Unrealized gain (loss)	Electric revenues	\$ -	\$ -	\$ (1) \$ 1

Net realized gains and losses were zero for the period ended December 31, 2010 and less than \$1 million for the periods ended October 31, 2010, December 31, 2009 and December 31, 2008.

Credit Risk Related Contingent Features

Certain of KU's derivative contracts contain credit contingent provisions which would permit the counterparties with which KU is in a net liability position to require the transfer of additional collateral upon a decrease in KU's credit rating. Some of these provisions would require KU to transfer additional collateral or permit the counterparty to terminate the contract if KU's credit rating were to fall below investment grade. Some of these provisions also allow the counterparty to require additional collateral upon each decrease in the credit rating at levels that remain above investment grade. In either case, if KU's credit rating were to fall below investment grade (i.e., below BBB- for S&P or Baa3 for Moody's), and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent provisions require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization by KU on derivative instruments in net liability positions.

Additionally, certain of KU's derivative contracts contain credit contingent provisions that require KU to provide "adequate assurance" of performance if the other party has reasonable grounds for insecurity regarding KU's performance of its obligation under the contract. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. A demand for additional assurance would typically involve negotiations among the parties.

To determine net liability positions, KU uses the fair value of each agreement. At December 31, 2010, there were no energy trading and risk management derivative contracts with credit risk related contingent features that are in a liability position and collateral of less than \$1 million was posted in the normal course of business. At December 31, 2010, a downgrade of the Company's credit rating below investment grade would have no effect on the energy trading and risk management derivative contracts or collateral required.

Note 6 - Fair Value Measurements

KU adopted the fair value guidance in the FASB ASC in two phases. Effective January 1, 2008, the Company adopted it for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis, and effective January 1, 2009, the Company adopted it for all non-financial instruments accounted for at fair value on a non-recurring basis. The FASB ASC guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, the FASB ASC guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value.

The carrying values and estimated fair values of KU's non-trading financial instruments follow:

	Successor		Predecessor	
	December 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term bonds	\$ 1,841	\$ 1,728	\$ 351	\$ 351
Long-term debt to affiliated company	-	-	1,331	1,401

The long-term fixed rate pollution control bond valuations reflect prices quoted by investment banks, which are active in the market for these instruments. First mortgage bond valuations reflect prices quoted from a third party service. The fair value of the long-term debt due to affiliated company is determined using an internal valuation model that discounts the future cash flows of each loan at current market rates as determined based on quotes from investment banks that are actively involved in capital markets for utilities and factor in KU's credit ratings and default risk. The fair values of cash and cash equivalents, accounts receivable, cash surrender value of key man life insurance, accounts payable and notes payable are substantially the same as their carrying values.

KU has classified the applicable financial assets and liabilities that are accounted for at fair value into the three levels of the fair value hierarchy, as defined by the fair value measurements and disclosures guidance of the FASB ASC, as discussed in Note 1, Summary of Significant Accounting Policies.

The Company classifies its derivative cash collateral balances within level 1 based on the funds being held in a demand deposit account. The Company classifies its derivative energy trading and risk management contracts within level 2 because it values them using prices actively quoted for proposed or executed transactions, quoted by brokers or observable inputs other than quoted prices.

KU's financial assets and liabilities as of December 31, 2010 and 2009, arising from energy trading and risk management contracts accounted for at fair value on a recurring basis total less than \$1 million. Cash collateral related to the energy trading and risk management contracts was less than \$1 million at December 31, 2010 and December 31, 2009 each year.

There were no level 3 measurements for the periods ending December 31, 2010 and December 31, 2009.

Note 7 - Goodwill and Intangible Assets

In connection with PPL's acquisition of LKE, KU recorded goodwill on November 1, 2010. In addition, as of November 1, 2010, certain intangible assets were adjusted to their fair value and new intangible assets were recorded. See Note 2, Acquisition by PPL, for further information.

Goodwill

The Company performs its required annual goodwill impairment test in the fourth quarter. Impairment tests are performed between the annual tests when the Company determines that a triggering event has occurred that would, more likely than not, reduce the fair value of a reporting unit below its carrying value. The goodwill impairment test is comprised of a two-step process. In step 1, the Company identifies a potential impairment by comparing the estimated fair value of the regulated utilities (the

goodwill reporting unit) to their carrying value, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. If the fair value is less than the carrying value, then step 2 is performed to measure the amount of impairment loss, if any. The step 2 calculation compares the implied fair value of the goodwill to the carrying value of the goodwill. The implied fair value of goodwill is equal to the excess of the Company estimated fair value over the fair values of its identified assets and liabilities. If the carrying value of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to that excess (but not in excess of the carrying value).

In connection with PPL's acquisition of LKE on November 1, 2010, goodwill of \$607 million was recorded on November 1, 2010. The allocation of the goodwill to KU was based on the net asset value of the Company. The goodwill represents value paid for the rate regulated business located in a defined service area with a constructive regulatory environment, which provides for future investment, earnings and cash flow growth, as well as the talented and experienced workforce. KU's franchise values are being attributed to the going concern value of the business and thus were recorded as goodwill rather than a separately identifiable intangible asset. None of the goodwill recognized is expected to be deductible for income tax purposes or included in customer rates. See Note 2, Acquisition by PPL, for further information.

For the 2010 annual impairment test, the primary valuation technique used was an income methodology based on management's estimates of forecasted cash flows for the Company, with those cash flows discounted to present value using rates commensurate with the risks of those cash flows. Management also took into consideration the acquisition price paid by PPL. The discounted cash flows for the Company was based on discrete financial forecasts developed by management for planning purposes and consistent with those given to PPL. Cash flows beyond the discrete forecasts were estimated using a terminal-value calculation, which incorporated historical and forecasted financial trends for the Company. No impairment resulted from the fourth quarter test, as the determined fair value of the Company was greater than its carrying value.

Other Intangible Assets

The gross carrying amount and the accumulated amortization of other intangible assets were as follows:

	Successor	
	December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:		
Coal contracts (a)	\$ 145	\$ 3
Land rights (b)	8	-
Emission allowances (c)	9	-
OVEC power purchase agreement (d)	39	1
Total other intangible assets	<u>\$ 201</u>	<u>\$ 4</u>

- (a) The gross carrying amount represents the fair value of coal contracts recognized as a result of the 2010 acquisition by PPL. The weighted average amortization period of these contracts is 3 years. See Note 2, Acquisition by PPL, for further information.

- (b) The gross carrying amount represents the fair value of land rights recognized as a result of adopting PPL’s accounting policies in the Successor period. The weighted average amortization period of these rights is 17 years. See Note 1, Summary of Significant Accounting Policies, for further information.
- (c) The gross carrying amount represents the fair value of emission allowances recognized as a result of the 2010 acquisition by PPL, as well as the reclassification of amounts from inventory to intangible assets as a result of adopting PPL’s accounting policies in the Successor period. The weighted average amortization period of these emission allowances is 3 years. See Note 2, Acquisition by PPL, for further information.
- (d) The gross carrying amount represents the fair value of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. The weighted average amortization period of the power purchase agreement is 8 years. See Note 2, Acquisition by PPL, for further information.

Current intangible assets and long-term intangible assets are included in “Other intangible assets” in their respective areas on the Balance Sheets in 2010. Intangible assets resulting from purchase accounting adjustments are not recoverable in rates.

Amortization expense, excluding consumption of emission allowances, was \$4 million for the Successor in 2010. The estimated aggregate amortization expense for each of the next five years is as follows:

	Estimated Expense in Period Ended				
	2011	2012	2013	2014	2015
Aggregate amortization expense	\$ 43	\$ 25	\$ 27	\$ 24	\$ 26

Note 8 - Concentrations of Credit and Other Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. Concentrations of credit risk (whether on- or off-balance sheet) relate to groups of customers or counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

All of KU’s customer receivables arise from deliveries of electricity. During 2010, the Company’s ten largest customers accounted for less than 19% of volumes.

Effective August 4, 2009, KU and its employees represented by the IBEW Local 2100 entered into a three-year collective bargaining agreement. The agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. KU and its employees represented by the USWA Local 9447-01 entered into a three-year collective bargaining agreement in August 2008. This agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. The employees represented by these two bargaining units comprise approximately 15% of the Company’s workforce at December 31, 2010.

Note 9 - Pension and Other Postretirement Benefit Plans

KU employees benefit from both funded and unfunded retirement benefit plans. Its defined benefit pension plan covers employees hired by December 31, 2005. Employees hired after this date participate in the Retirement Income Account (“RIA”), a defined contribution plan. The postretirement plan includes health care benefits that are contributory, with participants’ contributions adjusted annually. The Company uses December 31 as the measurement date for its plans.

Obligations and Funded Status

The following tables provide a reconciliation of the changes in the defined benefit plans’ obligations, the fair value of assets and the funded status of the plans for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor:

	Pension Benefits			Other Postretirement Benefits		
	Successor	Predecessor		Successor	Predecessor	
	2010	2010	2009	2010	2010	2009
Change in benefit obligation:						
Benefit obligation at beginning of period	\$ 355	\$ 316	\$ 306	\$ 84	\$ 80	\$ 75
Service cost	1	5	6	-	1	2
Interest cost	3	16	18	1	4	4
Benefits paid, net of retiree contributions	(3)	(14)	(18)	(1)	(4)	(5)
Actuarial (gain) loss and other	(2)	32	4	(1)	3	4
Benefit obligation at end of period	<u>\$ 354</u>	<u>\$ 355</u>	<u>\$ 316</u>	<u>\$ 83</u>	<u>\$ 84</u>	<u>\$ 80</u>

	Pension Benefits			Other Postretirement Benefits		
	Successor	Predecessor		Successor	Predecessor	
	2010	2010	2009	2010	2010	2009
Change in plan assets:						
Fair value of plan assets at beginning of period	\$ 237	\$ 219	\$ 183	\$ 20	\$ 17	\$ 12
Actual return on plan assets	7	20	41	-	1	3
Employer contributions	-	13	13	2	6	7
Benefits paid, net of retiree contributions	(3)	(14)	(18)	(1)	(4)	(5)
Administrative expenses and other	-	(1)	-	-	-	-
Fair value of plan assets at end of period	<u>\$ 241</u>	<u>\$ 237</u>	<u>\$ 219</u>	<u>\$ 21</u>	<u>\$ 20</u>	<u>\$ 17</u>
Funded status at end of period	<u>\$ (113)</u>	<u>\$ (118)</u>	<u>\$ (97)</u>	<u>\$ (62)</u>	<u>\$ (64)</u>	<u>\$ (63)</u>

Amounts Recognized in the Balance Sheets

The following tables provide the amounts recognized in the Balance Sheets and information for plans with benefit obligations in excess of plan assets plans for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor:

	Pension Benefits			Other Postretirement Benefits		
	Successor	Predecessor		Successor	Predecessor	
	2010	2010	2009	2010	2010	2009
Regulatory assets	\$ 117	\$ 125	\$ 105	\$ -	\$ -	\$ -
Regulatory liabilities	-	-	-	(10)	(9)	(9)
Accrued benefit liability (non-current)	(113)	(118)	(97)	(62)	(64)	(63)

Amounts recognized in regulatory assets and liabilities for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor:

	Pension Benefits			Other Postretirement Benefits		
	Successor	Predecessor		Successor	Predecessor	
	2010	2010	2009	2010	2010	2009
Transition obligation	\$ -	\$ -	\$ -	\$ 2	\$ 2	\$ 3
Prior service cost	3	4	5	1	1	2
Accumulated loss (gain)	114	121	100	(13)	(12)	(14)
Total regulatory assets and liabilities	\$ 117	\$ 125	\$ 105	\$ (10)	\$ (9)	\$ (9)

Additional information for plans with accumulated benefit obligations in excess of plan assets for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor:

	Pension Benefits			Other Postretirement Benefits		
	Successor	Predecessor		Successor	Predecessor	
	2010	2010	2009	2010	2010	2009
Benefit obligation	\$ 354	\$ 355	\$ 316	\$ 83	\$ 84	\$ 80
Accumulated benefit obligation	299	299	268	-	-	-
Fair value of plan assets	241	237	219	21	20	17

The amounts recognized in regulatory assets and liabilities for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor:

	Pension Benefits			Other Postretirement Benefits		
	Successor	Predecessor		Successor	Predecessor	
	2010	2010	2009	2010	2010	2009
Net (gain) loss arising during the period	\$ (6)	\$ 26	\$ (22)	\$ (1)	\$ 2	\$ 2
Amortization of prior service cost	-	(1)	(1)	-	-	-
Amortization of transitional obligation	-	-	-	-	(2)	(1)
Amortization of loss	(2)	(5)	(9)	-	-	-
Total amounts recognized in regulatory assets and liabilities	<u>\$ (8)</u>	<u>\$ 20</u>	<u>\$ (32)</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ 1</u>

For discussion of the pension and postretirement regulatory assets, see Note 3, Rates and Regulatory Matters.

Components of Net Periodic Benefit Cost

The following tables provide the components of net periodic benefit cost for pension and other postretirement benefit plans. The tables include the costs associated with both KU employees and Servco employees who provide services to KU. The Servco costs are allocated to KU based on employees' labor charges and are approximately 51%, 49% and 46% of Servco's costs for 2010, 2009 and 2008, respectively.

	Pension Benefits					
	Successor			Predecessor		
	November 1, 2010 through December 31, 2010			January 1, 2010 through October 31, 2010		
	KU	Servco Allocation to KU		KU	Servco Allocation to KU	
Total KU		Total KU	Total KU		Total KU	
Service cost	\$ 1	\$ 1	\$ 2	\$ 5	\$ 5	\$ 10
Interest cost	3	2	5	16	6	22
Expected return on plan assets	(3)	(1)	(4)	(14)	(5)	(19)
Amortization of prior service cost	-	-	-	1	1	2
Amortization of actuarial gain	2	-	2	5	2	7
Net periodic benefit cost	<u>\$ 3</u>	<u>\$ 2</u>	<u>\$ 5</u>	<u>\$ 13</u>	<u>\$ 9</u>	<u>\$ 22</u>

Pension Benefits

	Predecessor - Year Ended December 31, 2009			Predecessor - Year Ended December 31, 2008		
	Servco Allocation to KU			Servco Allocation to KU		
	KU	Total KU	Total KU	KU	Total KU	Total KU
Service cost	\$ 6	\$ 5	\$ 11	\$ 6	\$ 4	\$ 10
Interest cost	18	7	25	18	6	24
Expected return on plan assets	(15)	(4)	(19)	(21)	(5)	(26)
Amortization of prior service cost	1	1	2	1	1	2
Amortization of actuarial gain	9	2	11	-	-	-
Net periodic benefit cost	<u>\$ 19</u>	<u>\$ 11</u>	<u>\$ 30</u>	<u>\$ 4</u>	<u>\$ 6</u>	<u>\$ 10</u>

Other Postretirement Benefits

	Successor November 1, 2010 through December 31, 2010			Predecessor January 1, 2010 through October 31, 2010		
	Servco Allocation to KU			Servco Allocation to KU		
	KU	Total KU	Total KU	KU	Total KU	Total KU
Service cost	\$ -	\$ -	\$ -	\$ 1	\$ 1	\$ 2
Interest cost	1	-	1	4	-	4
Expected return on plan assets	-	-	-	(1)	-	(1)
Amortization of transition obligation	-	-	-	1	-	1
Net periodic benefit cost	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 5</u>	<u>\$ 1</u>	<u>\$ 6</u>

Other Postretirement Benefits						
	Predecessor - Year Ended December 31, 2009			Predecessor Year Ended December 31, 2008		
	KU	Servco Allocation to KU		KU	Servco Allocation to KU	
		Total KU	Total KU		Total KU	Total KU
Service cost	\$ 1	\$ 1	\$ 2	\$ 1	\$ 1	\$ 2
Interest cost	5	-	5	5	-	5
Expected return on plan assets	(1)	-	(1)	(1)	-	(1)
Amortization of transition obligation	1	-	1	1	-	1
Net periodic benefit cost	<u>\$ 6</u>	<u>\$ 1</u>	<u>\$ 7</u>	<u>\$ 6</u>	<u>\$ 1</u>	<u>\$ 7</u>

The estimated amounts that will be amortized from regulatory assets and liabilities into net periodic benefit cost in 2011 are shown in the following table:

	Pension Benefits	Other Postretirement Benefits
Regulatory assets and liabilities:		
Net actuarial loss	\$ 8	\$ -
Prior service cost	1	1
Transition obligation	-	1
Total regulatory assets and liabilities amortized during 2011	<u>\$ 9</u>	<u>\$ 2</u>

The weighted average assumptions used in the measurement of KU's pension and postretirement benefit obligations for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor are shown in the following table:

	Successor	Predecessor	
	December 31, 2010	October 31, 2010	December 31, 2009
Discount rate – pension benefits	5.52%	5.46%	6.13%
Discount rate – postretirement benefits	5.12%	4.96%	5.82%
Rate of compensation increase	5.25%	5.25%	5.25%

For the first ten months of 2010, the discount rates used to determine the pension and postretirement benefit obligations and the period expense were determined using the Mercer Pension Discount Yield Curve. This model takes the plans' cash flows and matches them to a yield curve that provides the equivalent yields on zero-coupon corporate bonds for each maturity. The discount rate is the single rate

that produces the same present value of cash flows. The selection of the various discount rates represents the equivalent single rate under a broad-market AA yield curve constructed by Mercer.

For the last two months of 2010, the Towers Watson Yield Curve was used to determine the discount rate. This model also starts with an analysis of the expected benefit payment stream for its plans. This information is first matched against a spot-rate yield curve. A portfolio of Aa-graded non-callable (or callable with make-whole provisions) bonds, with a total amount outstanding in excess of \$667 billion, serves as the base from which those with the lowest and highest yields are eliminated to develop the ultimate yield curve. The results of this analysis are considered together with other economic data and movements in various bond indices to determine the discount rate assumption.

The weighted average assumptions used in the measurement of KU's pension and postretirement net periodic benefit costs for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor are shown in the following table:

	Successor	Predecessor		
	2010	2010	2009	2008
Discount rate - pension	5.45%	5.46%	6.25%	6.66%
Discount rate - postretirement	4.94%	5.82%	6.36%	6.56%
Expected long-term return on plan assets	7.25%	7.75%	8.25%	8.25%
Rate of compensation increase	5.25%	5.25%	5.25%	5.25%

To develop the expected long-term rate of return on assets assumption, KU considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the current asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. The Company has determined that the 2011 expected long-term rate of return on assets assumption should be 7.25%.

The following describes the effects on pension benefits by changing the major actuarial assumptions discussed above:

- A 1% change in the assumed discount rate would have a \$39 million positive or negative impact to the 2010 accumulated benefit obligation and an approximate \$51 million positive or negative impact to the 2010 projected benefit obligation.
- A 25 basis point change in the expected rate of return on assets would have resulted in less than a \$1 million positive or negative impact to 2010 pension expense.
- A 25 basis point increase in the rate of compensation increase would have a \$3 million negative impact to the 2010 projected benefit obligation.

Assumed Health Care Cost Trend Rates

For measurement purposes, an 8% annual increase in the per capita cost of covered health care benefits was assumed for the first ten months of 2010. The rate was assumed to decrease gradually to 4.5% by 2029 and remain at that level thereafter. For the last two months of 2010, an 8% annual increase in the

per capita cost of covered health care benefits was assumed and the rate was assumed to decrease gradually to 5.5% by 2019. For 2011, a 9% annual increase in the per capita cost of covered health care benefits is assumed and the rate is assumed to decrease gradually to 5.5% by 2019. This change in the length of the health care trend was made to conform to PPL's accounting policies.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have resulted in an increase or decrease of less than \$1 million to the 2010 total of service and interest costs components and an increase or decrease of \$4 million in year end 2010 postretirement benefit obligations.

Expected Future Benefit Payments and Medicare Subsidy Receipts

The following list provides the amount of expected future benefit payments, which reflect expected future service costs and the estimated gross amount of Medicare subsidy receipts:

	<u>Pension Benefits</u>	<u>Other Postretirement Benefits</u>	<u>Medicare Subsidy Receipts</u>
2011	\$ 18	\$ 6	\$ 1
2012	18	6	-
2013	18	6	1
2014	18	7	-
2015	18	7	1
2016-2020	106	36	3

Plan Assets

The following table shows the pension plan's weighted average asset allocation by asset category at December 31:

	<u>Target Range</u>	<u>Successor 2010</u>	<u>Predecessor 2009</u>
Equity securities	45% - 75%	56%	59%
Debt securities	30% - 50%	24%	40%
Other	0% - 10%	20%	1%
Totals		<u>100%</u>	<u>100%</u>

The investment policy of the pension plans was developed in conjunction with financial and actuarial consultants, investment advisors and legal counsel. The goal of the investment policy is to preserve the capital of the pension plans' assets and maximize investment earnings in excess of inflation with acceptable levels of volatility. The return objective is to exceed the benchmark return for the policy index comprised of the following: Russell 3000 Index, MSCI-EAFE Index, Barclays Capital Aggregate and Barclays Capital U.S. Long Government/Credit Bond Index in proportions equal to the targeted asset allocation.

Evaluation of performance focuses on a long-term investment time horizon over rolling three and five-year periods. The assets of the pension plans are broadly diversified within different asset classes (equities, fixed income securities and cash equivalents).

To minimize the risk of large losses in a single asset class, no more than 5% of the portfolio will be invested in the securities of any one issuer with the exclusion of the U.S. government and its agencies. The equity portion of the fund is diversified among the market's various subsections to diversify risk, maximize returns and avoid undue exposure to any single economic sector, industry group or individual security. The equity subsectors include, but are not limited to, growth, value, small capitalization and international.

In addition, the overall fixed income portfolio may have an average weighted duration, or interest rate sensitivity which is within +/- 20% of the duration of the overall fixed income benchmark. Foreign bonds in the aggregate shall not exceed 10% of the total fund. The portfolio may include a limited investment of up to 20% in below investment grade securities provided that the overall average portfolio quality remains "AA" or better. The below investment grade securities include, but are not limited to, medium-term notes, corporate debt, non-dollar and emerging market debt and asset backed securities. The cash investments should be in securities that are either short maturities (not to exceed 180 days) or readily marketable with modest risk.

Derivative securities are permitted only to improve the portfolio's risk/return profile, to modify the portfolio's duration or to reduce transaction costs and must be used in conjunction with underlying physical assets in the portfolio. Derivative securities that involve speculation, leverage, interest rate anticipation, or any undue risk whatsoever are not deemed appropriate investments.

The investment objective for the postretirement benefit plan is to provide current income consistent with stability of principal and liquidity while maintaining a stable net asset value of \$1.00 per share. The postretirement funds are invested in a prime cash money market fund that invests primarily in a portfolio of short-term, high-quality fixed income securities issued by banks, corporations and the U.S. government.

KU has classified plan assets that are accounted for at fair value into the three levels of the fair value hierarchy, as defined by the fair value measurements and disclosures guidance of the FASB ASC. See Note 6, Fair Value Measurements, for further information.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

A description of the valuation methodologies used to measure plan assets at fair value is provided below:

Money market funds: These investments are public investment vehicles valued using \$1 for the net asset value. The money market funds are classified within level 2 of the valuation hierarchy.

Common/collective trusts: Valued based on the beginning of year value of the plan's interests in the trust plus actual contributions and allocated investment income (loss) less actual distributions and allocated administrative expenses. Quoted market prices are used to value investments in the trust, with the exception of the GAC. The fair value of certain other investments for which quoted market prices are not available are valued based on yields currently available on

comparable securities of issuers with similar credit ratings. The common/collective trusts are classified within level 2 of the valuation hierarchy.

The preceding methods described may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Prior to the acquisition, the GAC was considered an immediate participation guarantee contract which was not included in the fair value table. In accordance with the plan accounting guidance of the FASB ASC, the cost incurred to purchase the GAC prior to March 20, 1992, was permitted to be carried at contract value, since it is a contract with an insurance company and prior to the acquisition it was excluded from the table above. The cost incurred to fund the GAC after March 20, 1992, was carried at contract value in accordance with the plan accounting guidance of the FASB ASC, since it was a contract that incorporates mortality and morbidity risk. Contract value represents cost plus interest income less distributions for benefits and administrative expenses. To conform to PPL's accounting methods, the John Hancock GAC was classified in the fair value table as a level 3 and as "other" rather than "debt securities" in the asset allocation table for the period ended December 31, 2010.

The following table sets forth, by level within the fair value hierarchy, the plan's assets at fair value at December 31:

	Successor		Predecessor	
	Level 2	Level 3	Level 2	Level 3
Money market funds	\$ 2	\$ -	\$ 2	\$ -
Common/collective trusts	213	-	186	-
John Hancock - GAC	-	47	-	-
Total investments at fair value	<u>\$ 215</u>	<u>\$ 47</u>	<u>\$ 188</u>	<u>\$ -</u>

The following table sets forth a reconciliation of changes in the fair value of the plan's level 3 assets for the following period:

	Successor
Balance at November 1, 2010	\$ -
Purchases	1
Transfers into level 3	46
Balance at December 31, 2010	<u>\$ 47</u>

There are no assets categorized as level 1 as of December 31, 2010 and December 31, 2009.

Contributions

KU made discretionary contributions to the pension plan of \$13 million in 2010 and 2009. Servco made \$9 million and \$8 million in discretionary contributions to its pension plan in 2010 and 2009, respectively. The amount of future contributions to the pension plan will depend upon the actual return on plan assets and other factors, but the Company funds its pension obligations in a manner consistent

with the Pension Protection Act of 2006. The Company made contributions totaling \$43 million in January 2011. See Note 18, Subsequent Events, for further information.

The Company made contributions to its other postretirement benefit plan of \$8 million in 2010 and \$7 million in 2009. In 2011, the Company anticipates making voluntary contributions to fund Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Pension Legislation

The Pension Protection Act of 2006 was enacted in August 2006. New rules regarding funding of defined benefit plans are generally effective for plan years beginning in 2008. Among other matters, this comprehensive legislation contains provisions applicable to defined benefit plans which generally (i) mandate full funding of current liabilities within seven years; (ii) increase tax-deduction levels regarding contributions; (iii) revise certain actuarial assumptions, such as mortality tables and discount rates; and (iv) raise federal insurance premiums and other fees for under-funded and distressed plans. The legislation also contains a number of provisions relating to defined-contribution plans and qualified and non-qualified executive pension plans and other matters. The Company's plan met the minimum funding requirements as defined by the Pension Protection Act of 2006 for years ended December 31, 2010 and 2009.

Thrift Savings Plans

KU has a thrift savings plan under section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may defer and contribute to the plan a portion of current compensation in order to provide future retirement benefits. KU makes contributions to the plan by matching a portion of the employees' contributions. The costs of this matching were \$3 million in 2010, 2009 and 2008.

KU also makes contributions to RIAs within the thrift savings plans for certain employees not covered by the non-contributory defined benefit pension plan. These employees consist of those hired after December 31, 2005. The Company makes these contributions based on years of service and the employees' wage and salary levels, and makes them in addition to the matching contributions discussed above. The amounts contributed by the Company under this arrangement were less than \$1 million in 2010, 2009 and 2008.

Health Care Reform

In March 2010, Health Care Reform (the Patient Protection and Affordable Care Act of 2010) was signed into law. Many provisions of Health Care Reform do not take effect for an extended period of time and many aspects of the law which are currently unclear or undefined will likely be clarified in future regulations.

During 2010, KU recorded an income tax expense of less than \$1 million to recognize the impact of the elimination of the tax deduction related to the Medicare Retiree Drug Subsidy that becomes effective in 2013.

Specific provisions within Health Care Reform that may impact KU include:

- Beginning in 2011, requirements extend dependent coverage up to age 26, remove the \$2 million lifetime maximum and eliminate cost sharing for certain preventative care procedures.
- Beginning in 2018, a potential excise tax is expected on high-cost plans providing health coverage that exceeds certain thresholds.

The Company has evaluated these provisions of Health Care Reform on its benefit programs in consultation with its actuarial consultants and has determined that the excise tax will not have an impact on its postretirement medical plans. The requirement to extend dependent coverage up to age 26 is not expected to have a significant impact on active or retiree medical costs. The Company will continue to monitor the potential impact of any changes to the existing provisions and implementation guidance related to Health Care Reform on its benefit programs.

Note 10 - Income Taxes

KU's federal income tax return is included in a United States consolidated income tax return filed by LKE's direct parent. Prior to October 31, 2010 the return was included in the consolidated return of E.ON US Investments Corp. Due to the acquisition by PPL, the return will be included in the consolidated PPL return beginning November 1, 2010, for each tax period. Each subsidiary of the consolidated tax group, including KU, calculates its separate income tax for each period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. The Company also files income tax returns in various state jurisdictions. While 2007 and later years are open under the federal statute of limitations, Revenue Agent Reports for 2007-2008 have been received from the IRS, effectively closing these years to additional audit adjustments. Tax years beginning with 2007 were examined under an IRS program, Compliance Assurance Process ("CAP"). This program accelerates the IRS's review to begin during the year applicable to the return and ends 90 days after the return is filed. KU had no adjustments for the 2007 federal tax return. For 2008, the IRS allowed additional deductions in connection with the Company's application for a change in repair deductions and disallowed certain bonus depreciation claimed on the original return. The net temporary tax impact for the Company was a \$12 million reduction in tax and was recorded in the second quarter of 2010. The 2009 federal return was filed in the third quarter of 2010 and the IRS issued a Partial Acceptance Letter in connection with CAP. The IRS is continuing to review bonus depreciation, storms and other repairs. No net material adverse impact is expected from these remaining areas. The short tax year beginning January 1, 2010 through October 31, 2010, is also being examined under CAP. No material items have been raised by the IRS at this time. The two month period beginning November 1, 2010 and ending December 31, 2010 is not currently under examination.

Additions and reductions of uncertain tax positions during 2010, 2009 and 2008 were less than \$1 million. Possible amounts of uncertain tax positions for KU that may decrease within the next 12 months total less than \$1 million and are based on the expiration of the audit periods as defined in the statutes. If recognized, the less than \$1 million of unrecognized tax benefits would reduce the effective income tax rate.

The amount KU recognized as interest expense and interest accrued related to unrecognized tax benefits was less than \$1 million for the twelve month periods ended and as of December 31, 2010, 2009 and 2008. The interest expense and interest accrued is based on IRS and Kentucky Department of Revenue

large corporate interest rates for underpayment of taxes. At the date of adoption, the Company accrued less than \$1 million in interest expense on uncertain tax positions. KU records the interest as “Interest expense” and penalties, if any, as “Operating expenses” on the Statements of Income and “Other current liabilities” on the Balance Sheets, on a pre-tax basis. No penalties were accrued by the Company through December 31, 2010.

Components of income tax expense are shown in the table below:

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31,	
			2009	2008
Current:				
Federal	\$ 13	\$ 46	\$ (5)	\$ 46
State	3	9	1	10
Deferred:				
Federal – net	4	20	43	(10)
State – net	-	3	7	(3)
Investment tax credit – deferred	-	-	21	25
Total income tax expense	<u>\$ 20</u>	<u>\$ 78</u>	<u>\$ 67</u>	<u>\$ 68</u>

In June 2006, KU and LG&E filed a joint application with the U.S. Department of Energy (“DOE”) requesting certification to be eligible for an investment tax credit applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that KU and LG&E were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, KU received an Order from the Kentucky Commission approving the accounting of the investment tax credit, which includes a full depreciation basis adjustment for the amount of the credit. KU’s portion of the TC2 tax credit is approximately \$101 million. Based on eligible construction expenditures incurred, KU recorded an investment tax credit of \$21 million and \$25 million in 2009 and 2008, respectively, decreasing current federal income taxes. As of December 31, 2009, KU had recorded its maximum credit of \$101 million. The income tax expense impact from amortizing this credit over the life of the related property began when the facility was placed in service in January 2011.

In March 2008, certain environmental and preservation groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was in violation of certain environmental laws and demanded relief, including suspension or termination of the program. The plaintiffs voluntarily dismissed their complaint in August 2010.

Components of deferred income taxes included in the Balance Sheets are shown below:

	Successor December 31, 2010	Predecessor December 31, 2009
Deferred income tax liabilities:		
Depreciation and other plant-related items	\$ 347	\$ 303
Regulatory assets and other	133	69
Total deferred income tax liabilities	<u>480</u>	<u>372</u>
Deferred income tax assets:		
Regulatory liabilities and other	80	-
Income taxes due to customers	2	4
Pensions and related benefits	9	17
Liabilities and other	19	18
Total deferred income tax assets	<u>110</u>	<u>39</u>
Net deferred income tax liabilities	<u>\$ 370</u>	<u>\$ 333</u>
Balance sheet classification:		
Prepayments and other current assets	\$ (6)	\$ (3)
Deferred income taxes (non-current)	376	336
Net deferred income tax liabilities	<u>\$ 370</u>	<u>\$ 333</u>

The Company expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

A reconciliation of differences between the income tax expense at the statutory U.S. federal income tax rate and KU's actual income tax expense follows:

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31,	
			2009	2008
Statutory federal income tax expense	\$ 19	\$ 77	\$ 70	\$ 79
State income taxes – net of federal benefit	2	8	5	5
Qualified production activities deduction	(1)	(4)	(1)	(3)
Dividends received deduction related to EEI investment	-	-	(3)	(8)
Reversal of excess deferred taxes	-	(2)	(2)	(1)
Other differences – net	-	(1)	(2)	(4)
Income tax expense	<u>\$ 20</u>	<u>\$ 78</u>	<u>\$ 67</u>	<u>\$ 68</u>
Effective income tax rate	<u>36.4%</u>	<u>35.8%</u>	<u>33.5%</u>	<u>30.1%</u>

The Tax Relief, Unemployment Reauthorization and Job Creation Act of 2010, enacted December 17, 2010 provided, among other provisions, certain incentives related to bonus depreciation and 100% expensing of qualifying capital expenditures. KU benefited from these new provisions by reducing its 2010 current federal income tax expense. This reduction in federal taxable income for KU does, however, result in a reduction of KU's Section 199 Manufacturing deduction, which is based on manufacturing taxable income and correspondingly increases income tax expense. The impact from these changes on 2010 was not material; however, KU anticipates a significant reduction of taxable income in 2011 and 2012 and a corresponding loss of most, if not all, of the Section 199 Manufacturing deduction for the following two years.

Note 11 - Long-Term Debt

As summarized below, at December 31, 2010, long-term debt consisted of first mortgage bonds and secured pollution control bonds. At December 31, 2009, long-term debt and the current portion of long-term debt consisted primarily of pollution control bonds and long-term loans from affiliated companies.

	Successor 2010	Predecessor 2009
Current portion of long-term debt to affiliates	\$ -	\$ 33
Long-term debt to affiliated companies	-	1,298
Secured first mortgage bonds, net of debt discount and amortization of debt discount	1,500	-
Pollution control revenue bonds, collateralized by first mortgage bonds	351	351
Fair value adjustment from purchase accounting	1	-
Unamortized discount	(11)	-
Total long-term debt	1,841	1,682
Less current portion	-	261
Long-term debt, excluding current portion	\$ 1,841	\$ 1,421

	Stated Interest Rates	Maturities	Debt Amounts
<u>Successor</u>			
Outstanding at December 31, 2010:			
Current portion	N/A	N/A	\$ -
Non-current portion	Variable – 6.00%	2015-2040	1,841
<u>Predecessor</u>			
Outstanding at December 31, 2009:			
Current portion	Variable – 4.240%	2010-2034	\$ 261
Non-current portion	Variable – 7.035%	2011-2037	1,421

As of December 31, 2009, long-term debt includes \$228 million of pollution control bonds that were classified as current portion because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Carroll County 2002 Series A and B, 2004 Series A, 2006 Series B and 2008 Series A; Muhlenberg County 2002 Series A; and Mercer County 2000 Series A and 2002 Series A. Maturity dates for these bonds range from 2023 to 2034. As of December 31, 2009, the bonds were classified as current portion of long-term debt because investors could put the bonds back to the Company within one year. As of December 31, 2010, the bonds were reclassified as long-term debt. See Note 1, Summary of Significant Accounting Policies, for changes in classification.

Pollution control bonds are obligations of KU issued in connection with tax-exempt pollution control bonds by various counties in Kentucky. A loan agreement obligates the Company to make debt service payments to the counties in amounts equal to the debt service due from the counties on the related pollution control bonds. Depending on the type of expense, the Successor capitalized debt expenses in long-term other regulatory assets or long-term other assets to align with the term of the debt for which the

expenses were related. The Predecessor capitalized debt expenses in current or long-term other regulatory assets or other current or long-term other assets based on the amount of expense expected to be recovered within the next year through rate recovery. Both Predecessor and Successor amortized debt expenses over the lives of the related bond issues. The Predecessor presentation and the Successor presentation are both appropriate under regulatory practices and GAAP.

In October 2010, in order to secure their respective obligations with respect to the pollution control bonds, KU issued first mortgage bonds to the pollution control bond trustees. KU's first mortgage bonds contain terms and conditions that are substantially parallel to the terms and conditions of the counties' debt, but provide that obligations are deemed satisfied to the extent of payments under the related loan agreement, and thus generally require no separate payment of principal and interest except under certain circumstances, including should KU default on the respective loan agreement. Also in October 2010, one national rating agency revised downward the short-term credit rating of the pollution control bonds and the Company's issuer rating as a result of the pending acquisition by PPL.

Several series of KU's pollution control bonds are insured by monoline bond insurers whose ratings have been reduced due to exposures relating to insurance of sub-prime mortgages. At December 31, 2010, KU had an aggregate \$351 million of outstanding pollution control indebtedness, of which \$96 million is in the form of insured auction rate securities wherein interest rates are reset every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. Since 2008, interest rates increased and the Company experienced "failed auctions" when there were insufficient bids for the bonds. When a failed auction occurs, the interest rate is set pursuant to a formula stipulated in the indenture.

The average annualized interest rates on the auction rate bonds follow:

Successor	Predecessor	
November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	December 31, 2009
0.53%	0.51%	0.44%

The instruments governing this auction rate bond permit KU to convert the bond to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently.

As a result of downgrades of the monoline insurers by all of the rating agencies to levels below that of the Company's rating, the debt ratings of the Company's insured bonds are all based on the Company's senior secured debt rating and are not influenced by the monoline bond insurer ratings.

In connection with the PPL acquisition, on November 1, 2010, KU borrowed \$1,331 million from a PPL subsidiary, in order to repay loans from a subsidiary of E.ON. KU used the net proceeds received from the sale of the first mortgage bonds to repay the debt owed to the PPL subsidiary arising from the borrowing.

In November 2010, KU issued first mortgage bonds totaling \$1,500 million and used the proceeds to repay the loans from a PPL subsidiary mentioned above and for general corporate purposes. The first mortgage bonds were issued at a discount as described in the table below:

First Mortgage Bonds	Principal	Discount Price	First Mortgage Bonds Proceeds (a)
Series due 2015	\$ 250	99.650%	\$ 249
Series due 2020	500	99.622%	498
Series due 2040	750	98.915%	742
Total	<u>\$ 1,500</u>		<u>\$ 1,489</u>

(a) Before expenses other than discount to Purchaser

The first mortgage bonds were issued by KU in accordance with the rules of Section 144A of the Securities Act of 1933. KU has entered into a registration rights agreement in which it has agreed to file a registration statement with the SEC relating to an offer to exchange the first mortgage bonds for publicly tradable securities having substantially identical terms. If ultimate registration and/or certain milestones are not completed by certain dates in mid- and late 2011, the Company has agreed to pay liquidated damages to the bondholders. The liquidated damages would total 0.25% per annum of the principal amount of the bonds for the first 90 days and 0.50% per annum of the principal amount thereafter until the conditions described above have been cured.

There were no redemptions or maturities of long-term debt for 2009. Redemptions and maturities of long-term debt for 2010 are summarized below:

Year	Description	Principal Amount	Rate	Secured/Unsecured	Maturity
<u>Successor</u>					
2010	Due to PPL Investment Corp.	\$ 1,331	4.24%-7.035%	Unsecured	2010-2037
2010	Due to E.ON affiliates	1,331	4.24%-7.035%	Unsecured	2010-2037

Issuances of long-term debt for 2010 and 2009 are summarized below:

Year	Description	Principal Amount	Rate	Secured/Unsecured	Maturity
<u>Successor</u>					
2010	Due to PPL Investment Corp.	\$ 1,331	4.24%-7.035%	Unsecured	2010-2037
2010	First mortgage bonds	250	1.625%	Secured	2015
2010	First mortgage bonds	500	3.25%	Secured	2020
2010	First mortgage bonds	750	5.125%	Secured	2040
<u>Predecessor</u>					
2009	Due to E.ON affiliates	50	4.445%	Unsecured	2019
2009	Due to E.ON affiliates	50	4.81%	Unsecured	2019
2009	Due to E.ON affiliates	50	5.28%	Unsecured	2017

As of December 31, 2010, all of the Company's long-term debt is secured by a first mortgage lien on substantially all of the real and tangible personal property of the Company located in Kentucky.

Long-term debt maturities for KU are shown in the following table:

2011	\$	-
2012		-
2013		-
2014		-
2015		250
Thereafter		<u>1,601</u>
	\$	<u>1,851</u>

KU was in compliance with all debt covenants at December 31, 2010.

See Note 1, Summary of Significant Accounting Policies, for certain debt refinancing and associated transactions completed by KU in connection with the PPL acquisition, Note 2, Acquisition by PPL, for the adjustment made to the pollution control bonds to reflect fair value and Note 15, Related Party Transactions, for long-term debt payable to affiliates.

Note 12 - Notes Payable and Other Short-Term Obligations

Intercompany Revolving Line of Credit

KU participates in an intercompany money pool agreement wherein LKE and/or LG&E make funds available to KU at market-based rates (based on highly rated commercial paper issues) of up to \$400 million. Details of the balances are as follows:

	<u>Total Money Pool Available</u>	<u>Amount Outstanding</u>	<u>Balance Available</u>	<u>Average Interest Rate</u>
December 31, 2010, Successor	\$ 400	\$ 10	\$ 390	0.25%
December 31, 2009, Predecessor	400	45	355	0.20%

LKE maintains revolving credit facilities totaling \$300 million at December 31, 2010 and \$313 million at December 31, 2009, to ensure funding availability for the money pool. At December 31, 2010, the LKE facility is with PPL Investment Corp. LKE pays PPL Investment Corp. an annual commitment fee based on the Utilities' current bond ratings on the unused portion of the commitment. At December 31, 2009, one facility, totaling \$150 million, was with E.ON North America, Inc., while the remaining line, totaling \$163 million, was with Fidelia, both affiliated companies of E.ON. The balances are as follows:

	<u>Total Available</u>	<u>Amount Outstanding</u>	<u>Balance Available</u>	<u>Average Interest Rate</u>
December 31, 2010, Successor	\$ 300	\$ -	\$ 300	N/A
December 31, 2009, Predecessor	313	276	37	1.25%

Bank Revolving Line of Credit

As of December 31, 2010, the Company maintained a \$400 million revolving line of credit with a group of banks maturing in December 2014. The revolving line of credit allows KU to issue letters of credit or borrow funds up to \$400 million. Outstanding letters of credit reduce the facility's available borrowing capacity. The Company pays the banks an annual commitment fee based on current bond ratings on the unused portion of the commitment. At December 31, 2010, there was no amount borrowed under this facility although letters of credit totaling \$198 million have been issued under this facility. This credit agreement contains financial covenants requiring the borrower's debt to total capitalization ratio to not exceed 70%, as calculated pursuant to the credit agreement, and other customary covenants.

As of December 31, 2009, the Company maintained a \$35 million bilateral line of credit with an unaffiliated financial institution maturing in June 2012. The Company paid the banks an annual commitment fee on the unused portion of the commitment. At December 31, 2009, there was no balance outstanding under this facility. This facility was terminated on November 1, 2010, in conjunction with the PPL acquisition.

On December 1, 2010, KU replaced the letters of credit issued under prior letter of credit facilities with letters of credit of the same amount issued under the revolving line of credit. The four letter of credit facilities were subsequently terminated.

KU was in compliance with all line of credit covenants at December 31, 2010.

See Note 1, Summary of Significant Accounting Policies, for certain debt refinancing and associated transactions completed by KU in connection with the PPL acquisition and Note 15, Related Party Transactions, for long-term debt payable to affiliates.

Note 13 - Commitments and Contingencies

Operating Leases

KU leases office space, office equipment, plant equipment, real estate, railcars, telecommunications and vehicles and accounts for these leases as operating leases. In addition, KU reimburses LG&E for a portion of the lease expense paid by LG&E for KU's usage of office space leased by LG&E. Total lease expense was \$10 million, \$10 million and \$9 million for 2010, 2009 and 2008, respectively. The future minimum annual lease payments for operating leases for years subsequent to December 31, 2010, are shown in the following table:

2011	\$	8
2012		7
2013		5
2014		5
2015		3
Thereafter		1
	\$	<u>29</u>

Owensboro Contract Litigation and Termination

In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit against KU concerning a long-term power supply contract (the “OMU Agreement”) with KU. In May 2009, KU and OMU executed a settlement agreement resolving the matter on a basis consistent with prior court rulings and KU has received the agreed settlement amounts. Pursuant to the settlement’s operation, the OMU Agreement terminated in May 2010.

Sale and Leaseback Transaction

The Company is a participant in a sale and leaseback transaction involving its 62% interest in two jointly owned CTs at KU’s E.W. Brown generating station (Units 6 and 7). Commencing in December 1999, KU and LG&E entered into a tax-efficient, 18-year lease of the CTs. The Utilities have provided funds to fully defease the lease and have executed an irrevocable notice to exercise an early purchase option contained in the lease after 15.5 years. The financial statement treatment of this transaction is no different than if the Utilities had retained its ownership interest. The leasing transaction was entered into following receipt of required state and federal regulatory approvals. At December 31, 2010, the Balance Sheets included these assets at a value of \$65 million, which is reflected in “Regulated utility plant – electric.”

In case of default under the lease, the Company is obligated to pay to the lessor its share of certain fees or amounts. Primary events of default include loss or destruction of the CTs, failure to insure or maintain the CTs and unwinding of the transaction due to governmental actions. No events of default currently exist with respect to the lease. Upon any termination of the lease, whether by default or expiration of its term, title to the CTs reverts jointly to KU and LG&E.

At December 31, 2010, the maximum aggregate amount of default fees or amounts was \$7 million, of which KU would be responsible for 62% (approximately \$4 million). The Company has made arrangements with LKE, via guarantee and regulatory commitment, for LKE to pay its full portion of any default fees or amounts.

Letters of Credit

KU has provided letters of credit as of December 31, 2010 and 2009, for on-balance sheet obligations totaling \$198 million to support bonds of \$195 million and letters of credit for off-balance sheet obligations totaling less than \$1 million to support certain obligations related to workers’ compensation.

Commodity Purchases

OVEC

KU has a contract for power purchases with OVEC, terminating in 2026, for various Mw capacities. KU holds a 2.5% investment interest in OVEC with ten other electric utilities. KU is not the primary beneficiary; therefore, the investment is not consolidated into the Company’s financial statements, but is recorded on the cost basis. OVEC is located in Piketon, Ohio, and owns and operates two coal-fired power plants, Kyger Creek Station in Ohio, and Clifty Creek Station in Indiana. KU is contractually entitled to 2.5% of OVEC’s output, approximately 60 Mw of nameplate generation capacity. Pursuant to

the OVEC power purchase contract, the Company may be conditionally responsible for a 2.5% pro-rata share of certain obligations of OVEC under defined circumstances. These contingent liabilities may include unpaid OVEC indebtedness as well as shortfall amounts in certain excess decommissioning costs and postretirement benefits other than pension. KU's contingent potential proportionate share of OVEC's December 31, 2010 outstanding debt was \$35 million. Future obligations for power purchases from OVEC are demand payments, comprised of annual minimum debt service payments, as well as contractually required reimbursement of plant operating, maintenance and other expenses, and are shown in the following table:

2011	\$	9
2012		10
2013		10
2014		10
2015		10
Thereafter		114
	\$	<u>163</u>

Coal and Natural Gas Transportation Purchase Obligations

KU has contracts to purchase coal and natural gas transportation. Future obligations are shown in the following table:

2011	\$	439
2012		200
2013		144
2014		93
2015		91
Thereafter		14
	\$	<u>981</u>

Construction Program

KU had approximately \$116 million of commitments in connection with its construction program at December 31, 2010.

In June 2006, KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price. During 2009 and 2010, KU received several contractual notices from the TC2 construction contractor asserting historical force majeure and excusable event claims for a number of adjustments to the contract price, construction schedule, commercial operations date, liquidated damages or other relevant provisions. In September 2010, KU and the construction contractor agreed to a settlement to resolve the force majeure and excusable event claims occurring through July 2010, under the TC2 construction contract, which settlement provided for a limited, negotiated extension of the contractual commercial operations date and/or relief from liquidated damage calculations. With limited exceptions the Company took care, custody and control of TC2 on January 22, 2011, and has dispatched the unit to meet customer demand

since that date. KU and the contractor agreed to a further amendment of the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. KU cannot currently estimate the ultimate outcome of these matters.

TC2 Air Permit

The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the KDAQ in November 2005. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order upholding the permit. The environmental groups petitioned the EPA to object to the state permit and subsequent permit revisions. In determinations made in September 2008 and June 2009, the EPA rejected most of the environmental groups' claims but identified three permit deficiencies which the KDAQ addressed by revising the permit. In August 2009, the EPA issued an Order denying the remaining claims with the exception of two additional deficiencies which the KDAQ was directed to address. The EPA determined that the proposed permit subsequently issued by the KDAQ satisfied the conditions of the EPA Order although the agency recommended certain enhancements to the administrative record. In January 2010, the KDAQ issued a final permit revision incorporating the proposed changes to address the two EPA objections. In March 2010, the Sierra Club submitted a petition to the EPA to object to the permit revision, which is now pending before the EPA. The Company believes that the final permit as revised should not have a material adverse effect on its financial condition or results of operations. However, until the EPA issues a final ruling on the pending petition and all applicable appeals have been exhausted, the Company cannot predict the final outcome of this matter.

Environmental Matters

The Company's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. As indicated below and summarized at the conclusion of this section, evolving environmental regulations will likely increase the level of capital and operating and maintenance expenditures incurred by the Company during the next several years. Based upon prior regulatory precedent, the Company believes that many costs of complying with such pending or future requirements would likely be recoverable under the ECR or other potential cost-recovery mechanisms, but the Company can provide no assurance as to the ultimate outcome of such proceedings before the regulatory authorities.

Ambient Air Quality

The Clean Air Act requires the EPA to periodically review the available scientific data for six criteria pollutants and establish concentration levels in the ambient air sufficient to protect the public health and welfare with an extra margin for safety. These concentration levels are known as NAAQS. Each state must identify "nonattainment areas" within its boundaries that fail to comply with the NAAQS and develop a SIP to bring such nonattainment areas into compliance. If a state fails to develop an adequate plan, the EPA must develop and implement a plan. As the EPA increases the stringency of the NAAQS

through its periodic reviews, the attainment status of various areas may change, thereby triggering additional emission reduction obligations under revised SIPs aimed to achieve attainment.

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO₂ and NO_x emissions from power plants. In 1998, the EPA issued its final “NO_x SIP Call” rule requiring reductions in NO_x emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NO_x emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which required additional SO₂ emission reductions of 70% and NO_x emission reductions of 65% from 2003 levels. The CAIR provided for a two-phase cap and trade program, with initial reductions of NO_x and SO₂ emissions due by 2009 and 2010, respectively, and final reductions due by 2015. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR.

In July 2008, a federal appeals court issued a ruling finding deficiencies in the CAIR and vacating it. In December 2008, the Court amended its previous Order, directing the EPA to promulgate a new regulation but leaving the CAIR in place in the interim. The remand of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and the Utilities’ compliance plans relating thereto due to the interconnection of the CAIR with such associated programs.

In January 2010, the EPA proposed a revised NAAQS for ozone which would increase the stringency of the standard. In addition, the EPA published final revised NAAQS standards for NO₂ and SO₂ in February 2010 and June 2010, respectively, which are more stringent than previous standards. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the revised NAAQS standards, KU’s power plants are potentially subject to requirements for additional reductions in SO₂ and NO_x emissions.

In July 2010, the EPA issued the proposed CATR, which serves to replace the CAIR. The CATR provides for a two-phase SO₂ reduction program with Phase I reductions due by 2012 and Phase II reductions due by 2014. The CATR provides for NO_x reductions in 2012, but the EPA advised that it is studying whether additional NO_x reductions should be required for 2014. The CATR is more stringent than the CAIR as it accelerates certain compliance dates and provides for only intrastate and limited interstate trading of emission allowances. In addition to its preferred approach, the EPA is seeking comment on an alternative approach which would provide for individual emission limits at each power plant. The EPA has announced that it will propose additional “transport” rules to address compliance with revised NAAQS standards for ozone and particulate matter which will be issued by the EPA in the future, as discussed below.

Hazardous Air Pollutants

As provided in the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provided for reductions of

70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets would be achieved as a “co-benefit” of the controls installed for purposes of compliance with the CAIR.

In February 2008, a federal appellate court issued a decision vacating the CAMR. The EPA has entered into a consent decree requiring it to promulgate a utility Maximum Achievable Control Technology rule to replace the CAMR with a proposed rule due by March 2011 and a final rule by November 2011. Depending on the final outcome of the rulemaking, the CAMR could be replaced by new rules with different or more stringent requirements for reduction of mercury and other hazardous air pollutants. Kentucky has also repealed its corresponding state mercury regulations.

Acid Rain Program

The Clean Air Act imposed a two-phased cap and trade program to reduce SO₂ emissions from power plants that were thought to contribute to “acid rain” conditions in the northeastern U.S. The Clean Air Act also contains requirements for power plants to reduce NO_x emissions through the use of available combustion controls.

Regional Haze

The Clean Air Act also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas. In 2005, the EPA issued its Clean Air Visibility Rule detailing how the Clean Air Act’s BART requirements will be applied to facilities, including power plants built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, as the CAIR provided for more visibility improvement than BART, states are allowed to substitute CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The final rule has been challenged in the courts. Additionally, because the regional haze SIPs incorporate certain CAIR requirements, the remand of the CAIR could potentially impact regional haze SIPs. See “Ambient Air Quality” above for a discussion of CAIR-related uncertainties.

Installation of Pollution Controls

Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. KU met its Phase I SO₂ requirements primarily through installation of FGD equipment on Ghent Unit 1. KU’s strategy for its Phase II SO₂ requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emission allowances and fuel switching to defer certain additional capital expenditures and continue to evaluate improvements to further reduce SO₂ emissions. KU believes its costs in reducing SO₂, NO_x and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU’s compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will

continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. KU expects to incur additional capital expenditures currently approved in its ECR plans totaling approximately \$500 million during the 2011 through 2013 time period to achieve emissions reductions and manage coal combustion residuals. Monthly recovery is subject to periodic review by the Kentucky Commission.

GHG Developments

In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. As discussed below, legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs, including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are on-going. The current administration has announced its support for the adoption of mandatory GHG reduction requirements at the federal level. The United States and other countries met in Copenhagen, Denmark, in December 2009, in an effort to negotiate a GHG reduction treaty to succeed the Kyoto Protocol, which is set to expire in 2013. In Copenhagen, the U.S. made a nonbinding commitment to, among other things, seek to reduce GHG emissions to 17% below 2005 levels by 2020 and provide financial support to developing countries. The United States and other nations met in Cancun, Mexico, in December 2010 to continue negotiations toward a binding agreement.

GHG Legislation

KU is monitoring on-going efforts to enact GHG reduction requirements and requirements governing carbon sequestration at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. In June 2009, the U.S. House of Representatives passed the American Clean Energy and Security Act of 2009, which was a comprehensive energy bill containing the first-ever nation-wide GHG cap and trade program. The bill provided for reductions in GHG emissions of 3% below 2005 levels by 2012, 17% by 2020 and 83% by 2050. In order to cushion potential rate impacts for utility customers, approximately 43% of emissions allowances would have initially been allocated at no cost to the electric utility sector, with this allocation gradually declining to 7% in 2029 and zero thereafter. The bill would have also established a renewable electricity standard requiring utilities to meet 20% of their electricity demand through renewable energy and energy efficiency by 2020. The bill contained additional provisions regarding carbon capture and sequestration, clean transportation, smart grid advancement, nuclear and advanced technologies and energy efficiency.

In September 2009, the Clean Energy Jobs and American Power Act, which was largely patterned on the House legislation, was introduced in the U.S. Senate. The Senate bill raised the emissions reduction target for 2020 to 20% below 2005 levels and did not include a renewable electricity standard. While the initial bill lacked detailed provisions for the allocation of emissions allowances, a subsequent revision incorporated allowance allocation provisions similar to the House bill. Although Senators Kerry and Lieberman and others worked to reach a consensus on GHG legislation, no bill passed the Senate in 2010. The Company is closely monitoring the progress of pending energy legislation, but the prospect for passage of comprehensive GHG legislation in 2011 is uncertain.

GHG Regulations

In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. In April 2009, the EPA issued a proposed endangerment finding concluding that GHGs endanger public health and welfare, which is an initial rulemaking step under the Clean Air Act. A final endangerment finding was issued in December 2009. In September 2009, the EPA issued a final GHG reporting rule requiring reporting by facilities with annual GHG emissions equivalent to at least 25,000 tons of carbon dioxide. A number of the Company's facilities are required to submit annual reports commencing with calendar year 2010. In May 2010, the EPA issued a final GHG "tailoring" rule, effective January 2011, requiring new or modified sources with GHG emissions equivalent to at least 75,000 tons of carbon dioxide to obtain permits under the Prevention of Significant Deterioration Program. Such new or modified facilities would be required to install Best Available Control Technology. While the Company is unaware of any currently available GHG control technology that might be required for installation on new or modified power plants, it is currently assessing the potential impact of the rule. The final rule will apply to new and modified power plants beginning in January 2011. The Company is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted through legislation or regulations. In December 2010, the EPA announced that it plans to promulgate GHG New Source Performance Standards for power plants, including both new and existing facilities. A proposed rule is expected by July 2011, while a final rule is expected by May 2012. In the absence of either a proposed or final regulation, KU is unable to assess the potential impact of any future regulation.

GHG Litigation

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting facilities. In October 2009, a three judge panel of the United States Court of Appeals for the 5th Circuit in the case of *Comer v. Murphy Oil* reversed a lower court, holding that private plaintiffs have standing to assert certain common law claims against more than 30 utility, oil, coal and chemical companies. In March 2010, the court vacated the opinion of the three-judge panel and granted a motion for rehearing but subsequently denied the appeal due to the lack of a quorum. The appellate ruling leaves in effect the lower court ruling dismissing the plaintiffs' claims. In January 2011, the Supreme Court denied petitioner's petition for review, which effectively brings the case to an end. The *Comer* complaint alleged that GHG emissions from the defendants' facilities contributed to global warming which increased the intensity of Hurricane Katrina. E.ON, the former indirect parent of the Utilities, was named as a defendant in the complaint but was not a party to the proceedings due to the failure of the plaintiffs to pursue service under the applicable international procedures. KU continues to monitor relevant GHG litigation to identify judicial developments that may be potentially relevant to operations.

Ghent Opacity NOV

In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of KU's Ghent generating station. The parties have met on this matter and KU has received no further communications from the EPA. The Company is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

Ghent New Source Review NOV

In March 2009, the EPA issued an NOV alleging that KU violated certain provisions of the Clean Air Act's rules governing new source review and prevention of significant deterioration by installing FGD and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. In December 2009, the EPA issued a Section 114 information request seeking additional information on this matter. In March 2010, the Company received an EPA settlement proposal providing for imposition of additional permit limits and emission controls and anticipates continued settlement negotiations with the EPA. Negotiations between the EPA and KU are ongoing. Depending on the provisions of a final settlement or the results of litigation, if any, resolution of this matter could involve significant increased operating and capital expenditures. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination on the Company's financial position or results of operations.

Ash Ponds and Coal-Combustion Byproducts

The EPA has undertaken various initiatives in response to the December 2008 impoundment failure at the TVA's Kingston power plant, which resulted in a major release of coal combustion byproducts into the environment. The EPA issued information requests to utilities throughout the country, including KU, to obtain information on their ash ponds and other impoundments. In addition, the EPA inspected a large number of impoundments located at power plants to determine their structural integrity. The inspections included several of KU's impoundments, which the EPA found to be in satisfactory condition. In June 2010, the EPA published proposed regulations for coal combustion byproducts handled in landfills and ash ponds. The EPA has proposed two alternatives: (1) regulation of coal combustion byproducts in landfills and ash ponds as a hazardous waste or (2) regulation of coal combustion byproducts as a solid waste with minimum national standards. Under both alternatives, the EPA has proposed safety requirements to address the structural integrity of ash ponds. In addition, the EPA will consider potential refinements of the provisions for beneficial reuse of coal combustion byproducts.

Water Discharges and PCB Regulations

The EPA has also announced plans to develop revised effluent limitation guidelines governing discharges from power plants and standards for cooling water intake structures. The EPA has further announced plans to develop revised standards governing the use of polychlorinated biphenyls ("PCB") in electrical equipment. The Company is monitoring these ongoing regulatory developments but will be unable to determine the impact until such time as new rules are finalized.

Impact of Pending and Future Environmental Developments

As a company with significant coal-fired generating assets, KU will likely be substantially impacted by pending or future environmental rules or legislation requiring mandatory reductions in GHG emissions or other air emissions, imposing more stringent standards on discharges to waterways, or establishing additional requirements for handling or disposal of coal combustion byproducts. These evolving environmental regulations will likely require an increased level of capital expenditures and increased incremental operating and maintenance costs by the Company over the next several years. Due to the uncertain nature of the final regulations that will ultimately be adopted by the EPA, including the

reduction targets and the deadlines that will be applicable, the Company cannot finalize estimates of the potential compliance costs, but should the final rules incorporate additional emission reduction requirements, require more stringent emissions controls or implement more stringent byproducts storage and disposal practices, such costs will likely be significant. With respect to NAAQS, CATR, CAMR replacement and coal combustion byproducts developments, based upon a preliminary analysis of proposed regulations, the Company may be required to consider actions such as upgrading existing emissions controls, installing additional emissions controls, upgrading byproducts disposal and storage and possible early replacement of coal-fired units. Capital expenditures for KU associated with such actions are preliminarily estimated to be in the \$1.5 to \$1.7 billion range over the next ten years, although final costs may substantially vary. With respect to potential developments in water discharge, revised PCB standards or GHG initiatives, costs in such areas cannot be estimated due to the preliminary status or uncertain outcome of such developments, but would be in addition to the above amount and could be substantial. Ultimately, the precise impact on the Company's operations of these various environmental developments cannot be determined prior to the finalization of such requirements. Based upon prior regulatory precedent, the Company believes that many costs of complying with such pending or future requirements would likely be recoverable under the ECR or other potential cost-recovery mechanisms, but the Company can provide no assurance as to the ultimate outcome of such proceedings before the regulatory authorities.

TC2 Water Permit

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County generating station. In October 2010, the hearing officer issued a report and recommended Order providing for dismissal of the claims raised by the petitioners. In December 2010, the Secretary issued a final Order dismissing all claims and upholding the permit which petitioners subsequently appealed to Trimble County Circuit Court.

General Environmental Proceedings

From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include a prior Section 114 information request from the EPA relating to new-source review issues at KU's Ghent unit 2; completed settlement with state regulators regarding compliance with particulate limits in the air permit for KU's Tyrone generating station; remediation obligations or activities for or other risks relating to elevated PCB levels at existing properties; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; and on-going claims regarding the GHG emissions from the Company's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the Company's operations.

Note 14 - Jointly Owned Electric Utility Plant

TC2 is a jointly owned unit at the Trimble County site. KU and LG&E own undivided 60.75% and 14.25% interests, respectively. Of the remaining 25%, IMEA owns a 12.12% undivided interest and IMPA owns a 12.88% undivided interest. Each company is responsible for its proportionate share of capital cost during construction and fuel, operation and maintenance cost when TC2 is in-service. With limited exceptions the Company took care, custody and control of TC2 on January 22, 2011, and has dispatched the unit to meet customer demand since that date. KU and the contractor agreed to a further amendment of the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. In December 2009 and June 2008, LG&E sold assets to KU related to the construction of TC2 with a net book value of \$48 million and \$10 million, respectively.

The following data represent shares of the jointly owned property (capacity based on nameplate rating):

	TC2				Total
	KU	LG&E	IMPA	IMEA	
Ownership interest	60.75%	14.25%	12.88%	12.12%	100%
Mw capacity	509	119	108	102	838
KU's 60.75% ownership:		LG&E's 14.25% ownership:			
Plant held for future use	\$ 62	Plant held for future use			\$ 2
Construction work in progress	703	Construction work in progress			187
Accumulated depreciation	(1)	Accumulated depreciation			-
Net book value	<u>\$ 764</u>	Net book value			<u>\$ 189</u>

KU and LG&E jointly own the following CTs and related equipment (capacity based on net summer capability) as of December 31, 2010:

Ownership Percentage	KU				LG&E				Total			
	Mw Capacity	Cost	Depr.	Net Book Value	Mw Capacity	Cost	Depr.	Net Book Value	Mw Capacity	Cost	Depr.	Net Book Value
KU 47%, LG&E 53% (a)	129	\$ 43	\$ -	\$ 43	146	\$ 48	\$ -	\$ 48	275	\$ 91	\$ -	\$ 91
KU 62%, LG&E 38% (b)	190	64	(2)	62	118	40	(2)	38	308	104	(4)	100
KU 71%, LG&E 29% (c)	228	63	(1)	62	92	26	-	26	320	89	(1)	88
KU 63%, LG&E 37% (d)	404	109	(1)	108	236	64	(1)	63	640	173	(2)	171
KU 71%, LG&E 29% (e)	n/a	4	-	4	n/a	2	-	2	n/a	6	-	6

- (a) Comprised of Paddy's Run 13 and E.W. Brown 5. In addition to the above jointly owned utility plant, there is an inlet air cooling system attributable to unit 5 and units 8-11 at the E.W. Brown facility. This inlet air cooling system is not jointly owned, however, it is used to increase production on the units to which it relates, resulting in an additional 88 Mw of capacity for KU.

- (b) Comprised of units 6 and 7 at the E.W. Brown facility.
- (c) Comprised of units 5 and 6 at the Trimble County facility.
- (d) Comprised of CT Substation 7-10 and units 7, 8, 9 and 10 at the Trimble County facility.
- (e) Comprised of CT Substation 5 and 6 and CT Pipeline at the Trimble County facility.

Both KU's and LG&E's participating share of direct expenses of the jointly owned plants is included in the corresponding operating expenses on each company's respective Statements of Income (i.e., fuel, maintenance of plant, other operating expense).

Note 15 - Related Party Transactions

KU and subsidiaries of LKE and PPL engage in related party transactions. Transactions between KU and LKE subsidiaries are eliminated on consolidation of LKE. Transactions between KU and PPL subsidiaries are eliminated on consolidation of PPL. These transactions are generally performed at cost and are in accordance with FERC regulations under PUHCA 2005 and the applicable Kentucky Commission and Virginia Commission regulations.

Intercompany Wholesale Sales and Purchases

KU and LG&E jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are recorded as intercompany wholesale sales and purchases are recorded by each company at a price equal to the seller's fuel cost. Savings realized from purchasing electricity intercompany instead of generating from their own higher costs units or purchasing from the market are shared equally between the Utilities. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

These sales and purchases are included in the Statements of Income as "Operating revenues", "Power purchased" expenses and "Other operation and maintenance expenses". KU's intercompany electric revenues and power purchased expenses were as follows:

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009 2008	
Electric operating revenues from LG&E	\$ 2	\$ 13	\$ 21	\$ 80
Power purchased and related operations and maintenance expenses from LG&E	21	79	101	109

Interest Charges

See Note 11, Long-Term Debt, and Note 12, Notes Payable and Other Short-Term Obligations, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

KU's interest expense to affiliated companies was as follows:

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31,	
			2009	2008
Interest on money pool loans	\$ -	\$ -	\$ -	\$ 2
Interest on PPL loans	2	-	-	-
Interest on Fidelia loans	-	62	69	56

Interest paid to LKE on the money pool arrangement was less than \$1 million for 2010 and 2009.

Dividends

In September 2010, the Company paid dividends of \$50 million to its sole shareholder, LKE.

Capital Contributions

The Company received no capital contributions in 2010, but received capital contributions of \$75 million and \$145 million from its sole shareholder, LKE, in 2009 and 2008, respectively.

Sale of Assets

In 2010, KU sold and bought assets of less than \$1 million to and from LG&E. In December 2009, LG&E sold assets to KU related to the construction of TC2 with a net book value of \$48 million.

Other Intercompany Billings

Servco provides the Company with a variety of centralized administrative, management and support services. Associated charges include payroll taxes paid by Servco on behalf of KU, labor and burdens of Servco employees performing services for KU, coal purchases and other vouchers paid by Servco on behalf of KU. The cost of these services is directly charged to the Company, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and/or other statistical information. These costs are charged on an actual cost basis.

In addition, the Utilities provide services to each other and to Servco. Billings between the Utilities relate to labor and overheads associated with union and hourly employees performing work for the other utility, charges related to jointly-owned generating units and other miscellaneous charges. Billings from KU to Servco include cash received by Servco on behalf of KU, tax settlements and other payments

made by the Company on behalf of other non-regulated businesses which are reimbursed through Servco.

Intercompany billings to and from KU were as follows:

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31,	
			2009	2008
Servco billings to KU	\$ 46	\$ 233	\$ 169	\$ 227
LG&E billings to KU	14	49	44	5
KU billings to Servco	12	11	14	3
KU billings to LG&E	-	-	78	75

Intercompany Balances

The Company had the following balances with its affiliates:

	Successor	Predecessor
	December 31, 2010	December 31, 2009
Accounts receivable from LKE	\$ 12	\$ 9
Accounts payable to LG&E	22	53
Accounts payable to Servco	23	20
Accounts payable to Fidelia	-	15
Notes payable to LKE	10	45
Long-term debt to Fidelia	-	1,331

Note 16 - Selected Quarterly Data (Unaudited)

	For the 2010 Periods Ended (a)					Successor December 31
	Predecessor				Successor	
	March 31	June 30	September 30	October 31		
Operating revenues	\$ 380	\$ 350	\$ 416	\$ 102	\$ 263	
Operating income	87	71	105	22	65	
Net income	44	31	54	11	35	

(a) Periods ended March 31, June 30 and September 30 represent three months then ended. Period ended October 31 represents one month then ended and period ended December 31 represents two months then ended.

	For the 2009 Quarters Ended			
	Predecessor			
	March 31	June 30	September 30	December 31
Operating revenues	\$ 363	\$ 305	\$ 341	\$ 346
Operating income	19	53	125	72
Net income	7	26	66	34

Note 17 - Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consisted of the following:

	Pre-Tax Accumulated Derivative Gain (Loss)	Income Taxes	Net
Balance at December 31, 2009, Predecessor	\$ -	\$ -	\$ -
Equity investee's other comprehensive income (loss)	(3)	1	(2)
Balance at October 31, 2010, Predecessor	(3)	1	(2)
Effect of PPL acquisition	3	(1)	2
Balance at December 31, 2010, Successor	\$ -	\$ -	\$ -

Note 18 - Subsequent Events

Subsequent events have been evaluated through February 25, 2011, the date of issuance of these statements. These statements contain all necessary adjustments and disclosures resulting from that evaluation.

On January 31, 2011, KU filed a notice of intent to file a rate case with the Virginia Commission for the test year ended December 31, 2010. The case is expected to be filed on or after April 1, 2011.

With limited exceptions the Company took care, custody and control of TC2 on January 22, 2011, and has dispatched the unit to meet customer demand since that date. LG&E and KU and the contractor agreed to a further amendment of the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages.

On January 14, 2011, KU contributed \$43 million to its pension plan.



Report of Independent Auditors

To Stockholder of Kentucky Utilities Company

In our opinion, the accompanying balance sheet and the related statements of income, retained earnings, comprehensive income, cash flows, and capitalization present fairly, in all material respects, the financial position of Kentucky Utilities Company (Successor Company) at December 31, 2010 and the results of its operations and its cash flows for the period from November 1, 2010 to December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting, included in "Management's Report of Internal Controls Over Financial Reporting" which appears on page 50. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) and in accordance with the auditing and attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2 to the financial statements, on November 1, 2010, PPL Corporation completed its acquisition of LG&E and KU Energy LLC and its subsidiaries. The push-down basis of accounting was used at the acquisition date.

A company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial

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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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 those charged with governance and (iii) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Louisville, Kentucky
February 25, 2011



Report of Independent Auditors

To Stockholder of Kentucky Utilities Company

In our opinion, the accompanying balance sheet and the related statements of income, retained earnings, comprehensive income, cash flows, and capitalization present fairly, in all material respects, the financial position of Kentucky Utilities Company (Predecessor Company) at December 31, 2009 and the results of its operations and its cash flows for the period from January 1, 2010 to October 31, 2010 and for each of the two years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, on November 1, 2010, PPL Corporation completed its acquisition of LG&E and KU Energy LLC and its subsidiaries. The push-down basis of accounting was used at the acquisition date.

PricewaterhouseCoopers LLP

Louisville, Kentucky

February 25, 2011

Supplement, dated December 1, 2010 to Reoffering Circular dated December 10, 2008, as supplemented as of December 16, 2008 and October 29, 2010 (the "Reoffering Circular")

\$12,900,000

County of Mercer, Kentucky

Solid Waste Disposal Facility Revenue Bonds, 2000 Series A

(Kentucky Utilities Company Project)

Effective as of December 1, 2010, through December 1, 2011 (the Letter of Credit (as defined below) expiration date, subject to extension or earlier termination), payment of the principal of and interest on the above-referenced bonds (the "Bonds") when due will be paid with funds drawn under an irrevocable transferable direct pay letter of credit (the "Letter of Credit") issued by

WELLS FARGO BANK, NATIONAL ASSOCIATION

The Letter of Credit will permit the Trustee to draw with respect to the Bonds up to an amount sufficient to pay (i) the principal thereof (or that portion of the purchase price corresponding to principal) plus (ii) interest thereon (or that portion of the purchase price corresponding to interest) at an assumed rate of 10% per annum for at least 45 days.

The Bonds will continue to bear interest at a Weekly Rate, determined by the Remarketing Agent in accordance with the Indenture, payable on the first Business Day of each calendar month, commencing on January 3, 2011. The interest rate period, interest rate and Interest Rate Mode will be subject to change under certain conditions, as described in the Reoffering Circular. The Bonds are subject to optional redemption, extraordinary optional redemption, in whole or in part, and mandatory redemption following a determination of taxability prior to maturity, as described in the Reoffering Circular. The Bonds are subject to mandatory purchase on any date on which the Bonds are converted to a different Interest Rate Mode and upon the expiration of the Letter of Credit or any Alternate Credit Facility.

This supplement contains a description of the Letter of Credit and Wells Fargo Bank, National Association, the issuer of the Letter of Credit. For purposes of the Reoffering Circular, the Letter of Credit is a "Credit Facility" and Wells Fargo Bank, National Association is a "Credit Facility Issuer." Except as otherwise specified herein, information in the Reoffering Circular referred to above has not been amended or modified and the information contained herein is qualified by reference to, and should be read in conjunction with, the Reoffering Circular, including information incorporated therein by reference. Terms not otherwise defined herein shall have the meanings ascribed to them in such Reoffering Circular.

The eighth paragraph under the section of the Reoffering Circular captioned "Introductory Statement" is hereby amended to read in its entirety as follows:

Effective December 1, 2010, the Company will cause to be delivered an irrevocable transferable direct pay letter of credit (the "Letter of Credit"), issued by Wells Fargo Bank, National Association (the "Bank"), to provide for the timely payment of principal of and accrued interest (calculated for at least 45 days at the maximum rate of 10% per annum) on, and purchase price of, the Bonds. The Company will be required to reimburse the Bank for all amounts drawn by the Trustee under the Letter of Credit pursuant to the terms of a certain letter agreement, to be dated as of December 1, 2010 (the "Reimbursement Agreement"), between the Company and the Bank. The Letter of Credit will expire on December 1, 2011, unless extended or earlier terminated.

* * * *

The section of the Reoffering Circular captioned "The Letter of Credit" is hereby amended to read in its entirety as follows:

THE LETTER OF CREDIT

The following summarizes certain provisions of the Letter of Credit and the Reimbursement Agreement, to which reference is made for the detailed provisions thereof. Unless otherwise defined in this Reoffering Circular, capitalized terms in the following summary are used as defined in the Letter of Credit and the Reimbursement Agreement. The Company is permitted under the Indenture to deliver an Alternate Credit Facility to replace the Letter of Credit. Any such Alternate Credit Facility must meet certain requirements described in the Indenture.

The Letter of Credit

The Letter of Credit will be an irrevocable transferable direct pay letter of credit issued by the Bank in order to provide additional security for the payment of principal of, purchase

price of, interest on and premium, if applicable, on any date when payments under the Bonds are due, including principal and interest payments and payments upon tender, redemption, acceleration or maturity of the Bonds. The Letter of Credit will provide for direct payments to or upon the order of the Trustee as set forth in the Letter of Credit in amounts sufficient to pay such amounts in accordance with the terms thereof.

The Letter of Credit will be issued in an amount equal to the aggregate principal amount of the outstanding Bonds, plus an amount that represents interest accrued thereon at an assumed rate of 10% per annum for 45 days (the "Credit Amount"). The Trustee, upon compliance with the terms of the Letter of Credit, is authorized to draw up to (a) an amount sufficient (i) to pay principal of the Bonds, when due, whether at maturity or upon redemption or acceleration, and (ii) to pay the portion of the purchase price of the Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed (a "Liquidity Drawing") equal to the principal amount of the Bonds, plus (b) an amount not to exceed 45 days of accrued interest on such Bonds at an assumed rate of 10% per annum (i) to pay interest on the Bonds, when due, and (ii) to pay the portion of the interest accrued on the Bonds as of any Liquidity Drawing.

The amount available under the Letter of Credit will be automatically reduced by the amount of any drawing thereunder, subject to reinstatement as described below. With respect to a drawing by the Trustee solely to pay interest on the Bonds on an Interest Payment Date, the amount available under the Letter of Credit will be automatically reinstated in the amount of such drawing effective on the earlier of (i) receipt by the Bank from the Company of reimbursement of any drawing solely to pay interest in full or (ii) at the opening of business on the eleventh calendar day after the date the Bank honors such drawing, unless the Trustee has received written notice from the Bank by the tenth calendar day after the date the Bank honors such drawing the Bank is not so reinstating the available amount due to the Company's failure to reimburse the Bank for such drawing in full, or that an event of default has occurred and is continuing under the Reimbursement Agreement and, in either case, directing, an acceleration of the Bonds pursuant to the Indenture. With respect to a Liquidity Drawing under the Letter of Credit, the amount available under the Letter of Credit will be automatically reduced by the principal amount of the Bonds purchased with the proceeds of such drawing plus the amount of accrued interest on such Bonds. In the event of the remarketing of the Bonds purchased with the proceeds of a Liquidity Drawing, the amount available under the Letter of Credit will be automatically reinstated upon receipt by the Bank or the Trustee on the Bank's behalf of an amount equal to such principal amount plus accrued interest.

The Letter of Credit will terminate on the earliest to occur of:

(i) the Bank's close of business on December 1, 2011 (such date, as extended from time to time in accordance with the Letter of Credit is defined as the "Stated Expiration Date");

(ii) the Bank's close of business on the date which is five Business Days following the date of receipt by the Bank of a certificate from the Trustee certifying that (a) no Bonds remain Outstanding within the meaning of the Indenture, (b) all drawings required to be made under the Indenture and available under the Letter of Credit have

been made and honored, (c) an Alternate Credit Facility has been delivered to the Trustee in accordance with the Indenture to replace the Letter of Credit or (d) all of the outstanding Bonds were converted to Bonds bearing interest at a rate other than the Daily Rate or the Weekly Rate;

(iii) the Bank's close of business on the date of receipt by the Bank of a certificate from the Trustee confirming that the Trustee is required to terminate the Letter of Credit in accordance with the terms of the Indenture;

(iv) the date on which the Bank receives and honors an acceleration drawing certificate; or

(v) the Bank's close of business on the date which is 30 days after receipt by the Trustee of written notice from the Bank of an Event of Default under the \$400,000,000 Revolving Credit Agreement dated as of November 1, 2010 among the Company, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent (the "Credit Agreement") and instructing the Trustee to draw under the Letter of Credit.

The Reimbursement Agreement

Pursuant to the Reimbursement Agreement, the Company is obligated to reimburse the Bank for all amounts drawn under the Letter of Credit, and to pay interest on all such amounts. The Company has also agreed to pay the Bank a periodic fee for issuing and maintaining the Letter of Credit.

The Reimbursement Agreement, through incorporation of the terms of the Credit Agreement, imposes various covenants and agreements, including various financial and operating covenants, on the Company. Such covenants include, but are not limited to, covenants relating to (i) inspection of the books and financial records of the Company; (ii) mergers or consolidations; and (iii) disposition of assets. Any such covenants may be amended, waived or modified at any time by the Bank and without the consent of the Trustee or the holders of the Bonds. Under certain circumstances, the failure of the Company to comply with such covenants may result in a mandatory tender or acceleration of the Bonds.

An Event of Default under the Credit Agreement will constitute an Event of Default under the Reimbursement Agreement. The following events will constitute an Event of Default under the Credit Agreement:

(i) the Borrower shall fail to pay when due any principal on any Loans under the Credit Agreement or Reimbursement Obligations; or

(ii) the Company shall fail to pay when due any interest on the Loans under the Credit Agreement and Reimbursement Obligations, any fee or any other amount payable hereunder or under any other Loan Document for five (5) days following the date such payment becomes due thereunder; or

(iii) the Company shall fail to observe or perform certain covenants or agreements contained in the Credit Agreement, including those related to mergers, disposition of assets and capitalization ratios; or

(iv) the Company shall fail to give notice of a Default or Event of Default under the Credit Agreement within a specified number of days following knowledge of such occurrence; or

(v) the Company shall fail to observe or perform any covenant or agreement contained in the Credit Agreement or any notes issued thereunder (other than those covered above) for thirty (30) days after written notice thereof has been given to the defaulting party by the administrative agent, or at the request of the required lenders; or

(vi) any representation, warranty or certification made by the Company in the Credit Agreement or any notes issued thereunder or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or

(vii) the Company shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Debt or a trustee on its or their behalf to cause, such Debt to become due prior to its stated maturity; or

(viii) the Company shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(ix) an involuntary case or other proceeding shall be commenced against the Company seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Company under the Bankruptcy Code; or

(x) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of

ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or

(xi) the Company shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against the Company that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(xii) a Change of Control shall have occurred;

For purposes of the foregoing:

“Change of Control” means (i) the acquisition by any person, or two or more persons acting in concert, of beneficial ownership of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own 80% or more of the outstanding shares of the voting stock in the Company.

“Credit Agreement” means the \$400,000,000 Revolving Credit Agreement dated as of November 1, 2010 among the Company, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent.

“Material Debt” means debt (other than the notes issued under the Credit Agreement) of the Company in a principal or face amount exceeding \$50,000,000

Appendix C of the Reoffering Circular is hereby amended to read in its entirety as follows:

Wells Fargo Bank, National Association

The information under this heading has been provided solely by Wells Fargo Bank, National Association and is believed to be reliable. This information has not been verified independently by the Company, the Issuer or the Remarketing Agent. The Company, the Issuer and the Remarketing Agent make no representation whatsoever as to the accuracy, adequacy or completeness of such information.

Wells Fargo Bank, National Association

Wells Fargo Bank, National Association (the “Bank”) is a national banking association organized under the laws of the United States of America with its main office at 101 North Phillips Avenue, Sioux Falls, South Dakota 57104, and engages in retail, commercial and corporate banking, real estate lending and trust and investment services. The Bank is an indirect, wholly owned subsidiary of Wells Fargo & Company, a diversified financial services company, a financial holding company and a bank holding company registered under the Bank Holding Company Act of 1956, as amended, with its principal executive offices located in San Francisco, California.

Each quarter, the Bank files with the FDIC financial reports entitled “Consolidated Reports of Condition and Income for Insured Commercial Banks with Domestic and Foreign Offices,” commonly referred to as the “Call Reports.” The Bank’s Call Reports are prepared in accordance with regulatory accounting principles, which may differ from generally accepted accounting principles. The publicly available portions of Call Reports filed by the Bank with the FDIC may be obtained from the FDIC, Disclosure Group, Room F518, 550 17th Street, N.W., Washington, D.C. 20429 at prescribed rates, or from the FDIC on its Internet site at <http://www.fdic.gov>, or by writing to Corporate Secretary’s Office, Wells Fargo Center, Sixth and Marquette, MAC N9305-173, Minneapolis, MN 55479.

The Letter of Credit will be solely an obligation of the Bank and will not be an obligation of, or otherwise guaranteed by, Wells Fargo & Company, and no assets of Wells Fargo & Company or any affiliate of the Bank or Wells Fargo & Company will be pledged to the payment thereof. Payment of the Letter of Credit will not be insured by the FDIC.

The information contained in this section, including financial information, relates to and has been obtained from the Bank, and is furnished solely to provide limited introductory information regarding the Bank and does not purport to be comprehensive. Any financial information provided in this section is qualified in its entirety by the detailed information appearing in the Call Reports referenced above. *The delivery hereof shall not create any implication that there has been no change in the affairs of the Bank since the date hereof.*

Appendix A of the Reoffering Circular is hereby amended to read in its entirety as follows:

Appendix A

[DELETED AND REPLACED – SEE APPENDIX A TO SUPPLEMENT DATED MAY 2, 2011]

Supplement, dated October 29, 2010 to Reoffering Circular dated December 10, 2008, as supplemented as of December 16, 2008 (the “Reoffering Circular”)

\$12,900,000

County of Mercer, Kentucky

Solid Waste Disposal Facility Revenue Bonds, 2000 Series A

(Kentucky Utilities Company Project)

Effective as of October 29, 2010, the above-referenced bonds (the “Bonds”) will be further secured by the delivery to The Bank of New York Mellon, as trustee for the Bonds (the “Trustee”), of a tranche of first mortgage bonds of Kentucky Utilities Company (the “Company”). The principal amount, maturity date and interest rate (or method of determining interest rates) of such tranche of first mortgage bonds will be identical to the principal amount, maturity date and interest rate (or method of determining interest rates) of the Bonds. The first mortgage bonds will only be payable, and interest thereon will only accrue, as described herein. See “Security,” “Summary of the Loan Agreement — Issuance and Delivery of First Mortgage Bonds” and “Summary of the First Mortgage Bonds” for more information regarding the first mortgage bonds. The first mortgage bonds will not provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase in accordance with the Indenture (as hereinafter defined).

Please be advised that, as reflected in the Company’s most recent financial statements that are filed on the Electronic Municipal Market Access (EMMA) system and are incorporated by reference herein, PPL Corporation has entered into an agreement with E.ON AG pursuant to which PPL Corporation would purchase all of the ownership interests of E.ON U.S. LLC, the Company’s parent. Consummation of the transaction is subject to customary closing conditions, including receipt of all required regulatory approvals. Subject to receipt of such approvals, the transaction is expected to close by the end of 2010. If the transaction is completed, the Company will become an indirect wholly-owned subsidiary of PPL Corporation.

Except as otherwise specified herein, information in the Reoffering Circular referred to above has not been amended or modified and the information contained herein is qualified by reference to, and should be read in conjunction with, the Reoffering Circular, including information incorporated therein by reference. Terms not otherwise defined herein shall have the meanings ascribed to them in such Reoffering Circular.

The section of the Reoffering Circular captioned "Security" is hereby amended to read in its entirety as follows:

Security

Payment of the principal of and interest and any premium on the Bonds will be secured by an assignment by the Issuer to the Trustee of the Issuer's interest in and to the Loan Agreement and all payments to be made pursuant thereto (other than certain indemnification and expense payments). Pursuant to the Loan Agreement, the Company will agree to pay, among other things, amounts sufficient to pay the aggregate principal amount of and premium, if any, on the Bonds, together with interest thereon as and when the same become due. The Company further will agree to make payments of the purchase price of the Bonds tendered for purchase to the extent that funds are not otherwise available therefor under the provisions of the Indenture.

The payment of the principal of and interest and any premium on the Bonds will be further secured by a separate tranche of the Company's First Mortgage Bonds, Collateral Series 2010 (the "First Mortgage Bonds") to be issued under an Indenture, dated as of October 1, 2010, as supplemented (the "First Mortgage Indenture"), between the Company and The Bank of New York Mellon, as trustee (the "First Mortgage Trustee"). The principal amount of the First Mortgage Bonds will equal the principal amount of the Bonds. If the Bonds become immediately due and payable as a result of a default in payment of the principal of, premium, if any, or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement and upon receipt by the First Mortgage Trustee of a written demand from the Trustee for redemption of the First Mortgage Bonds, or if all first mortgage bonds outstanding under the First Mortgage Indenture shall have been immediately due and payable, such First Mortgage Bonds will bear interest at the same interest rate or rates borne by the Bonds and the principal of such First Mortgage Bonds, together with interest accrued thereon from the last date or dates to which interest on the Bonds has been paid in full, will be payable in accordance with the Supplemental Indenture. See "Summary of the First Mortgage Bonds."

The First Mortgage Bonds are not intended to provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase in accordance with the Indenture. The First Mortgage Bonds are secured by a lien on certain property owned by the Company. In certain circumstances, the Company is permitted to reduce the aggregate principal amount of its First Mortgage Bonds held by the Trustee, but in no event to an amount lower than the aggregate outstanding principal amount of the Bonds.

* * * *

The sections of the Reoffering Circular captioned “Summary of the Loan Agreement — Issuance and Delivery of First Mortgage Bonds”; “ — Insurance”; “ — Events of Default” and “ — Remedies” are hereby added or amended, as applicable, to read in their entirety as follows:

Summary of the Loan Agreement

* * * *

Issuance and Delivery of First Mortgage Bonds

For the purpose of providing security for the Bonds, the Company will execute and deliver to the Trustee the First Mortgage Bonds. The principal amount of the First Mortgage Bonds executed and delivered to the Trustee will be equal to the aggregate principal amount of the Bonds. If the Bonds become immediately due and payable as a result of a default in payment of the principal of, premium, if any, or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement and upon receipt by the First Mortgage Trustee of a written demand from the Trustee for redemption of the First Mortgage Bonds, or if all first mortgage bonds outstanding under the First Mortgage Indenture shall have been immediately due and payable, such First Mortgage Bonds will bear interest at the same interest rate or rates borne by the Bonds and the principal of such First Mortgage Bonds, together with interest accrued thereon from the last date to which interest on the Bonds shall have been paid in full, will then be payable. See, however, "Summary of the Indenture — Waiver of Events of Default."

Upon payment of the principal of, premium, if any, and interest on any of the Bonds, and the surrender to and cancellation thereof by the Trustee, or upon provision for the payment thereof having been made in accordance with the Indenture, First Mortgage Bonds with corresponding principal amounts equal to the aggregate principal amount of the Bonds so surrendered and canceled or for the payment of which provision has been made, will be surrendered by the Trustee to the First Mortgage Trustee and will be canceled by the First Mortgage Trustee. The First Mortgage Bonds will be registered in the name of the Trustee and will be non transferable, except to effect transfers to any successor trustee under the Indenture.

Insurance

The Company has agreed to insure the Project in accordance with the provisions of the First Mortgage Indenture.

Events of Default

Each of the following events constitutes an “event of default” under the Loan Agreement:

- (1) failure by the Company to pay the amounts required for payment of the principal of, including purchase price for tendered Bonds and redemption and acceleration prices, and interest accrued, on the Bonds, at the times specified therein taking into account any periods of grace provided in the Indenture and the Bonds for the applicable payment of interest on the Bonds (see “Summary of the Indenture — Defaults and Remedies”);

(2) failure by the Company to observe and perform any covenant, condition or agreement, other than as referred to in paragraph (1) above, for a period of thirty days after written notice by the Issuer or Trustee, provided, however, that if such failure is capable of being corrected, but cannot be corrected in such 30-day period, it will not constitute an event of default under the Loan Agreement if corrective action with respect thereto is instituted within such period and is being diligently pursued;

(3) certain events of bankruptcy, dissolution, liquidation, reorganization or insolvency of the Company;

(4) the occurrence of an event of default under the Indenture; or

(5) all first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become immediately due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded or annulled by the First Mortgage Trustee.

Under the Loan Agreement, certain of the Company's obligations (other than the Company's obligations, among others, (i) not to permit any action which would result in interest paid on the Bonds being included in gross income for federal and Kentucky income taxes; (ii) to maintain its corporate existence and good standing, and to neither dispose of all or substantially all of its assets or consolidate with or merge into another corporation unless certain provisions of the Loan Agreement are satisfied; and (iii) to make loan payments and certain other payments under the provisions of the Loan Agreement) may be suspended if by reason of force majeure (as defined in the Loan Agreement) the Company is unable to carry out such obligations.

Remedies

Upon the happening of an event of default under the Loan Agreement, the Trustee, on behalf of the Issuer, may, among other things, take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company, under the Loan Agreement, including any remedies available in respect of the First Mortgage Bonds.

In the event of a default in payment of the principal of, premium, if any, or interest on the Bonds and the acceleration of the maturity date of the Bonds (to the extent not already due and payable) as a consequence of such event of default, the Trustee may demand redemption of the First Mortgage Bonds. See "Summary of the First Mortgage Bonds" and "Summary of the Indenture — Defaults and Remedies." Any amounts collected upon the happening of any such event of default will be applied in accordance with the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the Indenture) and all other liabilities of the Company accrued under the Indenture and the Loan Agreement have been paid or satisfied, made available to the Company.

* * * *

A new section is hereby added to the Reoffering Circular to read in its entirety as follows:

Summary of the First Mortgage Bonds

The following, in addition to the provisions contained elsewhere in this Reoffering Circular, is a brief description of certain provisions of the First Mortgage Bonds and the First Mortgage Indenture. This description is only a summary and does not purport to be complete and definitive. Reference is made to the First Mortgage Indenture and to the form of the First Mortgage Bonds for the detailed provisions thereof.

General

The First Mortgage Bonds, in a principal amount equal to the principal amount of the Bonds, were issued as a new tranche from a new series of first mortgage bonds under the First Mortgage Indenture (see "Summary of the Loan Agreement — Issuance and Delivery of First Mortgage Bonds"). The statements herein made (being for the most part summaries of certain provisions of the First Mortgage Indenture) are subject to the detailed provisions of the First Mortgage Indenture, which is incorporated herein by this reference. Words or phrases italicized are defined in the First Mortgage Indenture.

The First Mortgage Bonds will mature on the same date and bear interest at the same rate or rates as the Bonds; however, the principal of and interest on the First Mortgage Bonds will not be payable other than upon the occurrence of an event of default under the Loan Agreement. If the Bonds become immediately due and payable as a result of a default in payment of the principal of, premium, if any, or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement, and if all first mortgage bonds outstanding under the First Mortgage Indenture shall not have become immediately due and payable following an event of default under the First Mortgage Indenture, the Company will be obligated to redeem the First Mortgage Bonds upon receipt by the First Mortgage Trustee of a Redemption Demand from the Trustee for redemption, at a redemption price equal to the principal amount thereof plus accrued interest at the rates borne by the Bonds from the last date to which interest on the Bonds has been paid.

The First Mortgage Bonds at all times will be in fully registered form registered in the name of the Trustee, will be non-negotiable, and will be non-transferable except to any successor trustee under the Indenture. Upon payment and cancellation of Bonds by the Trustee or the Paying Agent (other than any Bond or portion thereof that was canceled by the Trustee or the Paying Agent and for which one or more Bonds were delivered and authenticated pursuant to the Indenture), whether at maturity, by redemption or otherwise, or upon provision for the payment of the Bonds having been made in accordance with the Indenture, an equal principal amount of First Mortgage Bonds will be deemed fully paid and the obligations of the Company thereunder will cease.

Security; Lien of the First Mortgage Indenture

General. Except as described below under this heading and under “— Issuance of Additional First Mortgage Bonds,” and subject to the exceptions described under “— Satisfaction and Discharge,” all first mortgage bonds issued under the First Mortgage Indenture,

including the Bonds, will be secured, equally and ratably, by the lien of the First Mortgage Indenture, which constitutes, subject to permitted liens as described below, a first mortgage lien on substantially all of the Company's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity (other than property duly released from the lien of the First Mortgage Indenture in accordance with the provisions thereof and other than excepted property, as described below). Property that is subject to the lien of the First Mortgage Indenture is referred to herein as "Mortgaged Property."

The Company may obtain the release of property from the lien of the First Mortgage Indenture from time to time, upon the bases provided for such release in the First Mortgage Indenture. See "— Release of Property."

The Company may enter into supplemental indentures with the First Mortgage Trustee, without the consent of the holders of the first mortgage bonds, in order to subject additional property (including property that would otherwise be excepted from such lien) to the lien of the First Mortgage Indenture. This property would constitute *property additions* and would be available as a basis for the issuance of additional first mortgage bonds. See "— Issuance of Additional First Mortgage Bonds."

The First Mortgage Indenture provides that after-acquired property (other than *excepted property*) will be subject to the lien of the First Mortgage Indenture. However, in the case of consolidation or merger (whether or not the Company is the surviving company) or transfer of the Mortgaged Property as or substantially as an entirety, the First Mortgage Indenture will not be required to be a lien upon any of the properties either owned or subsequently acquired by the successor company except properties acquired from the Company in or as a result of such transfer, as well as improvements, extensions and additions (as defined in the First Mortgage Indenture) to such properties and renewals, replacements and substitutions of or for any part or parts thereof. See "— Consolidation, Merger and Conveyance of Assets as an Entirety."

Excepted Property. The lien of the First Mortgage Indenture does not cover, among other things, the following types of property: property located outside of Kentucky and not specifically subjected or required to be subjected to the lien of the First Mortgage Indenture; property not used by the Company in its electric generation, transmission and distribution business; cash and securities not paid, deposited or held under the First Mortgage Indenture; contracts, leases and other agreements of all kinds, contract rights, bills, notes and other instruments, revenues, accounts receivable, claims, demands and judgments; governmental and other licenses, permits, franchises, consents and allowances; intellectual property rights and other general intangibles; vehicles, movable equipment, aircraft and vessels; all goods, stock in trade, wares, merchandise and inventory held for the purpose of sale or lease in the ordinary course of business; materials, supplies, inventory and other personal property consumable in the operation of the Company's business; fuel; tools and equipment; furniture and furnishings; computers and data processing, telecommunications and other facilities used primarily for administrative or clerical purposes or otherwise not used in connection with the operation or maintenance of electric generation, transmission and distribution facilities; coal, ore, gas, oil and other minerals and timber rights; electric energy and capacity, gas, steam, water and other products generated, produced, manufactured, purchased or otherwise acquired; real property and facilities used primarily for the

production or gathering of natural gas; property which has been released from the lien of the First Mortgage Indenture; and leasehold interests. Property of the Company not covered by the lien of the First Mortgage Indenture is referred to herein as excepted property. Properties held by any of the Company's subsidiaries, as well as properties leased from others, would not be subject to the lien of the First Mortgage Indenture.

Permitted Liens. The lien of the First Mortgage Indenture is subject to permitted liens described in the First Mortgage Indenture. Such *permitted liens* include liens existing at the execution date of the First Mortgage Indenture, purchase money liens and other liens placed or otherwise existing on property acquired by the Company after the execution date of the First Mortgage Indenture at the time the Company acquires it, tax liens and other governmental charges which are not delinquent or which are being contested in good faith, mechanics', construction and materialmen's liens, certain judgment liens, easements, reservations and rights of others (including governmental entities) in, and defects of title to, the Company's property, certain leases and leasehold interests, liens to secure public obligations, rights of others to take minerals, timber, electric energy or capacity, gas, water, steam or other products produced by the Company or by others on the Company's property, rights and interests of persons other than the Company arising out of agreements relating to the common ownership or joint use of property, and liens on the interests of such persons in such property and liens which have been bonded or for which other security arrangements have been made.

The First Mortgage Indenture also provides that the First Mortgage Trustee will have a lien, prior to the lien on behalf of the holders of the first mortgage bonds, including the First Mortgage Bonds, upon the Mortgaged Property as security for the Company's payment of its reasonable compensation and expenses and for indemnity against certain liabilities. Any such lien would be a *permitted lien* under the First Mortgage Indenture.

Issuance of Additional First Mortgage Bonds

The maximum principal amount of first mortgage bonds that may be authenticated and delivered under the First Mortgage Indenture is subject to the issuance restrictions described below; provided, however, that the maximum principal amount of first mortgage bonds outstanding at any one time shall not exceed One Quintillion Dollars (\$1,000,000,000,000,000,000), which amount may be changed by supplemental indenture. First mortgage bonds of any series may be issued from time to time on the basis of, and in an aggregate principal amount not exceeding:

- 66 2/3% of the *cost* or *fair value* to the Company (whichever is less) of *property additions* (as described below) which do not constitute *funded property* (generally, *property additions* which have been made the basis of the authentication and delivery of first mortgage bonds, the release of Mortgaged Property or the withdrawal of cash, which have been substituted for retired *funded property* or which have been used for other specified purposes) after certain deductions and additions, primarily including adjustments to offset property retirements;
- the aggregate principal amount of *retired securities* (as described below); or

- an amount of cash deposited with the First Mortgage Trustee.

Property additions generally include any property which is owned by the Company and is subject to the lien of the First Mortgage Indenture except (with certain exceptions) goodwill, going concern value rights or intangible property, or any property the acquisition or construction of which is properly chargeable to one of the Company's operating expense accounts.

Retired securities means, generally, first mortgage bonds which are no longer outstanding under the First Mortgage Indenture, which have not been retired by the application of *funded cash* and which have not been used as the basis for the authentication and delivery of first mortgage bonds, the release of property or the withdrawal of cash.

The First Mortgage Bonds will be issued on the basis of *property additions*. At August 31, 2010, approximately \$2.3 billion of *property additions* were available to be used as the basis for the authentication and delivery of first mortgage bonds.

Release of Property

Unless an *event of default* has occurred and is continuing, the Company may obtain the release from the lien of the First Mortgage Indenture of any Mortgaged Property, except for cash held by the First Mortgage Trustee, upon delivery to the First Mortgage Trustee of an amount in cash equal to the amount, if any, by which sixty-six and two-thirds percent (66-2/3%) of the cost of the property to be released (or, if less, the *fair value* to the Company of such property at the time it became *funded property*) exceeds the aggregate of:

- an amount equal to 66 2/3% of the aggregate principal amount of obligations secured by *purchase money liens* upon the property to be released and delivered to the First Mortgage Trustee;
- an amount equal to 66 2/3% of the *cost* or *fair value* to the Company (whichever is less) of certified *property additions* not constituting *funded property* after certain deductions and additions, primarily including adjustments to offset property retirements (except that such adjustments need not be made if such *property additions* were acquired or made within the 90-day period preceding the release);
- the aggregate principal amount of first mortgage bonds the Company would be entitled to issue on the basis of *retired securities* (with such entitlement being waived by operation of such release);
- the aggregate principal amount of first mortgage bonds delivered to the First Mortgage Trustee (with such first mortgage bonds to be canceled by the First Mortgage Trustee);
- any amount of cash and/or an amount equal to 66 2/3% of the aggregate principal amount of obligations secured by *purchase money liens* upon the property released delivered to the trustee or other holder of a lien prior to the lien of the First Mortgage Indenture, subject to certain limitations described in the First Mortgage Indenture; and

- any taxes and expenses incidental to any sale, exchange, dedication or other disposition of the property to be released.

As used in the First Mortgage Indenture, the term *purchase money* lien means, generally, a lien on the property being released which is retained by the transferor of such property or granted to one or more other persons in connection with the transfer or release thereof, or granted to or held by a trustee or agent for any such persons, and may include liens which cover property in addition to the property being released and/or which secure indebtedness in addition to indebtedness to the transferor of such property.

Unless an *event of default* has occurred and is continuing, property which is not *funded property* may generally be released from the lien of the First Mortgage Indenture without depositing any cash or property with the First Mortgage Trustee as long as (a) the aggregate amount of *cost* or *fair value* to the Company (whichever is less) of all *property additions* which do not constitute *funded property* (excluding the property to be released) after certain deductions and additions, primarily including adjustments to offset property retirements, is not less than zero or (b) the *cost* or *fair value* (whichever is less) of property to be released does not exceed the aggregate amount of the *cost* or *fair value* to the Company (whichever is less) of *property additions* acquired or made within the 90-day period preceding the release.

The First Mortgage Indenture provides simplified procedures for the release of minor properties and property taken by eminent domain, and provides for dispositions of certain obsolete property and grants or surrender of certain rights without any release or consent by the First Mortgage Trustee.

If the Company retains any interest in any property released from the lien of the First Mortgage Indenture, the First Mortgage Indenture will not become a lien on such property or such interest therein or any improvements, extensions or additions to such property or renewals, replacements or substitutions of or for such property or any part or parts thereof.

Withdrawal of Cash

Unless an *event of default* has occurred and is continuing, and subject to certain limitations, cash held by the First Mortgage Trustee may, generally, (1) be withdrawn by the Company (a) to the extent of sixty-six and two-thirds percent (66-2/3%) of the *cost* or *fair value* to the Company (whichever is less) of *property additions* not constituting *funded property*, after certain deductions and additions, primarily including adjustments to offset retirements (except that such adjustments need not be made if such *property additions* were acquired or made within the 90-day period preceding the withdrawal) or (b) in an amount equal to the aggregate principal amount of first mortgage bonds that the Company would be entitled to issue on the basis of *retired securities* (with the entitlement to such issuance being waived by operation of such withdrawal) or (c) in an amount equal to the aggregate principal amount of any outstanding first mortgage bonds delivered to the First Mortgage Trustee; or (2) upon the Company's request, be applied to (a) the purchase of first mortgage bonds in a manner and at a price approved by the Company or (b) the payment (or provision for payment) at stated maturity of any first mortgage bonds or the redemption (or provision for payment) of any first mortgage bonds which are redeemable; provided, however, that cash deposited with the First Mortgage Trustee as the basis

for the authentication and delivery of first mortgage bonds may, in addition, be withdrawn in an amount not exceeding the aggregate principal amount of cash delivered to the First Mortgage Trustee for such purpose.

Events of Default

An “*event of default*” occurs under the First Mortgage Indenture if

- the Company does not pay any interest on any first mortgage bonds within 30 days of the due date;
- the Company does not pay principal or premium, if any, on any first mortgage bonds on the due date;
- the Company remains in breach of any other covenant (excluding covenants specifically dealt with elsewhere in this section) in respect of any first mortgage bonds for 90 days after the Company receives a written notice of default stating the Company is in breach and requiring remedy of the breach; the notice must be sent by either the First Mortgage Trustee or holders of 25% of the principal amount of outstanding first mortgage bonds; the First Mortgage Trustee or such holders can agree to extend the 90-day period and such an agreement to extend will be automatically deemed to occur if the Company initiates corrective action within such 90 day period and the Company is diligently pursuing such action to correct the default; or
- the Company files for bankruptcy or certain other events in bankruptcy, insolvency, receivership or reorganization occur.

Remedies

Acceleration of Maturity. If an event of default occurs and is continuing, then either the First Mortgage Trustee or the holders of not less than 25% in principal amount of the outstanding first mortgage bonds may declare the principal amount of all of the first mortgage bonds to be due and payable immediately.

Rescission of Acceleration. After the declaration of acceleration has been made and before the First Mortgage Trustee has obtained a judgment or decree for payment of the money due, such declaration and its consequences will be rescinded and annulled, if

- the Company pays or deposits with the First Mortgage Trustee a sum sufficient to pay:
 - all overdue interest;
 - the principal of and premium, if any, which have become due otherwise than by such declaration of acceleration and interest thereon;
 - interest on overdue interest to the extent lawful;

- all amounts due to the First Mortgage Trustee under the First Mortgage Indenture; and
- all *events of default*, other than the nonpayment of the principal which has become due solely by such declaration of acceleration, have been cured or waived as provided in the First Mortgage Indenture.

For more information as to waiver of defaults, see “— Waiver of Default and of Compliance” below.

Appointment of Receiver and Other Remedies. Subject to the First Mortgage Indenture, under certain circumstances and to the extent permitted by law, if an *event of default* occurs and is continuing, the First Mortgage Trustee has the power to appoint a receiver of the Mortgaged Property, and is entitled to all other remedies available to mortgagees and secured parties under the Uniform Commercial Code or any other applicable law.

Control by Holders: Limitations. Subject to the First Mortgage Indenture, if an *event of default* occurs and is continuing, the holders of a majority in principal amount of the outstanding first mortgage bonds will have the right to

- direct the time, method and place of conducting any proceeding for any remedy available to the First Mortgage Trustee, or
- exercise any trust or power conferred on the First Mortgage Trustee.

The rights of holders to make direction are subject to the following limitations:

- the holders’ directions may not conflict with any law or the First Mortgage Indenture; and
- the holders’ directions may not involve the First Mortgage Trustee in personal liability where the First Mortgage Trustee believes indemnity is not adequate.

The First Mortgage Trustee may also take any other action it deems proper which is not inconsistent with the holders’ direction.

In addition, the First Mortgage Indenture provides that no holder of any first mortgage bond will have any right to institute any proceeding, judicial or otherwise, with respect to the First Mortgage Indenture for the appointment of a receiver or for any other remedy thereunder unless

- that holder has previously given the First Mortgage Trustee written notice of a continuing *event of default*;
- the holders of 25% in aggregate principal amount of the outstanding first mortgage bonds have made written request to the First Mortgage Trustee to institute proceedings in respect of that *event of default* and have offered the First Mortgage Trustee reasonable indemnity against costs, expenses and liabilities incurred in complying with such request; and

- for 60 days after receipt of such notice, request and offer of indemnity, the First Mortgage Trustee has failed to institute any such proceeding and no direction inconsistent with such request has been given to the First Mortgage Trustee during such 60-day period by the holders of a majority in aggregate principal amount of outstanding first mortgage bonds.

Furthermore, no holder of any first mortgage bonds will be entitled to institute any such action if and to the extent that such action would disturb or prejudice the rights of other holders of first mortgage bonds.

However, each holder of any first mortgage bonds has an absolute and unconditional right to receive payment when due and to bring a suit to enforce that right.

Notice of Default. The First Mortgage Trustee is required to give the holders of the first mortgage bonds notice of any default under the First Mortgage Indenture to the extent required by the Trust Indenture Act, unless such default has been cured or waived; except that in the case of an *event of default* of the character specified in the third bullet point under “— Events of Default” (regarding a breach of certain covenants continuing for 90 days after the receipt of a written notice of default), no such notice shall be given to such holders until at least 60 days after the occurrence thereof. The Trust Indenture Act currently permits the First Mortgage Trustee to withhold notices of default (except for certain payment defaults) if the First Mortgage Trustee in good faith determines the withholding of such notice to be in the interests of the holders of the first mortgage bonds.

The Company will furnish the First Mortgage Trustee with an annual statement as to its compliance with the conditions and covenants in the First Mortgage Indenture.

Waiver of Default and of Compliance. The holders of a majority in aggregate principal amount of the outstanding first mortgage bonds may waive, on behalf of the holders of all outstanding first mortgage bonds, any past default under the First Mortgage Indenture, except a default in the payment of principal, premium or interest, or with respect to compliance with certain provisions of the First Mortgage Indenture that cannot be amended without the consent of the holder of each outstanding first mortgage bond affected.

Compliance with certain covenants in the First Mortgage Indenture or otherwise provided with respect to first mortgage bonds may be waived by the holders of a majority in aggregate principal amount of the affected first mortgage bonds, considered as one class.

Consolidation, Merger and Conveyance of Assets as an Entirety

Subject to the provisions described below, the Company has agreed to preserve its corporate existence.

The Company has agreed not to consolidate with or merge with or into any other entity or convey, transfer or lease the Mortgaged Property as or substantially as an entirety to any entity unless

- the entity formed by such consolidation or into which the Company merges, or the entity which acquires or which leases the Mortgaged Property substantially as an entirety, is an

entity organized and existing under the laws of the United States of America or any State or Territory thereof or the District of Columbia, and

- expressly assumes, by supplemental indenture, the due and punctual payment of the principal of, and premium and interest on, all the outstanding first mortgage bonds and the performance of all of the Company's covenants under the First Mortgage Indenture, and
- such entity confirms the lien of the First Mortgage Indenture on the Mortgaged Property, including property thereafter acquired by such entity which constitutes an improvement, extension or addition to the Mortgaged Property or a renewal, replacement or substitution thereof;
- in the case of a lease, such lease is made expressly subject to termination by (i) the Company or by the First Mortgage Trustee and (ii) the purchaser of the property so leased at any sale thereof, at any time during the continuance of an *event of default*; and
- immediately after giving effect to such transaction, no *event of default*, and no event which after notice or lapse of time or both would become an *event of default*, will have occurred and be continuing.

In the case of the conveyance or other transfer of the Mortgaged Property as or substantially as an entirety to any other person, upon the satisfaction of all the conditions described above the Company would be released and discharged from all obligations under the First Mortgage Indenture and on the first mortgage bonds then outstanding unless the Company elects to waive such release and discharge.

The First Mortgage Indenture does not prevent or restrict:

- any consolidation or merger after the consummation of which the Company would be the surviving or resulting entity; or
- any conveyance or other transfer, or lease, of any part of the Mortgaged Property which does not constitute the entirety or substantially the entirety thereof.

If following a conveyance or other transfer, or lease, of any part of the Mortgaged Property, the fair value of the Mortgaged Property retained by the Company exceeds an amount equal to three-halves ($3/2$) of the aggregate principal amount of all outstanding first mortgage bonds, then the part of the Mortgaged Property so conveyed, transferred or leased shall be deemed not to constitute the entirety or substantially the entirety of the Mortgaged Property. This fair value will be determined within 90 days of the conveyance or transfer by an independent expert that the Company selects and that is approved by the First Mortgage Trustee.

Modification of First Mortgage Indenture

Without Holder Consent. Without the consent of any holders of first mortgage bonds, the Company and the First Mortgage Trustee may enter into one or more supplemental indentures for any of the following purposes:

- to evidence the succession of another entity to the Company;
- to add one or more covenants or other provisions for the benefit of the holders of all or any series or tranche of first mortgage bonds, or to surrender any right or power conferred upon the Company;
- to correct or amplify the description of any property at any time subject to the lien of the First Mortgage Indenture; or to better assure, convey and confirm unto the First Mortgage Trustee any property subject or required to be subjected to the lien of the First Mortgage Indenture; or to subject to the lien of the First Mortgage Indenture additional property (including property of others), to specify any additional Permitted Liens with respect to such additional property and to modify the provisions in the First Mortgage Indenture for dispositions of certain types of property without release in order to specify any additional items with respect to such additional property;
- to add any additional *events of default*, which may be stated to remain in effect only so long as the first mortgage bonds of any one more particular series remains outstanding;
- to change or eliminate any provision of the First Mortgage Indenture or to add any new provision to the First Mortgage Indenture that does not adversely affect the interests of the holders in any material respect;
- to establish the form or terms of any series or tranche of first mortgage bonds;
- to provide for the issuance of bearer securities;
- to evidence and provide for the acceptance of appointment of a successor First Mortgage Trustee or by a co-trustee or separate trustee;
- to provide for the procedures required to permit the utilization of a noncertificated system of registration for any series or tranche of first mortgage bonds;
- to change any place or places where
 - the Company may pay principal, premium and interest,
 - first mortgage bonds may be surrendered for transfer or exchange, and
 - notices and demands to or upon the Company may be served;

- to amend and restate the First Mortgage Indenture as originally executed, and as amended from time to time, with such additions, deletions and other changes that do not adversely affect the interest of the holders in any material respect;
- to cure any ambiguity, defect or inconsistency or to make any other changes that do not adversely affect the interests of the holders in any material respect; or
- to increase or decrease the maximum principal amount of first mortgage bonds that may be outstanding at any time.

In addition, if the Trust Indenture Act is amended after the date of the First Mortgage Indenture so as to require changes to the First Mortgage Indenture or so as to permit changes to, or the elimination of, provisions which, at the date of the First Mortgage Indenture or at any time thereafter, were required by the Trust Indenture Act to be contained in the First Mortgage Indenture, the First Mortgage Indenture will be deemed to have been amended so as to conform to such amendment or to effect such changes or elimination, and the Company and the First Mortgage Trustee may, without the consent of any holders, enter into one or more supplemental indentures to effect or evidence such amendment.

With Holder Consent. Except as provided above, the consent of the holders of at least a majority in aggregate principal amount of the first mortgage bonds of all outstanding series, considered as one class, is generally required for the purpose of adding to, or changing or eliminating any of the provisions of, the First Mortgage Indenture pursuant to a supplemental indenture. However, if less than all of the series of outstanding first mortgage bonds are directly affected by a proposed supplemental indenture, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding first mortgage bonds of all directly affected series, considered as one class. Moreover, if the first mortgage bonds of any series have been issued in more than one tranche and if the proposed supplemental indenture directly affects the rights of the holders of first mortgage bonds of one or more, but less than all, of such tranches, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding first mortgage bonds of all directly affected tranches, considered as one class.

However, no amendment or modification may, without the consent of the holder of each outstanding first mortgage bond directly affected thereby,

- change the stated maturity of the principal or interest on any first mortgage bond (other than pursuant to the terms thereof), or reduce the principal amount, interest or premium payable (or method of calculating such rates) or change the currency in which any first mortgage bond is payable, or impair the right to bring suit to enforce any payment;
- create any lien (not otherwise permitted by the First Mortgage Indenture) ranking prior to the lien of the First Mortgage Indenture with respect to all or substantially all of the Mortgaged Property, or terminate the lien of the First Mortgage Indenture on all or substantially all of the Mortgaged Property (other than in accordance with the terms of the First Mortgage Indenture), or deprive any holder of the benefits of the security of the lien of the First Mortgage Indenture;

- reduce the percentages of holders whose consent is required for any supplemental indenture or waiver of compliance with any provision of the First Mortgage Indenture or of any default thereunder and its consequences, or reduce the requirements for quorum and voting under the First Mortgage Indenture; or
- modify certain of the provisions of the First Mortgage Indenture relating to supplemental indentures, waivers of certain covenants and waivers of past defaults with respect to first mortgage bonds.

A supplemental indenture which changes, modifies or eliminates any provision of the First Mortgage Indenture expressly included solely for the benefit of holders of first mortgage bonds of one or more particular series or tranches will be deemed not to affect the rights under the First Mortgage Indenture of the holders of first mortgage bonds of any other series or tranche.

Satisfaction and Discharge

Any first mortgage bonds or any portion thereof will be deemed to have been paid and no longer outstanding for purposes of the First Mortgage Indenture and, at the Company's election, the Company's entire indebtedness with respect to those securities will be satisfied and discharged, if there shall have been irrevocably deposited with the First Mortgage Trustee or any Paying Agent (other than the Company), in trust:

- money sufficient, or
- in the case of a deposit made prior to the maturity of such first mortgage bonds, non-redeemable *eligible obligations* (as defined in the First Mortgage Indenture) sufficient, or
- a combination of the items listed in the preceding two bullet points, which in total are sufficient,

to pay when due the principal of, and any premium, and interest due and to become due on such first mortgage bonds or portions of such first mortgage bonds on and prior to their maturity.

The Company's right to cause its entire indebtedness in respect of the first mortgage bonds of any series to be deemed to be satisfied and discharged as described above will be subject to the satisfaction of any conditions specified in the instrument creating such series.

The First Mortgage Indenture will be deemed satisfied and discharged when no first mortgage bonds remain outstanding and when the Company has paid all other sums payable by it under the First Mortgage Indenture.

All moneys the Company pays to the First Mortgage Trustee or any Paying Agent on First Mortgage Bonds that remain unclaimed at the end of two years after payments have become due may be paid to or upon the Company's order. Thereafter, the holder of such First Mortgage Bond may look only to the Company for payment.

Duties of the First Mortgage Trustee; Resignation and Removal of the First Mortgage Trustee; Deemed Resignation

The First Mortgage Trustee will have, and will be subject to, all the duties and responsibilities specified with respect to an indenture trustee under the Trust Indenture Act. Subject to these provisions, the First Mortgage Trustee will be under no obligation to exercise any of the powers vested in it by the First Mortgage Indenture at the request of any holder of first mortgage bonds, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The First Mortgage Trustee will not be required to expend or risk its own funds or otherwise incur financial liability in the performance of its duties if the First Mortgage Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The First Mortgage Trustee may resign at any time by giving written notice to the Company.

The First Mortgage Trustee may also be removed by act of the holders of a majority in principal amount of the then outstanding first mortgage bonds of any series.

No resignation or removal of the First Mortgage Trustee and no appointment of a successor trustee will become effective until the acceptance of appointment by a successor trustee in accordance with the requirements of the First Mortgage Indenture.

Under certain circumstances, the Company may appoint a successor trustee and if the successor accepts, the First Mortgage Trustee will be deemed to have resigned.

Evidence to be Furnished to the First Mortgage Trustee

Compliance with First Mortgage Indenture provisions is evidenced by written statements of the Company's officers or persons selected or paid by the Company. In certain cases, opinions of counsel and certifications of an engineer, accountant, appraiser or other expert (who in some cases must be independent) must be furnished. In addition, the First Mortgage Indenture requires the Company to give to the First Mortgage Trustee, not less than annually, a brief statement as to the Company's compliance with the conditions and covenants under the First Mortgage Indenture.

Miscellaneous Provisions

The First Mortgage Indenture provides that certain first mortgage bonds, including those for which payment or redemption money has been deposited or set aside in trust as described under "— Satisfaction and Discharge" above, will not be deemed to be "outstanding" in determining whether the holders of the requisite principal amount of the outstanding first mortgage bonds have given or taken any demand, direction, consent or other action under the First Mortgage Indenture as of any date, or are present at a meeting of holders for quorum purposes.

The Company will be entitled to set any day as a record date for the purpose of determining the holders of outstanding first mortgage bonds of any series entitled to give or take

any demand, direction, consent or other action under the First Mortgage Indenture, in the manner and subject to the limitations provided in the First Mortgage Indenture. In certain circumstances, the First Mortgage Trustee also will be entitled to set a record date for action by holders. If such a record date is set for any action to be taken by holders of particular first mortgage bonds, such action may be taken only by persons who are holders of such first mortgage bonds on the record date.

Governing Law

The First Mortgage Indenture and the first mortgage bonds provide that they are to be governed by and construed in accordance with the laws of the State of New York except where the Trust Indenture Act is applicable or where otherwise required by law. The effectiveness of the lien of the First Mortgage Indenture, and the perfection and priority thereof, will be governed by Kentucky law.

* * * *

The sections of the Reoffering Circular captioned “Summary of the Indenture — Surrender of First Mortgage Bonds”; “— Defaults and Remedies”; “— Waiver of Events of Default”; and “— Voting of First Mortgage Bonds Held by Trustee” are hereby added or amended, as applicable, to read in their entirety as follows:

Summary of the Indenture

* * * *

Surrender of First Mortgage Bonds

Upon payment of any principal of, premium, if any, and interest on any of the Bonds which reduces the principal amount of Bonds outstanding, or upon provision for the payment thereof having been made in accordance with the Indenture, First Mortgage Bonds in a principal amount equal to the principal amount of the Bonds so paid, or for the payment of which such provision has been made, shall be surrendered by the Trustee to the First Mortgage Trustee. The First Mortgage Bonds so surrendered shall be deemed fully paid and the obligations of the Company thereunder terminated.

Defaults and Remedies

Each of the following events constitutes an “Event of Default” under the Indenture:

(1) failure to make payment of any installment of interest on any Bond, (a) if such Bond bears interest at other than the Long Term Rate, within a period of one Business Day from the due date and (b) if such Bond bears interest at the Long Term Rate, within a period of five Business Days from the due date;

(2) failure to make punctual payment of the principal of, or premium, if any, on any Bond on the due date, whether at the stated maturity thereof, or upon proceedings for redemption, or upon the maturity thereof by declaration or if payment of the purchase price of any Bond required to be purchased pursuant to the Indenture is not made when such payment has become due and payable;

(3) failure of the Issuer to perform or observe any other of the covenants, agreements or conditions in the Indenture or in the Bonds which failure continues for a period of 30 days after written notice by the Trustee, provided, however, that if such failure is capable of being cured, but cannot be cured in such 30-day period, it will not constitute an event of default under the Indenture if corrective action in respect of such failure is instituted within such 30-day period and is being diligently pursued;

(4) the occurrence of an “event of default” under the Loan Agreement (see “Summary of the Loan Agreement — Events of Default”);

(5) written notice from the Credit Facility Issuer to the Trustee of an event of default under the Reimbursement Agreement, by reason of which the Trustee has been directed to accelerate the Bonds;

(6) if a Credit Facility is then held by the Trustee, on or before the close of business on the tenth calendar day following the honoring of a drawing under such Credit Facility to pay interest on the Bonds on an Interest Payment Date, written notice from the Credit Facility Issuer to the Trustee that the interest component of the Credit Facility will not be reinstated; or

(7) all first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded by the First Mortgage Trustee.

Upon the occurrence of an Event of Default under clauses (1), (2), (5), (6) or (7) above, the Trustee must: (i) enforce each and every right granted to the Trustee as a holder of the First Mortgage Bonds (see “Summary of the First Mortgage Bonds”), (ii) declare the principal of all Bonds and interest accrued thereon to be immediately due and payable, (iii) declare all payments under the Loan Agreement to be immediately due and payable and enforce each and every other right granted to the Issuer under the Loan Agreement for the benefit of the Bondholders and (iv) if a Credit Facility securing the Bonds is in effect, make an immediate drawing under the Credit Facility in accordance with its terms and deposit the proceeds of such drawing in the Bond Fund pending application to the payment of principal of the Bonds, subject to the provisions of

the Indenture reserving to the Credit Facility Issuer the right to direct default proceedings and providing for termination of default proceedings upon certain occurrences.

Interest on the Bonds will cease to accrue on the date of issuance of the declaration of acceleration of payment of principal and interest on the Bonds.

In exercising such rights, the Trustee shall take any action that, in the judgment of the Trustee, would best serve the interests of the registered owners. Upon the occurrence of an Event of Default under the Indenture, the Trustee may also proceed to pursue any available remedy by suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds then outstanding.

If an Event of Default under the Indenture shall occur and be continuing and the maturity date of the Bonds has been accelerated (to the extent the Bonds are not already due and payable) as a consequence of such event of default, the Trustee may, and upon the written request of the registered owners holding not less than 25% in principal amount of all Bonds then outstanding and upon receipt of indemnity satisfactory to it shall, exercise such rights as it shall possess under the First Mortgage Indenture as a holder of the First Mortgage Bonds and shall also issue a Redemption Demand for such First Mortgage Bonds to the First Mortgage Trustee.

If the Trustee recovers any moneys following an Event of Default, unless the principal of the Bonds shall have been declared due and payable, all such moneys shall be applied in the following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent, (ii) to the payment of all interest then due on the Bonds and (iii) to the payment of unpaid principal and premium, if any, of the Bonds. If the principal of the Bonds has become due or has been accelerated, such moneys shall be applied in the following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent and (ii) to the payment of principal of and interest then due and unpaid on the Bonds. In each case, however, Trustee and Paying Agent fees or costs will not be payable from moneys derived from Credit Facility drawings, any remarketing proceeds or moneys constituting certain Available Moneys under the Indenture.

No Bondholder may institute any suit or proceeding in equity or at law for the enforcement of the Indenture unless an Event of Default has occurred of which the Trustee has been notified or is deemed to have notice, and registered owners holding not less than 25% in aggregate principal amount of Bonds then outstanding shall have made written request to the Trustee to proceed to exercise the powers granted under the Indenture or to institute such action in their own name and the Trustee shall fail or refuse to exercise its powers within a reasonable time after receipt of indemnity satisfactory to it.

Any judgment against the Issuer pursuant to the exercise of rights under the Indenture shall be enforceable only against specific assigned payments, funds and accounts under the Indenture in the hands of the Trustee. No deficiency judgment shall be authorized against the general credit of the Issuer.

No default under paragraph (3) above shall constitute an Event of Default until actual notice is given to the Issuer and the Company by the Trustee or to the Issuer, the Company and

the Trustee by the registered owners holding not less than 25% in aggregate principal amount of all Bonds outstanding and the Issuer and the Company shall have had thirty days after such notice to correct the default and failed to do so. If the default is such that it cannot be corrected within the applicable period but is capable of being cured, it will not constitute an Event of Default if corrective action is instituted within the applicable period.

Notwithstanding the foregoing, in addition to the rights of the Trustee and the Bondholders to direct proceedings as described above, if a Credit Facility is in effect, for so long as such Credit Facility is outstanding and the Credit Facility Issuer is not in default in its duties under the Indenture or the Credit Facility, the Credit Facility Issuer will have the absolute right to direct all proceedings on behalf of the Bondholders of the Bonds. Additionally, if the Event of Default which has occurred is an Event of Default under paragraphs (5) or (6) above, the Credit Facility Issuer, if any, will have no right to direct the Trustee or the Bondholders with respect to any matters, including remedies, and the holders of a majority in aggregate principal amount of the Bonds then outstanding, will have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings hereunder; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

If an Event of Default has occurred under the Indenture due to failure by the Credit Facility Issuer, if any, to honor a properly presented and conforming drawing by the Trustee under the Credit Facility then in effect in accordance with the terms thereof, all obligations of the Trustee to the Credit Facility Issuer and all rights of such Credit Facility Issuer under the Indenture will be suspended until the earlier of the cure of such failure or all of the Bonds have been paid in full.

Waiver of Events of Default

Except as provided below, the Trustee may in its discretion waive any Event of Default under the Indenture and shall do so upon the written request of the registered owners holding a majority in principal amount of all Bonds then outstanding. If, after the principal of all Bonds then outstanding shall have been declared to be due and payable and prior to any judgment or decree for the appointment of a receiver or for the payment of the moneys due shall have been entered, (i) the Company has caused to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of and premium, if any, on any and all Bonds which shall have become due otherwise than by reason of such declaration and the expenses of the Trustee in connection with such default (with interest thereon as provided in the Indenture) and (ii) all Events of Default under the Indenture (other than nonpayment of the principal of Bonds due by said declaration) shall have been remedied, then such Event of Default shall be deemed waived and such declaration and its consequences rescinded and annulled by the Trustee. Such waiver, rescission and annulment shall be binding upon all Bondholders. No such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

Upon any waiver or rescission as described above or any discontinuance or abandonment of proceedings under the Indenture, the Trustee shall immediately rescind in writing any Redemption Demand of First Mortgage Bonds previously given to the First Mortgage Trustee. The rescission under the First Mortgage Indenture of a declaration that all first mortgage bonds outstanding under the First Mortgage Indenture are immediately due and payable shall also constitute a waiver of an Event of Default described in paragraph (6) under the subcaption “— Defaults and Remedies” above and a waiver and rescission of its consequences, provided that no such waiver or rescission shall extend to or affect any subsequent or other default or impair any right consequent thereon.

The Trustee may not waive any default under clauses (5) or (6) above unless the Trustee has received in writing from the Credit Facility Issuer a written notice of full reinstatement of the full amount of the Credit Facility and a written rescission of the notice of the Event of Default.

Notwithstanding the foregoing, nothing in the Indenture shall affect the right of a registered owner to enforce the payment of principal of, premium, if any, and interest on the Bonds after the maturity thereof.

Voting of First Mortgage Bonds Held by Trustee

The Trustee, as holder of the First Mortgage Bonds, shall attend any meeting of holders of first mortgage bonds outstanding under the First Mortgage Indenture as to which it receives due notice. The Trustee shall vote the First Mortgage Bonds held by it, or shall consent with respect thereto, proportionally in the way in which the Trustee reasonably believes will be the vote or consent of all other holders of first mortgage bonds outstanding under the First Mortgage Indenture then eligible to vote or consent.

Notwithstanding the foregoing, the Trustee may not vote the First Mortgage Bonds in favor of, or give consent to, any action which, in the Trustee’s opinion, would materially adversely affect the First Mortgage Bonds in a manner not generally shared by all other series of first mortgage bonds, except upon notification by the Trustee to the registered owners of all Bonds then outstanding of such proposal and consent thereto of the registered owners of at least 66 2/3% in aggregate principal amount of all Bonds then outstanding.

NOT A NEW ISSUE**BOOK-ENTRY-ONLY**

On May 19, 2000, the date on which the Bonds were originally issued, Bond Counsel delivered its opinion that stated that, subject to the conditions and exceptions set forth under the caption "Tax Treatment," under then current law, interest on the Bonds would be excludable from the gross income of the recipients thereof for federal income tax purposes, except that no opinion was expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" or a "related person" of the Project as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds will be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Such interest may be subject to certain federal income taxes imposed on certain corporations, including imposition of the branch profits tax on a portion of such interest. Bond Counsel was further of the opinion that interest on the Bonds would be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under then current law, the principal of the Bonds would be exempt from ad valorem taxes in Kentucky. Such opinion has not been updated as of the date hereof and no continuing tax exemption opinions are expressed by Bond Counsel. However, in connection with the reoffering of the Bonds, as described herein, Bond Counsel will deliver its opinion to the effect that the delivery of a letter of credit (a) is authorized or permitted by the Act and the Indenture and (b) will not adversely affect the validity of the Bonds or any exclusion of the interest thereon from the gross income of the owners of the Bonds for federal income tax purposes. See "Tax Treatment" herein.

\$12,900,000
County of Mercer, Kentucky,
Solid Waste Disposal Facility Revenue Bonds,
2000 Series A
(Kentucky Utilities Company Project)
Due: May 1, 2023

Reoffering Date: December 17, 2008

The County of Mercer, Kentucky, Solid Waste Disposal Facility Revenue Bonds, 2000 Series A (Kentucky Utilities Company Project) (the "Bonds") are special and limited obligations of the County of Mercer, Kentucky (the "Issuer"), payable by the Issuer solely from and secured by payments to be received by the Issuer pursuant to a Loan Agreement with

Kentucky Utilities Company

(the "Company"), except as payable from proceeds of such Bonds or investment earnings thereon. The Bonds do not constitute general obligations of the Issuer or a charge against the general credit or taxing powers thereof or of the Commonwealth of Kentucky or any other political subdivision of Kentucky. The Bonds are not entitled to the benefits of any financial guaranty insurance policies.

The Bonds were originally issued on May 19, 2000 and currently bear interest at a Weekly Rate. Pursuant to the Indenture under which the Bonds were issued, the Company has elected to deliver a letter of credit to the Trustee and reoffer the Bonds. The Bonds are subject to mandatory purchase on the Reoffering Date and are being reoffered by this Reoffering Circular. Morgan Stanley & Co. Incorporated will serve as the Remarketing Agent for the Bonds.

From the Reoffering Date through December 16, 2009 (the Letter of Credit (as defined below) expiration date, subject to extension or earlier termination), payment of the principal of and interest on the Bonds when due will be paid with funds drawn under an irrevocable transferable direct pay letter of credit (the "Letter of Credit") issued by

Commerzbank AG, New York Branch

The Letter of Credit will permit the Trustee to draw with respect to the Bonds up to an amount sufficient to pay (i) the principal thereof (or that portion of the purchase price corresponding to principal) plus (ii) interest thereon (or that portion of the purchase price corresponding to interest) at an assumed rate of 10% per annum for at least 45 days.

From and after the Reoffering Date, the Bonds will continue to bear interest at a Weekly Rate, determined by the Remarketing Agent in accordance with the Indenture, payable on the first Business Day of each calendar month, commencing on January 2, 2009. The interest rate period, interest rate and Interest Rate Mode will be subject to change under certain conditions, as described in this Reoffering Circular. The Bonds are subject to optional redemption, extraordinary optional redemption, in whole or in part, and mandatory redemption following a determination of taxability prior to maturity, as described in this Reoffering Circular. The Bonds are subject to mandatory purchase on any date on which the Bonds are converted to a different Interest Rate Mode and upon the expiration of the Letter of Credit or any Alternate Credit Facility.

The Bonds are registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Except as described in this Reoffering Circular, purchases of beneficial ownership interests in the Bonds will be made in book-entry-only form in denominations of \$100,000 and multiples thereof. Purchasers will not receive certificates representing their beneficial interest in the Bonds. See the information contained under the caption "Summary of the Bonds—Book-Entry-Only System" in this Reoffering Circular. The principal of, premium, if any, and interest on the Bonds will be paid by The Bank of New York Mellon, as Trustee, to Cede & Co., as long as Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the purchasers of beneficial ownership interests is the responsibility of DTC's Direct and Indirect Participants, as more fully described in this Reoffering Circular.

PRICE: 100%

The Bonds are reoffered subject to prior sale, withdrawal or modification of the offer without notice (provided, however, that any such notice of withdrawal must be given on the Business Day prior to the Reoffering Date) and to the approval of legality by Stoll Keenon Ogden PLLC, Louisville, Kentucky, as Bond Counsel, and upon satisfaction of certain conditions. Certain legal matters will be passed upon for the Company by its counsel, Jones Day, Chicago, Illinois, and John R. McCall, Esq., Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer of the Company, for the Issuer by its County Attorney, and for the Remarketing Agent by its counsel, Winston & Strawn LLP, Chicago, Illinois. It is expected that the Bonds will be available for redelivery to DTC in New York, New York on or about December 17, 2008.

MORGAN STANLEY

Dated: December 10, 2008

No dealer, broker, salesman or other person has been authorized by the Issuer, the Company or the Remarketing Agent to give any information or to make any representation with respect to the Bonds, other than those contained in this Reoffering Circular, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. The Remarketing Agent has provided the following sentence for inclusion in this Reoffering Circular. The Remarketing Agent has reviewed the information in this Reoffering Circular in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Reoffering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof. The information set forth herein with respect to the Issuer has been obtained from the Issuer, and all other information has been obtained from the Company and from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Remarketing Agent.

In connection with the reoffering of the Bonds, the Remarketing Agent may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE REOFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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\$12,900,000
County of Mercer, Kentucky
Solid Waste Disposal Facility Revenue Bonds,
2000 Series A
(Kentucky Utilities Company Project)
Due: May 1, 2023

Introductory Statement

This Reoffering Circular, including the cover page and appendices, is provided to furnish information in connection with the reoffering by the County of Mercer, Kentucky (the “Issuer”) of its Solid Waste Disposal Facility Revenue Bonds, 2000 Series A (Kentucky Utilities Company Project), in the aggregate principal amount of \$12,900,000 (the “Bonds”) issued on May 19, 2000 pursuant to an Indenture of Trust dated as of May 1, 2000 (the “Indenture”) between the Issuer and The Bank of New York Mellon (the “Trustee”), as Trustee, Paying Agent, Tender Agent and Bond Registrar, as the same will be amended and restated as of September 1, 2008.

Pursuant to a Loan Agreement by and between Kentucky Utilities Company (the “Company”) and the Issuer, dated as of May 1, 2000 (the “Loan Agreement”) (as the same has been amended and restated as of September 1, 2008 pursuant to an ordinance of the Issuer adopted October 14, 2008), proceeds from the sale of the Bonds, other than accrued interest, if any, paid by the initial purchasers thereof, were loaned by the Issuer to the Company. The Loan Agreement is a separate undertaking by and between the Company and the Issuer.

The Company will continue to repay the loan under the Loan Agreement by making payments to the Trustee in sufficient amounts to pay the principal of and interest and any premium on, and purchase price of, the Bonds. See “Summary of the Loan Agreement — General.” Pursuant to the Indenture, the Issuer’s rights under the Loan Agreement (other than with respect to certain indemnification and expense payments and notification rights) were assigned to the Trustee as security for the Bonds.

The proceeds of the Bonds were applied to the current refunding of the outstanding principal amount of the \$12,900,000 “County of Mercer, Kentucky, Collateralized Solid Waste Disposal Facility Revenue Bonds (Kentucky Utilities Company Project), 1990 Series A,” previously issued by the Issuer to finance certain solid waste disposal facilities (the “Project”) owned by the Company.

The Company is an operating subsidiary of E.ON U.S. LLC (formerly known as LG&E Energy LLC) and E.ON AG (the “Parents”). See “Appendix A — Kentucky Utilities Company — Financial Statements and Additional Information.” The Parents will have no obligation to make any payments due under the Loan Agreement or any other payments of principal, interest, premium or purchase price of the Bonds.

The Bonds are being reoffered at a Weekly Rate, but may be subsequently converted to bear interest at a Daily Rate, a Flexible Rate, a Semi-Annual Rate, an Annual Rate or a Dutch Auction Rate. **This Reoffering Circular pertains only to the Bonds during such period of time that they bear interest at the Weekly Rate.**

The Bonds are special and limited obligations of the Issuer, and the Issuer's obligation to pay the principal of and interest and any premium on, and purchase price of, the Bonds is limited solely to the revenues and other amounts received by the Trustee under the Indenture pursuant to the Loan Agreement and the Letter of Credit (as defined below). The Bonds will not constitute an indebtedness, general obligation or pledge of the faith and credit or taxing power of the Issuer, the Commonwealth of Kentucky or any political subdivision thereof. The Bonds are not entitled to the benefits of any financial guaranty insurance policies.

Concurrently with, and as a condition to, the reoffering of the Bonds, the Company will cause to be delivered an irrevocable transferable direct pay letter of credit (the "Letter of Credit"), issued by Commerzbank AG, New York Branch (the "Bank"), to provide for the timely payment of principal of and accrued interest (calculated for at least 45 days at the maximum rate of 10% per annum) on, and purchase price of, the Bonds. The Company will be required to reimburse the Bank for all amounts drawn by the Trustee under the Letter of Credit pursuant to the terms of a Reimbursement Agreement, to be dated as of December 17, 2008 (the "Reimbursement Agreement"), between the Company and the Bank. The Letter of Credit will expire on December 16, 2009, unless extended or earlier terminated.

Upon expiration of the Letter of Credit or any Alternate Credit Facility, the related Bonds will be subject to mandatory tender for purchase. See "Summary of the Bonds — Mandatory Purchases of Bonds — Mandatory Purchase upon Delivery, Cancellation, Substitution, Extension, Termination or Expiration of Any Credit Facility or Replacement with an Alternate Credit Facility." As used in this Reoffering Circular, "Bank" or "Credit Facility Issuer" refers to the Bank as the issuer of the Letter of Credit and any other issuer of any Alternate Credit Facility delivered in accordance with the Indenture; "Letter of Credit" or "Credit Facility" means the Letter of Credit delivered under the Indenture and, as applicable, any Alternate Credit Facility which may be subsequently delivered in accordance with the Indenture; and "Reimbursement Agreement" refers to the initial Reimbursement Agreement under which the Letter of Credit is provided and any subsequent agreement entered into between the Company and any other party in connection with the delivery of any Alternate Credit Facility.

Morgan Stanley & Co. Incorporated will be appointed under the Indenture to serve as Remarketing Agent for the Bonds. Any Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed in accordance with the terms of the Indenture and the Remarketing Agreement for the Bonds between the Remarketing Agent and the Company.

Brief descriptions of the Company, the Issuer, the Bonds, the Loan Agreement, the Indenture, the Letter of Credit and the Reimbursement Agreement are included in this Reoffering Circular. Appendix A to this Reoffering Circular has been furnished by the Company. The Issuer and Bond Counsel assume no responsibility for the accuracy or completeness of such Appendix A or such information. Appendix B to this Reoffering Circular contains the opinion of Bond Counsel delivered on the date on which the Bonds were initially issued, and the proposed form of opinion of Bond Counsel to be delivered in connection with the reoffering of the Bonds and the delivery of the Letter of Credit. Appendix C to this Reoffering Circular contains information about the Bank. The Issuer and Bond Counsel assume no responsibility for the accuracy or completeness of such Appendix C or such information. Such descriptions and

information do not purport to be complete, comprehensive or definitive and are not to be construed as a representation or a guaranty of accuracy or completeness. All references herein to the documents are qualified in their entirety by reference to such documents, and references herein to the Bonds are qualified in their entirety by reference to the definitive form thereof included in the Indenture. Copies of the Loan Agreement, the Indenture, the Letter of Credit and the Reimbursement Agreement will be available for inspection at the principal corporate trust office of the Trustee. Certain information relating to The Depository Trust Company (“DTC”) and the book-entry-only system has been furnished by DTC. All statements herein are qualified in their entirety by reference to each such document and, with respect to the enforceability of certain rights and remedies, to laws and principles of equity relating to or affecting generally the enforcement of creditors’ rights.

The Project

The Project has been completed and consists of certain solid waste disposal facilities of the Company used in connection with its Brown Generating Station situated in Mercer County.

The Issuer

The Issuer is a public body corporate and politic duly created and existing as a county and political subdivision under the Constitution and laws of the Commonwealth of Kentucky. The Issuer is authorized by Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (collectively, the “Act”) to (a) reoffer the Bonds and (b) amend and restate and continue to perform its obligations under the Loan Agreement and the Indenture. The Issuer, through its legislative body, the Fiscal Court, has adopted one or more ordinances authorizing the issuance of the Bonds and the execution and delivery of the related documents.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS PAYABLE SOLELY AND ONLY FROM CERTAIN SOURCES, INCLUDING AMOUNTS TO BE RECEIVED BY THE TRUSTEE FROM THE LETTER OF CREDIT AND BY OR ON BEHALF OF THE ISSUER UNDER THE LOAN AGREEMENT. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS, GENERAL OBLIGATION OR PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE ISSUER, THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF, AND DO NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.

Summary of the Bonds

General

The Bonds will be issued in the aggregate principal amount set forth on the cover page of this Reoffering Circular and will mature on May 1, 2023. The Bonds are also subject to optional redemption, extraordinary optional redemption, in whole or in part, and mandatory redemption prior to maturity as described herein.

The Bonds currently bear interest at a Weekly Rate. From and after the Reoffering Date, the Bonds will bear interest at a Weekly Rate and will be payable on the first Business Day of each calendar month, commencing on January 2, 2009. The Bonds will continue to bear interest at the Weekly Rate until a Conversion to another Interest Rate Mode is specified by the Company or until the redemption or maturity of the Bonds. The permitted Interest Rate Modes for the Bonds are (i) the “Flexible Rate,” (ii) the “Daily Rate,” (iii) the “Weekly Rate,” (iv) the “Semi-Annual Rate,” (v) the “Annual Rate,” (vi) the “Long Term Rate” and (vii) the “Dutch Auction Rate.” Changes in the Interest Rate Mode will be effected, and notice of such changes will be given, as described below in “— Conversion of Interest Rate Modes and Changes of Long Term Rate Periods.”

During each Rate Period for an Interest Rate Mode (other than a Dutch Auction Rate), the interest rate or rates for the Bonds in that Interest Rate Mode, and Flexible Rate Periods for Bonds accruing interest at a Flexible Rate, will be determined by the Remarketing Agent in accordance with the Indenture; provided that the interest rate or rates borne by any Bonds may not exceed the lesser of (i) the maximum interest rate permitted by applicable law or (ii) 10% per annum.

Interest on the Bonds which bear interest at a Flexible Rate, Daily Rate or Weekly Rate will be computed on the basis of a year of 365 or 366 days, as appropriate, and paid for the actual number of days elapsed. Interest on the Bonds which bear interest at a Semi-Annual Rate, Annual Rate or Long Term Rate will be computed on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds which bear interest at a Dutch Auction Rate will be computed on the basis of a 360-day year for the actual number of days elapsed. Interest payable on any Interest Payment Date will be payable to the registered owner of the Bond as of the Record Date for such payment; provided that in the case of Bonds bearing interest at the Flexible Rate, interest will be payable to the registered owner of such Bond on the Interest Payment Date therefor. The Record Date, in the case of interest accrued at a Daily Rate or Weekly Rate, will be the close of business on the Business Day immediately preceding each Interest Payment Date, in the case of interest accrued at a Dutch Auction Rate, will be the close of business on the second Business Day immediately preceding each Interest Payment Date, and in the case of interest accrued at a Semi-Annual Rate, Annual Rate or Long Term Rate, will be the close of business on the fifteenth day (whether or not a Business Day) of the month preceding each Interest Payment Date.

The Bonds initially will be issued solely in book-entry-only form through DTC (or its nominee, Cede & Co.). So long as the Bonds are held in the book-entry-only system, DTC or its nominee will be the registered owner or holder of the Bonds for all purposes of the Indenture, the Bonds and this Reoffering Circular. See “— Book-Entry-Only System” below. Individual purchases of book-entry interests in the Bonds will be made in book-entry-only form in (i) denominations of \$50,000 and integral multiples thereof, if bearing interest at the Dutch Auction Rate, (ii) denominations of \$100,000 or any integral multiple thereof, if bearing interest at the Daily Rate, the Weekly Rate or the Semi-Annual Rate, (iii) denominations of \$100,000 or any integral multiple of \$5,000 in excess of \$100,000, if bearing interest at Flexible Rates, or (iv) denominations of \$5,000 and integral multiples thereof, if bearing interest at the Annual Rate or the Long Term Rate.

Except as otherwise described below for Bonds held in DTC's book-entry-only system, the principal or redemption price of the Bonds is payable at the designated corporate trust office in New York, New York, of the Trustee, as paying agent (the "Paying Agent"). Except as otherwise described below for Bonds held in DTC's book-entry-only system, interest on the Bonds is payable by check mailed to the owner of record; provided that interest payable on each Bond will be payable in immediately available funds by wire transfer within the continental United States or by deposit into a bank account maintained with the Paying Agent (i) if the Interest Rate Mode is the Daily Rate, the Weekly Rate, the Dutch Auction Rate or the Flexible Rate, or (ii) at the written request of any owner of record holding at least \$1,000,000 aggregate principal amount of the Bonds, if the Interest Rate Mode is the Semi-Annual Rate, Annual Rate or Long Term Rate, received by the Trustee, as bond registrar (the "Bond Registrar"), at least one Business Day prior to any Record Date. Except as otherwise described below for Bonds held in DTC's book-entry-only system, if the Interest Rate Mode is the Flexible Rate, interest payable on each Bond will be paid only upon presentation and surrender of such Bond.

Bonds may be transferred or exchanged for an equal total amount of Bonds of other authorized denominations upon surrender of such Bonds at the principal office of the Bond Registrar, accompanied by a written instrument of transfer or authorization for exchange in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by the registered owner or the owner's duly authorized attorney. Except as provided in the Indenture, the Bond Registrar will not be required to register the transfer or exchange of any Bond (i) during the fifteen days before any mailing of a notice of redemption of Bonds, (ii) after such Bond has been called for redemption or (iii) for which a registered owner has submitted a demand for purchase (see "— Purchases of Bonds on Demand of Owner" below), or which has been purchased (see "— Payment of Purchase Price" below). Registration of transfers and exchanges will be made without charge to the registered owners of Bonds, except that the Bond Registrar may require any registered owner requesting registration of transfer or exchange to pay any required tax or governmental charge.

The Bonds Are Not Insured

Upon the issuance of the Letter of Credit on the Reoffering Date, the Municipal Bond Insurance Policy (the "Bond Insurance Policy") issued by Ambac Assurance Corporation ("Ambac") on May 19, 2000 will have been irrevocably surrendered and cancelled. The Bonds described in this Reoffering Circular are not insured, and holders thereof will have no recourse to, under or against any bond insurance policy or bond insurer, including the aforementioned Bond Insurance Policy issued by Ambac.

Tender Agent

Owners may tender their Bonds, and in certain circumstances will be required to tender their Bonds, to the Tender Agent for purchase at the times and in the manner described herein under "— Summary of Certain Provisions of the Bonds," "— Purchases of Bonds on Demand of Owner," and "— Mandatory Purchases of Bonds." So long as the Bonds are held in DTC's book-entry-only system, the Trustee will act as Tender Agent under the Indenture. Any successor Tender Agent appointed pursuant to the Indenture will also be a Paying Agent.

Remarketing Agent

Morgan Stanley & Co. Incorporated will act as the Remarketing Agent with respect to the Bonds (the “Remarketing Agent”). The Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed in accordance with the terms of the Indenture and the Remarketing Agreement for the Bonds between the Remarketing Agent and the Company.

Special Considerations Relating to the Remarketing Agent

The Remarketing Agent is paid by the Company.

The Remarketing Agent’s responsibilities include determining the interest rate from time to time and remarketing Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described herein. The Remarketing Agent is appointed by the Issuer at the request of the Company and paid by the Company for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Bonds.

The Remarketing Agent routinely purchases bonds for its own account.

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account in order to achieve a successful remarketing of the obligations (i.e., because there are otherwise not enough buyers to purchase the obligations) or for other reasons. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, if it does so, it may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

Bonds may be offered at different prices on any date.

As more fully described under the caption “— Determination of Interest Rates for Interest Rate Modes,” the Remarketing Agent shall determine the minimum rate of interest per annum which in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket the Bonds in a secondary market transaction at a price equal to the principal amount thereof plus accrued interest thereon, if any, provided that such rate of interest shall not exceed 10% per annum. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on a day that the rate on the Bonds are set, the Remarketing Agent may or may not be able to remarket any Bonds

tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. In the event the Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including the day that the rate on the Bonds are set, at a discount to par to some investors.

The ability to sell the Bonds other than through the tender process may be limited.

The Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Bonds to do so through the Trustee with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

Certain Definitions

As used herein, each of the following terms will have the meaning indicated. Certain capitalized terms used herein and not otherwise defined will have the meanings set forth in the Indenture.

“Alternate Credit Facility” means an irrevocable letter of credit, a municipal bond insurance policy, a surety bond, a line or lines of credit, a guarantee or other similar agreement or agreements or any other agreement or agreements used to provide liquidity or credit support for the Bonds, satisfactory to the Company and the Remarketing Agent and containing administrative provisions reasonably satisfactory to the Trustee, issued and delivered to the Trustee in accordance with the Indenture.

“Annual Rate Period” means the period beginning on, and including, the Conversion Date to the Annual Rate and ending on, and including, the day next preceding the second Interest Payment Date thereafter, and each successive twelve-month period (or portion thereof) thereafter until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

“Beneficial Owner” means the person in whose name a Bond is recorded as such upon the systems of DTC and each DTC Participant (as defined herein) or the registered holder of such Bond if such Bond is not then registered in the name of Cede & Co.

“Business Day” means any day other than (i) a Saturday or Sunday or legal holiday or a day on which banking institutions located in the city in which the principal office of the Trustee, the Bond Registrar, the Tender Agent, the Paying Agent, the Company, the Credit Facility Issuer or the Remarketing Agent is located are authorized by law or executive order to close or (ii) a day on which the New York Stock Exchange is closed.

“Conversion” means any conversion from time to time in accordance with the terms of the Indenture of the Bonds from one Interest Rate Mode to another Interest Rate Mode.

“*Conversion Date*” means the date on which any Conversion becomes effective.

“*Credit Facility*” means an irrevocable direct pay letter of credit or other credit enhancement or liquidity support facility, or any combination thereof, delivered to and in favor of the Trustee for the benefit of the owners of the Bonds pursuant to the Indenture and designated as a “Credit Facility” under the Indenture, and includes the Initial Credit Facility or any Alternate Credit Facility delivered to the Trustee pursuant to the Indenture.

“*Credit Facility Issuer*” means the Initial Credit Facility Issuer and the issuer of any Credit Facility or Alternate Credit Facility subsequently in effect.

“*Daily Rate Period*” means the period beginning on, and including, the Conversion Date to the Daily Rate and ending on and including the day preceding the next Business Day and each period thereafter beginning on and including a Business Day and ending on and including the day preceding the next succeeding Business Day until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

“*Dutch Auction Rate*” means the rate of interest to be borne by the Bonds during each Dutch Auction Rate Period determined in accordance with the Indenture.

“*Dutch Auction Rate Period*” means the period during which the Bonds bear interest at the Dutch Auction Rate.

“*Flexible Rate*” means the Interest Rate Mode for the Bonds in which the interest rate for each Bond is determined with respect to that Bond during each Flexible Rate Period applicable to that Bond, as provided in the Indenture.

“*Flexible Rate Period*” means with respect to any Bond, each period (which may be from one day to 270 days, or such lower maximum number of days as is then permitted under the Indenture) determined for such Bond, as provided in the Indenture.

“*Initial Credit Facility*” means the irrevocable direct pay letter of credit issued by the Initial Credit Facility Issuer to the Trustee with respect to the Bonds on the Reoffering Date.

“*Initial Credit Facility Issuer*” means Commerzbank AG, New York Branch.

“*Interest Payment Date*” means (i) if the Interest Rate Mode is the Daily Rate or the Weekly Rate, the first Business Day of each calendar month, (ii) if the Interest Rate Mode is the Flexible Rate, for each Bond the first Business Day following the last day of each Flexible Rate Period for such Bond, (iii) if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate, May 1 and November 1; (iv) if the Interest Rate Mode is the Dutch Auction Rate Mode, the dates determined in accordance with the terms of the Indenture; and (v) any Conversion Date (including the date of a failed Conversion) or the effective date of a change to a new Long Term Rate Period for such Bonds. In any case, the final Interest Payment Date will be the maturity date of the Bonds.

“Interest Period” means for all Bonds (or for any Bond if the Interest Rate Mode is the Flexible Rate) the period from and including each Interest Payment Date to and including the day immediately preceding the next Interest Payment Date, provided, however that the first Interest Period for the Bonds will begin on (and include) the date of issuance of the Bonds and the final Interest Period will end on April 30, 2023.

“Interest Rate Mode” means the Dutch Auction Rate, the Flexible Rate, the Daily Rate, the Weekly Rate, the Semi-Annual Rate, the Annual Rate and the Long Term Rate.

“Long Term Rate Period” means any period established by the Company as hereinafter set forth under “— Determination of Interest Rates for Interest Rate Modes — Long Term Rates and Long Term Rate Periods” and beginning on, and including, the Conversion Date to the Long Term Rate and ending on, and including, the day preceding the last Interest Payment Date for such period and, thereafter, each successive period of the same duration as the Long Term Rate Period previously established until the day preceding the earliest of the change to a different Long Term Rate Period, the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

“Prevailing Market Conditions” means, without limitation, the following factors: existing short-term or long-term market rates for securities, the interest on which is excluded from gross income for federal income tax purposes; indexes of such short-term or long-term rates and the existing market supply and demand for securities bearing such short-term or long-term rates; existing yield curves for short-term or long-term securities for obligations of credit quality comparable to the Bonds, the interest on which is excluded from gross income for federal income tax purposes; general economic conditions; industry economic and financial conditions that may affect or be relevant to the Bonds; and such other facts, circumstances and conditions as the Remarketing Agent, in its sole discretion, determines to be relevant.

“Purchase Date” means any date on which Bonds are to be purchased on the demand of the registered owners thereof or are subject to mandatory purchase as described in the Indenture.

“Reimbursement Agreement” means the Reimbursement Agreement, to be dated as of December 17, 2008, between the Company and the Initial Credit Facility Issuer, as the same may be amended from time to time, and any other agreement between the Company and a Credit Facility Issuer, setting forth the obligations of the Company to such Credit Facility Issuer arising out of any payments under such Credit Facility and which provides that it will be deemed to be a Reimbursement Agreement for the purpose of the Indenture.

“Semi-Annual Rate Period” means the period beginning on, and including, the Conversion Date to the Semi-Annual Rate, and ending on, and including, the day preceding the first Interest Payment Date thereafter and each successive six-month period thereafter beginning on and including an Interest Payment Date and ending on and including the day next preceding the next Interest Payment Date until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

“*Weekly Rate Period*” means the period beginning on, and including, the Conversion Date to the Weekly Rate, and ending on, and including, the next Tuesday, and thereafter the period beginning on, and including, each Wednesday and ending on, and including, the earliest of the next Tuesday, the day preceding the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

Summary of Certain Provisions of the Bonds

The following table summarizes, for each of the permitted Interest Rate Modes (except the Dutch Auction Rate): the dates on which interest will be paid (*Interest Payment Dates*); the dates on which each interest rate will be determined (*Interest Rate Determination Dates*); the period of time (*Interest Rate Periods*) each interest rate will be in effect (provided that the initial Interest Rate Period for each Interest Rate Mode may begin on a different date from that specified, which date will be the Conversion Date or the date of a change in the Long Term Rate, as applicable); the dates on which registered owners may tender their Bonds for purchase to the Tender Agent and the notice requirements therefor (provided that while the Bonds are held in book-entry-only form, all notices of tender for purchase will be given by Beneficial Owners in the manner described under “— Purchases of Bonds on Demand of Owner — Notice Required for Purchases”) (*Purchase on Demand of Owner; Required Notice*); the dates on which the Bonds are subject to mandatory tender for purchase (*Mandatory Purchase Dates*); the redemption provisions applicable to the Bonds (*Redemption*); the notice requirements for redemption and mandatory tender for purchase (*Notices of Redemption and Mandatory Purchases*); and the manner by which registered owners will receive payments of principal, interest, redemption price and purchase price (*Manner of Payment*). All times stated are New York City time.

	<u>FLEXIBLE RATE</u>	<u>DAILY RATE</u>	<u>WEEKLY RATE</u>
Interest Payment Dates	With respect to any Bond, the first Business Day following the last day of each Flexible Rate Period for that Bond.	The first Business Day of each calendar month.	The first Business Day of each calendar month.
Interest Rate Determination Dates	For each Bond, not later than 1:00 p.m. on the first day of each Flexible Rate Period for such Bond.	Not later than 9:30 a.m. on each Business Day.	Not later than 10:00 a.m. on the first day of each Weekly Rate Period or, if not a Business Day, on the next succeeding Business Day.
Interest Rate Periods	For each Bond, each Flexible Rate Period will be of a duration designated by the Remarketing Agent of one day to 270 days (or lower maximum number as specified in the Indenture); must end on a day immediately prior to a Business Day.	From and including each Business Day to but not including the next Business Day.	From and including each Wednesday to and including the following Tuesday.
Purchase on Demand of Owner; Required Notice*	No purchase on demand of the owner.	Any Business Day; by written or telephonic notice, promptly confirmed in writing, to the Tender Agent by 10:00 a.m. on such Business Day.	Any Business Day; by written notice to the Tender Agent not later than 5:00 p.m. on a Business Day at least seven days prior to the Purchase Date.
Mandatory Purchase Dates	Any Conversion Date; with respect to each Bond, on each Interest Payment Date for such Bond; and upon delivery, cancellation, substitution, extension, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.	Any Conversion Date; and upon delivery, cancellation, substitution, extension, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.	Any Conversion Date; and upon delivery, cancellation, substitution, extension, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.
Redemption	Optional at par on any Interest Payment Date; Extraordinary Optional and Mandatory at par, on any Business Day (other than extraordinary optional redemption as a result of damage, destruction or condemnation which will be on an Interest Payment Date).	Optional, Extraordinary Optional and Mandatory at par on any Business Day.	Optional, Extraordinary Optional and Mandatory at par on any Business Day.
Notices of Conversion, Redemption and Mandatory Purchases*	Not fewer than 15 days (30 days notice of Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 60 days for notice of Conversion or redemption. No notice of mandatory purchase following end of each Flexible Rate Period.	Not fewer than 15 days (30 days notice of Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 60 days for notice of Conversion or redemption. Not fewer than 15 days or greater than 45 days for notice of mandatory purchase.	Not fewer than 15 days (30 days notice of Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 60 days for notice of Conversion or redemption. Not fewer than 15 days or greater than 45 days for notice of mandatory purchase.
Manner of Payment*	Principal or redemption price upon surrender of the Bond to the Paying Agent; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; purchase price upon surrender of the Bond to the Tender Agent.

* So long as DTC or its nominee is the registered owner of the Bonds, notices of redemption and mandatory purchases shall be sent to Cede & Co., payments of principal, redemption and purchase price of and interest on the Bonds will be paid through the facilities of DTC and notices of mandatory purchase may be given not less than five days prior to the Purchase Date. See “— Book-Entry-Only System” below.

	<u>SEMI-ANNUAL</u>	<u>ANNUAL</u>	<u>LONG TERM</u>
Interest Payment Date	Each May 1 and November 1.	Each May 1 and November 1.	Each May 1 and November 1; any Conversion Date; and the effective date of any change to a new Long Term Rate Period.
Interest Rate Determination Dates	Not later than 12:00 noon on the Business Day preceding the first day of the Semi-Annual Rate Period.	Not later than 12:00 noon on the Business Day preceding the first day of the Annual Rate Period.	Not later than 12:00 noon on the Business Day preceding the first day of the Long Term Rate Period.
Interest Rate Periods	Each six-month period from and including each May 1 and November 1 to and including the day preceding the next Interest Payment Date.	Each one-year period from and including each May 1 and November 1 to and including the day immediately preceding the second Interest Payment Date thereafter.	Each period designated by the Company of more than one year in duration and which is an integral multiple of six months, from and including the first day of such period (May 1 and November 1) to and including the day immediately preceding the last Interest Payment Date for that period.
Purchase on Demand of Owner; Required Notice*	On any Interest Payment Date; by written notice to the Tender Agent on any Business Day not later than the fifteenth day prior to the Purchase Date.	On the final Interest Payment Date for the Annual Rate Period; by written notice to the Tender Agent on any Business Day not later than the fifteenth day prior to the Purchase Date.	On the final Interest Payment Date for the Long Term Rate Period; by written notice to the Tender Agent on a Business Day not later than the fifteenth day prior to the Purchase Date.
Mandatory Purchase Dates	Any Conversion Date; the first Business Day after the end of each Semi-Annual Rate Period; and upon delivery, cancellation, substitution, extension, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.	Any Conversion Date; the first Business Day after the end of each Annual Rate Period; and upon delivery, cancellation, substitution, extension, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.	Any Conversion Date; the first Business Day after the end of each Long Term Rate Period; the effective date of a change of Long Term Rate Period; and upon delivery, cancellation, substitution, extension, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.
Redemption	Optional at par on any Interest Payment Date; Extraordinary Optional and Mandatory at par, on any Business Day (other than extraordinary optional redemption as a result of damage, destruction or condemnation which will be on an Interest Payment Date).	Optional at par on the final Interest Payment Date; Extraordinary Optional and Mandatory at par, on any Business Day.	Optional at times and prices dependent on the length of the Long Term Rate Period; Extraordinary Optional and Mandatory at par, on any Business Day.
Notices of Conversion, Redemption and Mandatory Purchases*	Not fewer than 30 days or greater than 60 days for notice of Conversion or redemption. Not fewer than 15 days or greater than 45 days for notice of mandatory purchase.	Not fewer than 30 days or greater than 60 days for notice of Conversion or redemption. Not fewer than 15 days or greater than 45 days for notice of mandatory purchase.	Not fewer than 30 days or greater than 60 days for notice of Conversion or redemption. Not fewer than 15 days or greater than 45 days for notice of mandatory purchase.
Manner of Payment*	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owners or, upon request of registered owner, of \$1,000,000 or more of an individual issue of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owners or, upon request of registered owner, of \$1,000,000 or more of an individual issue of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owners or, upon request of registered owner, of \$1,000,000 or more of an individual issue of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.

* So long as DTC or its nominee is the registered owner of the Bonds, notices of redemption and mandatory purchases shall be sent to Cede & Co., payments of principal, redemption and purchase price of and interest on the Bonds will be paid through the facilities of DTC and notices of mandatory purchase may be given not less than five days prior to the Purchase Date. See "— Book-Entry-Only System" below.

Determination of Interest Rates for Interest Rate Modes

Daily Rate. If the Interest Rate Mode for the Bonds is the Daily Rate, the interest rate on the Bonds for any Business Day will be the rate established by the Remarketing Agent no later than 9:30 a.m. (New York City time) on such Business Day as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such Business Day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon. For any day which is not a Business Day or if the Remarketing Agent does not give notice of a change in the interest rate, the interest rate on the Bonds will be the interest rate in effect for the immediately preceding Business Day.

Weekly Rate. If the Interest Rate Mode for the Bonds is the Weekly Rate, the interest rate on the Bonds for a particular Weekly Rate Period will be the rate established by the Remarketing Agent no later than 10:00 a.m. (New York City time) on the first day of such Weekly Rate Period or, if such first day is not a Business Day, on the next succeeding Business Day, as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon.

Flexible Rates and Flexible Rate Periods. If the Interest Rate Mode for the Bonds is the Flexible Rate, the interest rate on a Bond for a specific Flexible Rate Period will be the rate established by the Remarketing Agent no later than 1:00 p.m. (New York City time) on the first day of that Flexible Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell such Bond on that day at a price equal to the principal amount thereof. Each Flexible Rate Period applicable for a Bond will be determined separately by the Remarketing Agent on or prior to the first day of such Flexible Rate Period as being the Flexible Rate Period permitted under the Indenture which, in the judgment of the Remarketing Agent, taking into account then Prevailing Market Conditions, will, with respect to such Bond, ultimately produce the lowest overall interest cost on the Bonds while the Interest Rate Mode for the Bonds is the Flexible Rate. Each Flexible Rate Period will be from one day to 270 days in length and will end on a day preceding a Business Day. If the Remarketing Agent fails to set the length of a Flexible Rate Period for any Bond, a new Flexible Rate Period lasting to, but not including, the next Business Day (or until the earlier Conversion or maturity of the Bonds) will be established automatically in accordance with the Indenture.

Semi-Annual Rate. If the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the interest rate on the Bonds for a particular Semi-Annual Rate Period will be the rate established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day immediately preceding the first day of such Semi-Annual Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof.

Annual Rate. If the Interest Rate Mode for the Bonds is the Annual Rate, the interest rate on the Bonds for a particular Annual Rate Period will be the rate of interest established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such Annual Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof.

Auction Rate. If the Interest Rate Mode for the Bonds is the Dutch Auction Rate, the interest rate on the Bonds for a particular Dutch Auction Rate Period will be the rate established in accordance with the procedures set forth in the Indenture.

Long Term Rates and Long Term Rate Periods. If the Interest Rate Mode for the Bonds is the Long Term Rate, the interest rate on the Bonds for a particular Long Term Rate Period will be the rate established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such Long Term Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof. The Company will establish the duration of the Long Term Rate Period at the time that it directs the Conversion of the Interest Rate Mode to the Long Term Rate, and thereafter each successive Long Term Rate Period will be the same as the Long Term Rate Period so established by the Company until a different Long Term Rate Period is specified by the Company in accordance with the Indenture (in which case the duration of that Long Term Rate Period will control succeeding Long Term Rate Periods), subject in all cases to the occurrence of a Conversion Date or the maturity of the Bonds. Each Long Term Rate Period will be more than one year in duration, will be for a period which is an integral multiple of six months and will end on the day next preceding an Interest Payment Date; provided that if a Long Term Rate Period commences on a date other than a May 1 or November 1, such Long Term Rate Period may be for a period which is not an integral multiple of six months but will be of a duration as close as possible to (but not in excess of) such Long Term Rate Period established by the Company and will terminate on a day preceding an Interest Payment Date, and each successive Long Term Rate Period thereafter will be for the full period established by the Company until a different Long Term Rate Period is specified by the Company in accordance with the Indenture or until the occurrence of a Conversion Date or the maturity of the Bonds; provided further that no Long Term Rate Period will extend beyond the final maturity date of the Bonds.

Failure to Determine Rate. If for any reason the interest rate for a Bond is not determined by the Remarketing Agent, except as described below under “— Conversion of Interest Rate Modes and Changes of Long Term Rate Periods — Change of Long Term Rate Period” and “— Cancellation of Conversion of Interest Rate Mode,” the interest rate for such Bond for the next succeeding interest rate period will be the interest rate in effect for such Bond for the preceding interest rate period and, pursuant to the terms of the Indenture, there will be no change in the then applicable Long Term Rate Period or any Conversion from the then applicable Interest Rate Mode. Notwithstanding the foregoing, if for any reason the interest rate for a Bond bearing interest at a Flexible Rate is not determined by the Remarketing Agent, the interest rate for such Bond for the next succeeding Interest Period will be equal to The Bond

Market Association Municipal Swap Index™ (the “Municipal Index”) as defined in the Indenture and the Interest Period for such Bond will extend through the day preceding the next Business Day, until the Trustee is notified of a new Flexible Rate and Flexible Rate Period determined for such Bond by the Remarketing Agent.

Conversion of Interest Rate Modes and Changes of Long Term Rate Periods

Method of Conversion. The Interest Rate Mode for the Bonds is subject to Conversion from time to time, in whole but not in part, on the dates specified below under “— Limitations on Conversion,” at the option of the Company, upon notice from the Bond Registrar to the registered owners of the Bonds, as described below. With any notice of Conversion, the Company must also deliver to the Bond Registrar and the Credit Facility Issuer an opinion of Bond Counsel stating that such Conversion is authorized or permitted by the Act and is authorized by the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

Conditions Precedent to Conversions. The following conditions are applicable to Conversions of the Bonds:

(a) any Credit Facility to be held by the Trustee after the Conversion Date must be sufficient to cover the principal of and accrued interest on the outstanding Bonds for the maximum Interest Period permitted for that particular Interest Rate Mode plus 10 days at the maximum interest rate, and if a Credit Facility is to be held by the Trustee after the Conversion of the Bonds to a Long Term Rate Period, that Credit Facility must also extend for the entire Long Term Rate Period plus 10 days at the maximum interest rate; and

(b) if a Credit Facility is then in effect and the purchase price of the Bonds under the Indenture includes any premium, the Trustee will be entitled to draw on that Credit Facility in an aggregate amount sufficient to pay the applicable purchase price (including such premium) or, in the alternative, available moneys will be available in the necessary amount and are applied to the payment of such premium.

Limitations on Conversion. Any Conversion of the Interest Rate Mode for the Bonds must be in compliance with the following conditions: (i) the Conversion Date must be a date on which the Bonds are subject to optional redemption (see “— Redemptions — Optional Redemption” below); provided that any Conversion from the Daily Rate Period to a Weekly Rate Period or from the Weekly Rate Period to the Daily Rate Period must be on a Wednesday and, if the Conversion is to or from a Dutch Auction Rate Period, the Conversion Date must be the last Interest Payment Date in respect of that Dutch Auction Rate Period; (ii) if the proposed Conversion Date would not be an Interest Payment Date but for the Conversion, the Conversion Date must be a Business Day; (iii) if the Conversion is from the Flexible Rate, (a) the Conversion Date may be no earlier than the latest Interest Payment Date established prior to the giving of notice to the Remarketing Agent of such proposed Conversion and (b) no further Interest Payment Date may be established while the Interest Rate Mode is then the Flexible Rate if such Interest Payment Date would occur after the effective date of that Conversion; and (iv) after a determination is made requiring mandatory redemption of all Bonds pursuant to the

Indenture (see “— Redemptions” below), no change in the Interest Rate Mode may be made prior to such mandatory redemption.

Change of Long Term Rate Period. The Company may change from one Long Term Rate Period to another Long Term Rate Period on any Business Day on which the Bonds are subject to optional redemption as described under “— Redemptions — Optional Redemption” below upon notice from the Bond Registrar to the owners of Bonds as described below. With any notice of such change, the Company must also deliver an opinion of Bond Counsel stating that such change is authorized or permitted by the Act and is authorized by the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. Notwithstanding the foregoing, the Long Term Rate Period will not be changed to a new Long Term Rate Period if (A) the Remarketing Agent has not determined the interest rate for the new Long Term Rate Period in accordance with the terms of the Indenture or (B) the Bond Registrar receives written notice from Bond Counsel prior to the effective date of the change to the effect that the opinion of such Bond Counsel required under the Indenture has been rescinded. Upon the occurrence of any of the events described in the preceding sentence, the Bonds will bear interest at the Weekly Rate commencing on the date which would have been the effective date of the proposed change of Long Term Rate Period, subject to the provisions described below under “— Cancellation of Conversion of Interest Rate Mode.”

Notice to Owners of Conversion of Interest Rate Mode or of Change of Long Term Rate Period. The Bond Registrar will notify each registered owner of the Conversion or change of Long Term Rate Period, as applicable, by first class mail at least 15 days (30 days in the case of Conversion from or to the Semi-Annual Rate, the Annual Rate or a Long Term Rate or in the case of a change in the Long Term Rate Period) but not more than 60 days before each Conversion Date or each effective date of a change in the Long Term Rate Period. The notice will state those matters required to be set forth therein under the Indenture.

Cancellation of Conversion of Interest Rate Mode. Notwithstanding the foregoing, no Conversion will occur if (A) the Remarketing Agent has not determined the initial interest rate for the new Interest Rate Mode in accordance with the terms of the Indenture, (B) the Bonds that are to be purchased are not remarketed or sold by the Remarketing Agent or (C) the Bond Registrar receives written notice from Bond Counsel prior to the opening of business on the effective date of Conversion to the effect that the opinion of such Bond Counsel required under the Indenture has been rescinded. If such Conversion fails to occur, such Bonds in the Dutch Auction Rate will remain in such Interest Rate Mode and Bonds in any other Interest Rate Mode will automatically be converted to the Weekly Rate (with the first period adjusted in length so that the last day of such period will be a Tuesday) at the rate determined by the Remarketing Agent on the failed Conversion Date; provided, that there must be delivered to the Issuer, the Trustee, the Tender Agent, the Company, the Credit Facility Issuer and the Remarketing Agent an opinion of Bond Counsel to the effect that determining the interest rate to be borne by the Bonds at a Weekly Rate is authorized or permitted by the Act and is authorized under the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such opinion is not delivered on the failed Conversion Date, the Bonds will bear interest for a Rate Period of the same type and of substantially the same length as the Rate Period in effect prior to the failed Conversion Date at a rate of interest determined by the Remarketing Agent on the failed Conversion Date (or if shorter, the Rate

Period ending on the date before the maturity date); provided that if the Bonds then bear interest at the Long Term Rate, and if such opinion is not delivered on the date which would have been the effective date of a new Long Term Rate Period, the Bonds will bear interest at the Annual Rate, commencing on such date, at an Annual Rate determined by the Remarketing Agent on such date. If the proposed Conversion of Bonds fails as described herein, any mandatory purchase of such Bonds will remain effective.

Purchases of Bonds on Demand of Owner

If the Bonds are in the book-entry-only system, demands for purchase may be made by Beneficial Owners only through such Beneficial Owner's Direct Participant (as defined under the caption "— Book-Entry-Only System"). If the Bonds are in certificated form, demands for purchase may be made only by registered owners. When the Interest Rate Mode is the Dutch Auction Rate, the Bonds are not subject to purchase on demand of the owners thereof.

Daily Rate. If the Interest Rate Mode for the Bonds is the Daily Rate, any Bond will be purchased on the demand of the registered owner thereof on any Business Day during a Daily Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date upon written notice or telephonic notice to the Tender Agent at its principal office not later than 10:00 a.m. (New York City time) on such Business Day.

Weekly Rate. If the Interest Rate Mode for the Bonds is the Weekly Rate, any Bond will be purchased on the demand of the registered owner thereof on any Business Day during a Weekly Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date upon written notice to the Tender Agent at its principal office at or before 5:00 p.m. (New York City time) on a Business Day not later than the seventh day prior to the Purchase Date.

Semi-Annual Rate. If the Interest Rate Mode for the Bonds is the Semi-Annual Rate, any Bond will be purchased on the demand of the registered owner thereof on any Interest Payment Date for a Semi-Annual Rate Period at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its principal office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Annual Rate. If the Interest Rate Mode for the Bonds is the Annual Rate, any Bond will be purchased on the demand of the registered owner thereof on the final Interest Payment Date for such Annual Rate Period at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its principal office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Long Term Rate. If the Interest Rate Mode for the Bonds is the Long Term Rate, any Bond will be purchased on the demand of the registered owner thereof on the final Interest Payment Date for such Long Term Rate Period (unless such date is the final maturity date) at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its principal office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Limitations on Purchases on Demand of Owner. Notwithstanding the foregoing, there will be no purchase of (a) a portion of any Bond unless the portion to be purchased and the portion to be retained each will be in an authorized denomination or (b) any Bond upon the demand of the registered owner if an Event of Default under the Indenture with respect to the payment of principal of, interest on, or purchase price of, the Bonds has occurred and is continuing. Also, if the Interest Rate Mode for the Bonds is the Flexible Rate, the Bonds will not be subject to purchase on the demand of the registered owners thereof, but each Bond will be subject to mandatory purchase on each Conversion Date and on the Interest Payment Date with respect to such Bond, as described below under the caption “— Mandatory Purchases of Bonds.”

Notice Required for Purchases. Any written notice delivered to the Tender Agent by an owner demanding the purchase of Bonds must (A) be delivered by the time and dates specified above, (B) state the number and principal amount (or portion thereof) of such Bond to be purchased, (C) state the Purchase Date on which such Bond is to be purchased, (D) irrevocably request such purchase and state that the owner agrees to deliver such Bond, duly endorsed in blank for transfer, with all signatures guaranteed, to the Tender Agent at or prior to 11:00 a.m. (1:00 p.m. if a tender during a Daily Rate Period and 12:00 noon if a tender during a Weekly Rate Period) (New York City time) on such Purchase Date.

Mandatory Purchases of Bonds

Mandatory Purchase on Conversion Dates or Change by the Company in Long Term Rate Period. The Bonds will be subject to mandatory purchase at a purchase price equal to the principal amount thereof, plus accrued interest, if any, to the Purchase Date, plus, if the Interest Rate Mode is the Long Term Rate, the redemption premium, if any, which would be payable as described under “— Redemptions — Optional Redemption” below, if the Bonds were redeemed on the Purchase Date (A) on each Conversion Date and (B) on the effective date of any change by the Company of the Long Term Rate Period. Such tender and purchase will be required even if the change in Long Term Rate Period or the Conversion is canceled pursuant to the Indenture.

Mandatory Purchase on Each Interest Payment Date for Flexible Rate Period. Whenever the Interest Rate Mode for the Bonds is the Flexible Rate, each Bond will be subject to mandatory purchase at a purchase price equal to the principal amount thereof, without premium, plus accrued interest, if any, to the Purchase Date, on each Interest Payment Date that interest on such Bond is payable at an interest rate determined for the Flexible Rate. Owners of Bonds will receive no notice of such mandatory purchase.

Mandatory Purchase on Day after End of the Semi-Annual Rate Period, the Annual Rate Period or the Long Term Rate Period. Whenever the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the Annual Rate or the Long Term Rate, such Bonds will be subject to mandatory purchase on the Business Day following the end of each Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period, as the case may be, for such Bond at a purchase price equal to the principal amount thereof plus accrued interest, if any, to such date.

Mandatory Purchase upon Delivery, Cancellation, Substitution, Extension, Termination or Expiration of Any Credit Facility or Replacement with an Alternate Credit Facility. If, at the option of the Company, a Credit Facility (other than the initial Letter of Credit) is delivered with respect to the Bonds subsequent to the Reoffering Date, the Bonds will be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the Purchase Date on the date of the delivery of the Credit Facility. In addition, if the Bonds are secured by a Credit Facility, the Bonds will be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, (A) on the Interest Payment Date at least five days prior to the date of the cancellation of or the expiration of the term of the then current Credit Facility and (B) on the Interest Payment Date on which a Credit Facility is replaced with an Alternate Credit Facility.

Notice to Owners of Mandatory Purchases. Notice to owners of a mandatory purchase of Bonds (except for mandatory purchase on each Interest Payment Date for Flexible Rate Periods) will be given by the Bond Registrar, by first class mail at least 15 days but not more than 45 days before the Purchase Date; provided, however, as an alternative to the foregoing, if DTC or its nominee is the registered owner of the Bonds, notice may be given to DTC not less than five days before the Purchase Date. The notice of mandatory purchase will state those matters required to be set forth therein under the Indenture. No notice of mandatory purchase will be given in connection with a mandatory purchase on an Interest Payment Date for a Flexible Rate Period.

Remarketing and Purchase of Bonds

The Indenture provides that, subject to the terms of a Remarketing Agreement with the Company, the Remarketing Agent will use its reasonable best efforts to offer for sale Bonds purchased upon demand of the owners thereof and, unless otherwise instructed by the Company and with the consent of any Credit Facility Issuer, upon mandatory purchase, provided that Bonds will not be remarketed upon the occurrence and continuance of certain Events of Default under the Indenture, except in the sole discretion of the Remarketing Agent. Each such sale will be at a price equal to the principal amount thereof, plus interest accrued to the date of sale. The Remarketing Agent, the Trustee, the Paying Agent, the Bond Registrar or the Tender Agent each may purchase any Bonds offered for sale for its own account.

On each date Bonds are to be purchased pursuant to optional or mandatory purchase under the Indenture, such Bonds will be purchased from the following sources in the order of priority indicated, provided that funds derived from clause (c) may not be combined with the funds derived from clauses (a) or (b) to purchase any Bonds:

(a) proceeds of the remarketing of such Bonds to persons other than the Company, its affiliates or the Issuer and furnished to the Tender Agent by the Remarketing Agent and deposited directly into, and held in, the Remarketing Proceeds Subaccount of the Purchase Fund established with the Tender Agent under the Indenture;

(b) proceeds of the Credit Facility, if any, furnished by the Trustee, as Tender Agent, and deposited by the Tender Agent directly into, and held in, the Credit Facility Subaccount of the Purchase Fund; and

(c) moneys paid by the Company (including the proceeds of the remarketing of the Bonds to the Company, its affiliates or the Issuer) to pay the purchase price to the Tender Agent.

If there is no Credit Facility in operation to secure the Bonds, any Bonds will be purchased with any moneys made available by the Company, including proceeds from the remarketing of the Bonds.

Payment of Purchase Price

When a book-entry-only system is not in effect, payment of the purchase price of any Bond will be payable (and delivery of a replacement Bond in exchange for the portion of any Bond not purchased if such Bond is purchased in part will be made) on the Purchase Date upon delivery of such Bond to the Tender Agent on such Purchase Date; provided that such Bond must be delivered to the Tender Agent: (i) at or prior to 12:00 noon (New York City time), in the case of Bonds delivered for purchase during a Weekly Rate Period or Flexible Rate Period, (ii) at or prior to 1:00 p.m. (New York City time), in the case of Bonds delivered for purchase during a Daily Rate Period or (iii) at or prior to 11:00 a.m. (New York City time), in the case of Bonds delivered for purchase during a Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period. If the date of such purchase is not a Business Day, the purchase price will be payable on the next succeeding Business Day.

Any Bond delivered for payment of the purchase price must be accompanied by an instrument of transfer thereof in form satisfactory to the Tender Agent executed in blank by the registered owner thereof and with all signatures guaranteed. The Tender Agent may refuse to accept delivery of any Bond for which an instrument of transfer satisfactory to it has not been provided and has no obligation to pay the purchase price of such Bond until a satisfactory instrument is delivered.

If the registered owner of any Bond (or portion thereof) that is subject to purchase pursuant to the Indenture fails to deliver such Bond with an appropriate instrument of transfer to the Tender Agent for purchase on the Purchase Date, and if the Tender Agent is in receipt of the purchase price therefor, such Bond (or portion thereof) nevertheless will be deemed purchased on the Purchase Date thereof. Any owner who so fails to deliver such Bond for purchase on (or before) the Purchase Date will have no further rights thereunder, except the right to receive the purchase price thereof from those moneys deposited with the Tender Agent in the Purchase Fund pursuant to the Indenture upon presentation and surrender of such Bond to the Tender Agent properly endorsed for transfer in blank with all signatures guaranteed.

When a book-entry-only system is in effect, the requirement for physical delivery of the Bonds will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on the records of DTC to the participant account of the Tender Agent.

Redemptions

Optional Redemption.

(a) Whenever the Interest Rate Mode for the Bonds is the Daily Rate or the Weekly Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus interest accrued, if any, to the redemption date, on any Business Day.

(b) Whenever the Interest Rate Mode for a Bond is the Flexible Rate, such Bond will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date for that Bond.

(c) Whenever the Interest Rate Mode for the Bonds is the Dutch Auction Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, on the Business Day immediately succeeding any auction date, at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

(d) Whenever the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date.

(e) Whenever the Interest Rate Mode for the Bonds is the Annual Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on the final Interest Payment Date for each Annual Rate Period.

(f) Whenever the Interest Rate Mode for the Bonds is the Long Term Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, (1) on the final Interest Payment Date for the then-current Long Term Rate Period at a redemption price of 100% of the principal amount thereof and (2) prior to the end of the then-current Long Term Rate Period at any time during the redemption periods and at the redemption prices set forth below, plus in each case interest accrued, if any, to the redemption date:

Original Length of Current Long Term Rate Period (Years)	Commencement of Redemption Period	Redemption Price as Percentage of Principal
More than or equal to 11 years	First Interest Payment Date on or after the tenth anniversary of commencement of Long Term Rate Period	101%, declining 1% on the next succeeding anniversary of the first day of the redemption period, and thereafter 100%
Less than 11 years	Non-callable	Non-callable

Subject to certain conditions, including provision of an opinion of Bond Counsel that a change in the redemption provisions of the Bonds will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the Conversion Date, the date of a change in the Long Term Rate Period or a Purchase Date on the final Interest Payment Date during a Long Term Rate Period, to reflect Prevailing Market Conditions on such date as determined by the Remarketing Agent in its judgment.

Extraordinary Optional Redemption in Whole. The Bonds may be redeemed by the Issuer in whole at any time at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Loan Agreement to prepay the loan if any of the following events shall have occurred within 180 days preceding the giving of written notice by the Company to the Trustee of such election:

- (i) if in the judgment of the Company, unreasonable burdens or excessive liabilities have been imposed upon the Company after the issuance of the Bonds with respect to the Project or the operation thereof, including without limitation federal, state or other ad valorem property, income or other taxes not imposed on the date of the Bonds were issued, other than ad valorem taxes levied upon privately owned property used for the same general purpose as the Project;
- (ii) if the Project or a portion thereof or other property of the Company in connection with which the Project is used has been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or such other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use, and such condition continues for a period of six months;
- (iii) there has occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use;

(iv) in the event changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of the generating station where the Project is located have occurred, which, in the judgment of the Company, render the continued operation of such generating station or any generating unit at such station uneconomical; or changes in circumstances after the issuance of the Bonds, including but not limited to changes in solid waste disposal requirements, have occurred such that the Company determines that use of the Project is no longer required or desirable;

(v) the Loan Agreement has become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or

(vi) a final order or decree of any court or administrative body after the issuance of the Bonds requires the Company to cease a substantial part of its operation at the generating station where the Project is located to such extent that the Company will be prevented from carrying on its normal operations at such generating station for a period of six months.

Extraordinary Optional Redemption in Whole or in Part. The Bonds are also subject to redemption in whole or in part at 100% of the principal amount thereof plus accrued interest to the redemption date at the option of the Company in an amount not to exceed the net proceeds received from insurance or any condemnation award received by the Issuer or the Company in the event of damage, destruction or condemnation of all or a portion of the Project, subject to receipt of an opinion of Bond Counsel that such redemption will not adversely affect the exclusion of interest on any of the Bonds from gross income for federal income tax purposes, and such net proceeds must be applied to reimburse the Credit Facility Issuer for drawings under the Credit Facility to redeem the Bonds. See “Summary of the Loan Agreement — Maintenance; Damage, Destruction and Condemnation.” Such redemption may occur at any time, provided that if such event occurs while the Interest Rate Mode for the Bonds is the Daily Rate, Weekly Rate, Flexible Rate or Semi-Annual Rate, such redemption must occur on a date on which the Bonds are otherwise subject to optional redemption as described above.

Mandatory Redemption; Determination of Taxability. The Bonds are required to be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 180 days following a “Determination of Taxability.” As used herein, a “Determination of Taxability” means the receipt by the Trustee of written notice from a current or former registered owner of a Bond or from the Company or the Issuer of (A) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal exists, or (B) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party,

or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representation contained in the Loan Agreement or any other agreement or certificate delivered in connection with the Bonds, the interest on the Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a “substantial user” or a “related person” of a substantial user within the meaning of the Section 147 of Internal Revenue Code of 1986, as amended (the “Code”); provided, however, that no such Determination of Taxability shall be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a Bond or from the Issuer unless (A) the Issuer or the registered owner or former registered owner of the Bond involved in such proceeding or action (1) gives the Company and the Trustee prompt notice of the commencement thereof, and (2) (if the Company agrees to pay all expenses in connection therewith) offers the Company the opportunity to control unconditionally the defense thereof, and (B) either (1) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense, or (2) the Company shall exhaust or choose not to exhaust all available proceedings for the contest, review, appeal or rehearing of such decree, judgment or action which the Company determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any Bond in the computation of minimum or indirect taxes. All of the Bonds are required to be redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of such Bonds would have the result that interest payable on the remaining Bonds outstanding after the redemption would not be so included in any such gross income.

In the event any of the Issuer, the Company or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit or other proceedings relating to the Bonds being conducted by the Internal Revenue Service, the party so put on notice is required to give immediate written notice to the other parties of such matters. Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described above, the Company is required to give notice thereof to the Trustee and the Issuer.

If the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any Bond (except to a “substantial user” of the Project or a “related person” within the meaning of Section 147(a) of the Code) is or was includable in the gross income of the recipient for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Loan Agreement or any other agreement or certificate delivered in connection therewith, the Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their Bonds, receiving principal and interest at the applicable rate as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. Also, if the lien of the Indenture is discharged or defeased prior to the occurrence of a final Determination of Taxability, Bonds will not be redeemed as described herein.

General Redemption Terms. So long as a Credit Facility is in effect in respect of the Bonds, the redemption price (including accrued interest) will be paid from drawings under such Credit Facility or from moneys which otherwise constitute Available Moneys under the Indenture. Notice of redemption will be given by mailing a redemption notice by first class mail to the registered owners of the Bonds to be redeemed not less than 30 days (15 days if the Interest Rate Mode for the Bonds is the Dutch Auction Rate, the Daily Rate, the Weekly Rate or the Flexible Rate) but not more than 60 days prior to the redemption date. Any notice mailed as provided in the Indenture will be conclusively presumed to have been given, irrespective of whether the owner receives the notice. Failure to give any such notice by mailing or any defect therein in respect of any Bond will not affect the validity of any proceedings for the redemption of any other Bond. No further interest will accrue on the principal of any Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Paying Agent as of the redemption date. So long as the Bonds are held in book-entry-only form, all redemption notices will be sent only to Cede & Co.

Book-Entry-Only System

Portions of the following information concerning DTC and DTC's book-entry-only system have been obtained from DTC. The Issuer, the Company and the Remarketing Agent make no representation as to the accuracy of such information.

Initially, DTC will act as securities depository for the Bonds and the Bonds initially will be issued solely in book-entry-only form to be held under DTC's book-entry-only system, registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered bond in the aggregate principal amount of the Bonds will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934 (the "Exchange Act"). DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant,

either directly or indirectly (“Indirect Participants” and, together with “Direct Participants,” “Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts, upon DTC’s receipt of funds and corresponding detail information from the Issuer or the Trustee on the payable date in accordance with their

respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, the Company or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer, the Company, the Tender Agent and the Trustee, or the Issuer, at the request of the Company, may remove DTC as the securities depository for the Bonds. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be delivered as described in the Indenture (see "— Revision of Book-Entry-Only System; Replacement Bonds" below). The Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the registered owner of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners. Under the Indenture, payments made by the Trustee to DTC or its nominee will satisfy the Issuer's obligations under the Indenture, the Company's obligations under the Loan Agreement, to the extent of the payments so made. Beneficial Owners will not be, and will not be considered by the Issuer or the Trustee to be, and will not have any rights as, owners of Bonds under the Indenture.

The Trustee and the Issuer, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption or of proposed document amendments requiring consent of registered owners and any other notices required by the document (including notices of Conversion and mandatory purchase) to be sent to registered owners only to DTC (or any successor securities depository) or its nominee. Any failure of DTC to advise any Direct Participant, or of any Direct Participant or Indirect Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption, the document amendment, the Conversion, the mandatory purchase or any other action premised on that notice.

The Issuer, the Company, the Trustee and the Remarketing Agent cannot and do not give any assurances that DTC will distribute payments on the Bonds made to DTC or its nominee as the registered owner or any redemption or other notices, to the Participants, or that the Participants or others will distribute such payments or notices to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Reoffering Circular.

THE ISSUER, THE COMPANY, THE REMARKETING AGENT AND THE TRUSTEE WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A REGISTERED OWNER WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT OF ANY AMOUNT DUE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OR REDEMPTION OR PURCHASE PRICE OF OR INTEREST ON THE BONDS; (3) THE DELIVERY OF ANY NOTICE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED TO BE GIVEN TO REGISTERED OWNERS UNDER THE TERMS OF THE INDENTURE; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER.

Revision of Book-Entry-Only System; Replacement Bonds. In the event that DTC determines not to continue as securities depository or is removed by the Issuer, at the direction of the Company, as securities depository, the Issuer, at the direction of the Company, may appoint a successor securities depository reasonably acceptable to the Trustee. If the Issuer does not or is unable to appoint a successor securities depository, the Issuer will issue and the Trustee will authenticate and deliver fully registered Bonds, in authorized denominations, to the assignees of DTC or their nominees.

In the event that the book-entry-only system is discontinued, the following provisions will apply. The Bonds may be issued in denominations of \$50,000 and integral multiples thereof, if the Interest Rate Mode is the Dutch Auction Rate; in denominations of \$5,000 and integral multiples thereof, if the Interest Rate Mode is the Annual Rate or the Long Term Rate; in denominations of \$100,000 and integral multiples of \$5,000 in excess thereof, if the Interest Rate Mode is the Flexible Rate; and in denominations of \$100,000 and integral multiples thereof, if the Interest Rate Mode is the Daily Rate, the Weekly Rate or the Semi-Annual Rate. Bonds may be transferred or exchanged for an equal total amount of Bonds of other authorized denominations upon surrender of such Bonds at the principal office of the Bond Registrar, accompanied by a written instrument of transfer or authorization for exchange in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by the registered owner or the owner's duly authorized attorney. Except as provided in the Indenture, the Bond Registrar will not be required to register the transfer or exchange of any Bond during the fifteen days before any mailing of a notice of redemption, after such Bond has been called for redemption in

whole or in part, or after such Bond has been tendered or deemed tendered for optional or mandatory purchase as described under “— Purchases of Bonds on Demand of Owner” and “— Mandatory Purchases of Bonds.” Registration of transfers and exchanges will be made without charge to the owners of Bonds, except that the Bond Registrar may require any owner requesting registration of transfer or exchange to pay any required tax or governmental charge.

Security

Payment of the principal of and interest and any premium on the Bonds are secured by an assignment by the Issuer to the Trustee of the Issuer’s interest in and to the Loan Agreement and all payments to be made pursuant thereto (other than certain indemnification and expense payments and notification rights). Pursuant to the Loan Agreement, the Company will agree to pay, among other things, amounts sufficient to pay the aggregate principal amount of and premium, if any, on the Bonds, together with interest thereon as and when the same become due. The Company further will agree to make payments of the purchase price of the Bonds tendered for purchase to the extent that funds are not otherwise available therefor under the provisions of the Indenture.

The Bonds are unsecured general obligations of the Company, ranking on a parity with the Company’s obligations under the Loan Agreement to make payments on the Bonds.

The Letter of Credit

The following summarizes certain provisions of the Letter of Credit and the Reimbursement Agreement, to which reference is made for the detailed provisions thereof. Unless otherwise defined in this Reoffering Circular, capitalized terms in the following summary are used as defined in the Letter of Credit and the Reimbursement Agreement. The Company is permitted under the Indenture to deliver an Alternate Credit Facility to replace the Letter of Credit. Any such Alternate Credit Facility must meet certain requirements described in the Indenture.

The Letter of Credit

The Letter of Credit will be an irrevocable transferable direct pay letter of credit issued by the Bank in order to provide additional security for the payment of principal of, purchase price of, interest on and premium, if applicable, on any date when payments under the Bonds are due, including principal and interest payments and payments upon tender, redemption, acceleration or maturity of the Bonds. The Letter of Credit will provide for direct payments to or upon the order of the Trustee as set forth in the Letter of Credit in amounts sufficient to pay to or upon the order of the Trustee, upon request and in accordance with the terms thereof.

The Letter of Credit will be issued in an amount equal to the aggregate principal amount of the outstanding Bonds, plus an amount that represents interest accrued thereon at an assumed rate of 10% per annum for 45 days (the “Credit Amount”). The Trustee, upon compliance with the terms of the Letter of Credit, is authorized to draw up to (a) an amount sufficient (i) to pay principal of the Bonds, when due, whether at maturity or upon redemption or acceleration, and (ii) to pay the portion of the purchase price of the Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not

remarketed (a “Liquidity Drawing”) equal to the principal amount of the Bonds, plus (b) an amount not to exceed 45 days of accrued interest on such Bonds at an assumed rate of 10% per annum (i) to pay interest on the Bonds, when due, and (ii) to pay the portion of the purchase price of the Bonds, delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed, equal to the interest accrued, if any, on the Bonds.

The amount available under the Letter of Credit will be automatically reduced by the amount of any drawing thereunder, subject to reinstatement as described below. With respect to a drawing by the Trustee solely to pay interest on the Bonds on an Interest Payment Date, the amount available under the Letter of Credit will be automatically reinstated in the amount of such drawing effective on the earlier of (i) receipt by the Bank from the Company of reimbursement of any drawing solely to pay interest in full or (ii) at the opening of business on the eleventh calendar day after the date the Bank honors such drawing, unless the Trustee has received written notice from the Bank by the tenth calendar day after the date the Bank honors such drawing the Bank is not so reinstating the available amount due to the Company’s failure to reimburse the Bank for such drawing in full, or that an event of default has occurred and is continuing under the Reimbursement Agreement and, in either case, directing, an acceleration of the Bonds pursuant to the Indenture. With respect to a Liquidity Drawing under the Letter of Credit, the amount available under the Letter of Credit will be automatically reduced by the principal amount of the Bonds purchased with the proceeds of such drawing plus the amount of accrued interest on such Bonds. In the event of the remarketing of the Bonds purchased with the proceeds of a Liquidity Drawing, the amount available under the Letter of Credit will be automatically reinstated upon receipt by the Bank or the Trustee on the Bank’s behalf of an amount equal to such principal amount plus accrued interest.

The Letter of Credit will terminate on the earliest to occur of:

(a) the Bank’s close of business on December 16, 2009 (such date, as extended from time to time in accordance with the Letter of Credit is defined as the “Stated Expiration Date”);

(b) the Bank’s close of business on the date which is five Business Days following the date of receipt by the Bank of a certificate from the Trustee certifying that (a) no Bonds remain Outstanding within the meaning of the Indenture, (b) all drawings required to be made under the Indenture and available under the Letter of Credit have been made and honored, (c) an Alternate Credit Facility has been delivered to the Trustee in accordance with the Indenture to replace the Letter of Credit or (d) all of the outstanding Bonds were converted to Bonds bearing interest at a rate other than the Daily Rate or the Weekly Rate;

(c) the Bank’s close of business on the date of receipt by the Bank of a certificate from the Trustee confirming that the Trustee is required to terminate the Letter of Credit in accordance with the terms of the Indenture; or

(d) the date on which the Bank receives and honors an acceleration drawing certificate.

The Reimbursement Agreement

Pursuant to the Reimbursement Agreement, the Company is obligated to reimburse the Bank for all amounts drawn under the Letter of Credit, and to pay interest on all such amounts. The Company has also agreed to pay the Bank a periodic fee for issuing and maintaining the Letter of Credit.

The Reimbursement Agreement imposes various covenants and agreements, including various financial and operating covenants, on the Company. Such covenants include, but are not limited to, covenants relating to (i) inspection of the books and financial records of the Company; (ii) creation of liens; (iii) liquidations, mergers, consolidations or sales of all or substantially all of the Company's assets; and (iv) disposition of assets. Any such covenants may be amended, waived or modified at any time by the Bank and without the consent of the Trustee or the holders of the Bonds. Under certain circumstances, the failure of the Company to comply with such covenants may result in a mandatory tender or acceleration of the Bonds.

The following events will constitute an "event of default" under the Reimbursement Agreement:

(a) nonpayment of certain fees and other amounts required to be paid or reimbursed by the Company under the Reimbursement Agreement to the Bank within five days after the same was required to be paid;

(b) any representation or warranty made or deemed made by or on behalf of the Company or any of its Significant Subsidiaries to the Bank under or in connection with the Reimbursement Agreement or any other Transaction Document, any advance or any certificate or information delivered pursuant to or in connection with the Reimbursement Agreement or any other Transaction Document, was false or misleading in any material respect as of the time it was made or furnished;

(c) an "event of default" (not due to the Bank's failure to properly honor a drawing on the Letter of Credit) occurred under the Indenture or any of the other Transaction Documents and any applicable grace period has expired;

(d) the breach by the Company or any of its Significant Subsidiaries of any of the terms or provisions of certain covenants contained in the Reimbursement Agreement including, but not limited to, covenants relating to the provision of notice to the Bank regarding an "event of default" or "default" under the Reimbursement Agreement, the corporate existence and license or qualification and good standing of the Company in jurisdictions in which it owns or leases property, the creation of liens, the liquidation, merger, consolidation or sale of all or substantially all of the assets of the Company and the disposition of assets;

(e) the breach by the Company or any of its Significant Subsidiaries (other than a breach which constitutes a "default" described above) of any of the terms or provisions of the Reimbursement Agreement or any Security Document that is not remedied within thirty (30) days after an executive officer of the Company has actual

knowledge of such default or written notice of such default has been given to the Company by the Bank;

(f) the Bonds cease to be valid for any reason;

(g) a default or event of default has occurred at any time under the terms of any other agreement involving borrowed money or the extension of credit or any other Indebtedness under which the Company or any of its Significant Subsidiaries may be obligated for the payment of \$50,000,000 or more in the aggregate, and such breach, default or event of default continues beyond any period of grace permitted with respect thereto and as a result thereof such Indebtedness is accelerated, becomes due or is otherwise required to be repurchased or redeemed prior to the scheduled date of maturity thereof;

(h) a proceeding has been instituted in a court having jurisdiction in the premises seeking a decree or order for relief in respect of the Company or any Significant Subsidiary in an involuntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator, conservator (or similar official) of the Company or any Significant Subsidiary for any substantial part of its property, or for the winding-up or liquidation of its affairs, and such proceeding shall remain undismissed or unstayed and in effect for a period of sixty (60) consecutive days; such court shall enter a decree or order granting any of the relief sought in such proceeding; or the Company or any Significant Subsidiary shall consent, approve or otherwise acquiesce in any of the actions sought in such proceeding;

(i) the Company or any Significant Subsidiary shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator, conservator (or other similar official) of itself or for any substantial part of its property or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any action in furtherance of any of the foregoing;

(j) without the application, approval or consent of the Company or any of its Significant Subsidiaries, a receiver, trustee, examiner, liquidator or similar official shall be appointed for the Company or any of its Significant Subsidiaries, or for any substantial portion of its Property, or a proceeding described in paragraph (h) above has been instituted against the Company or any of its Significant Subsidiaries, and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of 60 consecutive days;

(k) any of the following occurs: (i) any Reportable Event which constitutes grounds under Section 4042 of ERISA for the termination of any Plan by the PBGC or the appointment of a trustee to administer or liquidate any Plan, shall have occurred and be continuing; (ii) a notice of intent to terminate any Plan shall have been filed with the

PBGC under Section 4041 of ERISA; (iii) the PBGC shall give notice under Section 4042 of ERISA of its intent to institute proceedings to terminate any Plan or Plans or to appoint a trustee to administer or liquidate any Plan; (iv) the Company or any member of the ERISA Group shall fail to make any contributions when due to a Plan or a Multiemployer Plan; (v) the Company or any member of the ERISA Group shall make any amendment to a Plan with respect to which security is required under Section 307 of ERISA; (vi) the Company or any member of the ERISA Group shall withdraw completely or partially from a Multiemployer Plan pursuant to Subtitle E of Title IV of ERISA; or (vii) the Company or any member of the ERISA Group shall withdraw within the meaning of Section 4063 of ERISA (or shall be deemed under Section 4062(e) of ERISA to withdraw) from a Multiple Employer Plan; and, with respect to any of such events specified in clause (i), (ii), (iii), (iv), (v), (vi) or (vii), such occurrence would be reasonably likely to result in a Material Adverse Effect;

(l) any final judgment(s) or order(s) for the payment of money shall be entered against the Company or any of its Significant Subsidiaries by a court having jurisdiction in the premises which judgment is not discharged, vacated, bonded or stayed pending appeal within a period of thirty (30) days from the date of entry if the aggregate uninsured amount of all such judgments and orders exceeds \$50,000,000;

(m) the Company or any of its Significant Subsidiaries ceases to conduct business (other than as permitted hereunder) or the Company is enjoined, restrained or in any way prevented by court order from conducting all or any material part of its business and such injunction, restraint or other preventive order is not dismissed within thirty (30) days after the entry thereof; or

(n) E.ON AG fails to own, directly or indirectly, at least seventy-five percent (75%) of the outstanding Voting Capital of the Company.

For purposes of the foregoing:

“Bond Documents” means the Indenture, the Custody Agreement, the Loan Agreement, the Bonds and the Remarketing Agreement.

“Material Adverse Effect” means (i) a material adverse change in the business, property, condition (financial or otherwise), operations or results of operations of the Company and its subsidiaries taken as a whole, (ii) a material adverse change in the ability of the Company to perform its obligation under the Transaction Documents or (iii) a material adverse change in the validity or enforceability of any of the Transaction Documents or the rights or remedies of the Bank thereunder.

“Security Documents” means the Custody, Pledge and Security Agreement dated as of December 17, 2008 among the Trustee, the Company and the Bank with respect to any Bond purchased during the period from and including the date of its purchase with proceeds of a Liquidity Drawing to but excluding the date on which such Bond is purchased by any person as a result of a remarketing of such Bond pursuant to the Remarketing Agreement and the Indenture.

“Transaction Documents” means, collectively, the Reimbursement Agreement, Bond Documents, the Security Documents and all other operative documents relating to the issuance, sale and securing of the Bonds (including without limitation any document(s) or instrument(s) through which the Bonds are now or hereafter collateralized, such as mortgages, security agreements, etc.).

Summary of the Loan Agreement

The following, in addition to the provisions contained elsewhere in this Reoffering Circular, is a brief description of certain provisions of the Loan Agreement. This description is only a summary and does not purport to be complete and definitive. Reference is made to the Loan Agreement for the detailed provisions thereof.

General

The Loan Agreement initially commenced as of its initial date and is amended and restated as of September 1, 2008 and will end on the earliest to occur of May 1, 2023, or the date on which all of the Bonds shall have been fully paid or provision has been made for such payment pursuant to the Indenture. See “Summary of the Indenture — Discharge of Indenture.”

The Company has agreed to repay the loan pursuant to the Loan Agreement by making timely payments to the Trustee in sufficient amounts to pay the principal of, premium, if any, and interest required to be paid on the Bonds on each date upon which any such payments are due. The Company has also agreed to pay (a) the agreed upon fees and expenses of the Trustee, the Bond Registrar, any Tender Agent and any Paying Agent appointed under the Indenture, (b) the expenses in connection with any redemption of the Bonds and (c) the reasonable expenses of the Issuer.

The Company covenants and agrees with the Issuer that it will cause the purchase of tendered Bonds that are not remarketed in accordance with the Indenture and, to that end, the Company shall cause funds to be made available to the Tender Agent at the times and in the manner required to effect such purchases in accordance with the Indenture; provided, however, that the obligation of the Company to make any such payment will be reduced by the amount of (A) moneys paid by the Remarketing Agent as proceeds of the remarketing of such Bonds by the Remarketing Agent; (B) moneys drawn under a Credit Facility, if any, for the purpose of paying such purchase price and (C) other moneys made available by the Company (see “Summary of the Bonds — Remarketing and Purchase of Bonds”).

All payments to be made by the Company to the Issuer pursuant to the Loan Agreement (except the reasonable out-of-pocket expenses of the Issuer, the Trustee, the Paying Agent, the Bond Registrar, the Tender Agent and amounts related to indemnification) have been assigned by the Issuer to the Trustee, and the Company will pay such amounts directly to the Trustee. The obligations of the Company to make the payments pursuant to the Loan Agreement are absolute and unconditional.

Maintenance of Tax Exemption

The Company and the Issuer have agreed not to take any action that would result in the interest paid on the Bonds being included in gross income of any Bondholder (other than a holder who is a “substantial user” of the Project or a “related person” within the meaning of Section 147(a) of the Code) for federal income tax purposes or that adversely affects the validity of the Bonds.

Payment of Taxes

The Company has agreed to pay certain taxes and other governmental charges that may be lawfully assessed, levied or charged against or with respect to the Project (see, however, subparagraph (i) under “Summary of the Bonds — Redemptions — Extraordinary Optional Redemption in Whole”). The Company may contest such taxes or other governmental charges unless the security provided by the Indenture would be materially endangered.

Maintenance; Damage, Destruction and Condemnation

So long as any Bonds are outstanding, the Company will maintain the Project or cause the Project to be maintained in good working condition and will make or cause to be made all proper repairs, replacements and renewals necessary to continue to constitute the Project as solid waste disposal facilities under Section 142(a)(6) of the Code and the Act. However, the Company will have no obligation to maintain, repair, replace or renew any portion of the Project, the maintenance, repair, replacement or renewal of which becomes uneconomical to the Company because of certain events, including damage or destruction by a cause not within the Company’s control, condemnation of the Project, change in government standards and regulations, economic or other obsolescence or termination of operation of generating facilities to the Project.

The Company, at its own expense, may remodel the Project or make substitutions, modifications and improvements to the Project as it deems desirable, which remodeling, substitutions, modifications and improvements will be deemed, under the terms of the Loan Agreement to be a part of the Project. The Company may not, however, change or alter the basic nature of the Project or cause it to lose its status under Section 142(a)(6) of the Code and the Act.

If, prior to the payment of all Bonds outstanding, the Project or any portion thereof is destroyed, damaged or taken by the exercise of the power of eminent domain and the Issuer or the Company receives net proceeds from insurance or a condemnation award in connection therewith, the Company must (i) cause such net proceeds to be used to repair or restore the Project or (ii) reimburse the Credit Facility Issuer for drawings under the Credit Facility for the redemption of the Bonds in whole or in part at their principal amount, which, by the opinion of Bond Counsel, will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes. See “Summary of the Bonds — Redemptions — Extraordinary Optional Redemption in Whole or in Part.”

Project Insurance

The Company will insure the Project in a manner consistent with general industry practice.

Assignment, Merger and Release of Obligations of the Company

The Company may assign the Loan Agreement, pursuant to an opinion of Bond Counsel that such assignment will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, without obtaining the consent of either the Issuer or the Trustee. Such assignment, however, shall not relieve the Company from primary liability for any of its obligations under the Loan Agreement and performance and observance of the other covenants and agreements to be performed by the Company. The Company may dispose of all or substantially all of its assets or consolidate with or merge into another corporation, provided the acquirer of the Company's assets or the corporation with which it shall consolidate with or merge into shall be a corporation or other business organization organized and existing under the laws of the United States of America or one of the states of the United States of America, shall be qualified and admitted to do business in the Commonwealth of Kentucky and shall assume in writing all of the obligations and covenants of the Company under the Loan Agreement.

Release and Indemnification Covenant

The Company will indemnify and hold the Issuer harmless against any expense or liability incurred, including attorneys' fees, resulting from any loss or damage to property or any injury to or death of any person occurring on or about or resulting from any defect in the Project or from any action commenced in connection with the financing thereof.

Events of Default

Each of the following events constitutes an "event of default" under the Loan Agreement:

(1) failure by the Company to pay the amounts required for payment of the principal of, including purchase price for tendered Bonds and redemption and acceleration prices, and interest accrued, on the Bonds, at the times specified therein taking into account any periods of grace provided in the Indenture and the Bonds for the applicable payment of interest on the Bonds (see "Summary of the Indenture — Defaults and Remedies");

(2) failure by the Company to observe and perform any covenant, condition or agreement, other than as referred to in paragraph (1) above, for a period of thirty days after written notice by the Issuer or Trustee, provided, however, that if such failure is capable of being corrected, but cannot be corrected in such 30-day period, it will not constitute an event of default under the Loan Agreement if corrective action with respect thereto is instituted within such period and is being diligently pursued; or

(3) certain events of bankruptcy, dissolution, liquidation, reorganization or insolvency of the Company.

Under the Loan Agreement, certain of the Company's obligations (other than the Company's obligation (i) not to permit any action which would result in interest paid on the Bonds being included in gross income for federal and Kentucky income taxes and (ii) to make loan payments and certain other payments under the provisions of the Loan Agreement) may be suspended if by reason of force majeure (as defined in the Loan Agreement) the Company is unable to carry out such obligations.

Remedies

Upon the happening of an event of default under the Loan Agreement, the Issuer may, among other things, take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company, under the Loan Agreement.

Any amounts collected upon the happening of any such event of default shall be applied in accordance with the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the Indenture), made available to the Company.

Options to Prepay, Obligation to Prepay

The Company may prepay the loan pursuant to the Loan Agreement, in whole or in part, on certain dates, at the prepayment prices as shown under the captions "Summary of the Bonds — Redemptions — Optional Redemption," "— Extraordinary Optional Redemption in Whole" and "— Extraordinary Optional Redemption in Whole or in Part." Upon the occurrence of the event described under the caption "Summary of the Bonds — Redemptions — Mandatory Redemption; Determination of Taxability," the Company shall be obligated to prepay the loan in an aggregate amount sufficient to redeem the required principal amount of the Bonds.

In each instance, the loan prepayment price shall be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem the requisite amount of the Bonds at a price equal to the applicable redemption price plus accrued interest to the redemption date, and to pay all reasonable and necessary fees and expenses of the Trustee, the Paying Agent and all other liabilities of the Company under the Loan Agreement accrued to the redemption date.

Amendments and Modifications

No amendment or modification of the Loan Agreement is permissible without the written consent of the Trustee. The Issuer and the Trustee may, however, without the consent of or notice to any Bondholders, enter into any amendment or modification of the Loan Agreement (i) which may be required by the provisions of the Loan Agreement or the Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission, (iii) in connection with any modification or change necessary to conform the Loan Agreement with changes and modifications in the Indenture or (iv) in connection with any other change which, in the judgment of the Trustee, does not adversely affect the Trustee or the Bondholders. Except for such amendments, the Loan Agreement may be amended or modified only with the consent of the Bondholders holding a majority in principal amount of the Bonds then outstanding (see

“Summary of the Indenture — Supplemental Indentures” for an explanation of the procedures necessary for Bondholder consent); provided, however, that the approval of the Bondholders holding 100% in principal amount of the Bonds then outstanding is necessary to effectuate an amendment or modification with respect to the Loan Agreement of the type described in clauses (i) through (iv) of the first sentence of the second paragraph of “Summary of the Indenture — Supplemental Indentures.” Any amendments, changes or modification of the Loan Agreement that require the consent of the Bondholders must additionally be approved by the Credit Facility Issuer, if the Bonds are at the time secured by a Credit Facility. Additionally, so long as a Credit Facility is in place or while any amounts are outstanding under a Reimbursement Agreement, the Credit Facility Issuer must consent in writing to any amendment, change, or modification to the Agreement.

Summary of the Indenture

The following, in addition to the provisions contained elsewhere in this Reoffering Circular, is a brief description of certain provisions of the Indenture. This description is only a summary and does not purport to be complete and definitive. Reference is made to the Indenture for the detailed provisions thereof.

Security

Pursuant to the Indenture, the Issuer has assigned and pledged to the Trustee its interest in and to the Loan Agreement, including payments and other amounts due the Issuer thereunder, together with all moneys, property and securities from time to time held by the Trustee under the Indenture (with certain exceptions, including moneys held in or earnings on the Rebate Fund and the Purchase Fund). The Bonds are not directly secured by the Project.

No Pecuniary Liability of the Issuer

No provision, covenant or agreement contained in the Indenture or in the Loan Agreement, nor any breach thereof, shall give rise to any pecuniary liability of the Issuer or any charge upon its general credit or taxing powers. The Issuer has not obligated itself by making the covenants, agreements or provisions contained in the Indenture or in the Loan Agreement, except with respect to the Project and the application of the amounts assigned to payment of the principal of, premium, if any, and interest on the Bonds.

The Bond Fund

The payments to be made by the Company pursuant to the Loan Agreement to the Issuer and certain other amounts specified in the Indenture will be deposited into a Bond Fund established pursuant to the Indenture (the “Bond Fund”) and will be maintained in trust by the Trustee. Moneys in the Bond Fund will be used for the payment of the principal of, premium, if any, and interest on the Bonds, and for the redemption of Bonds prior to maturity in the following order of priority: (i) proceeds of the Credit Facility, if any, deposited into the Bond Fund in accordance with the Indenture and (ii) any other moneys provided by or on behalf of the Company. Any moneys held in the Bond Fund will be invested by the Trustee at the specific written direction of the Company in certain Governmental Obligations, investment-grade corporate obligations and other investments permitted under the Indenture.

So long as a Credit Facility is then held by the Trustee and there is no default in the payment of principal or redemption price of or interest on the Bonds, any amounts in the Bond Fund provided by or on behalf of the Company will be paid to the Credit Facility Issuer to the extent of any amounts that the Company owes the Credit Facility Issuer pursuant to the Reimbursement Agreement. Any amounts remaining in the Bond Fund (first, from the proceeds of the Credit Facility, and second, from the moneys provided by or on behalf of the Company) after payment in full of the principal or redemption price of and interest on the Bonds (or provision for payment thereof) and payment of any outstanding fees and expenses of the Trustee (including its reasonable attorney fees and expenses) will be paid, first, to the Credit Facility Issuer, to the extent of any amounts that the Company owes the Credit Facility Issuer pursuant to the Reimbursement Agreement and, second, to the Company. Any amounts remaining in the Bond Fund (i) after all of the outstanding Bonds have been paid and discharged, (ii) after payment of all fees, charges and expenses to the Issuer, the Trustee, the Registrar and the Paying Agent and of all other amounts required to be paid under the Indenture and the Loan Agreement and (iii) after the receipt by the Trustee of the written request of the Company for such payment, will be paid to the Credit Facility Issuer, if any, to the extent of any amounts that the Company owes to such Credit Facility Issuer pursuant to the Reimbursement Agreement, and then to the Company to the extent that those moneys are in excess of the amounts necessary to effect the payment and discharge of the outstanding Bonds.

The Rebate Fund

A Rebate Fund has been created by the Indenture (the “Rebate Fund”) and is maintained as a separate fund free and clear of the lien of the Indenture. The Issuer, the Trustee and the Company have agreed to comply with all rebate requirements of the Code and, in particular, the Company has agreed that if necessary, it will deposit in the Rebate Fund any such amount as is required under the Code. However, the Issuer, the Trustee and the Company may disregard the Rebate Fund provisions to the extent that they receive an opinion of Bond Counsel that such failure to comply will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

Discharge of Indenture

When all the Bonds and all fees and charges accrued and to accrue of the Trustee and the Paying Agent have been paid or provided for, and when proper notice has been given to the Bondholders or the Trustee that the proper amounts have been so paid or provided for, and if the Issuer is not in default in any other respect under the Indenture, the Indenture shall become null and void. The Bonds will be deemed to have been paid and discharged when there have been irrevocably deposited with the Trustee moneys sufficient to pay the principal, premium, if any, and accrued interest on such Bonds to the due date (whether such date be by reason of maturity or upon redemption) or, in lieu thereof, Governmental Obligations have been deposited which mature in such amounts and at such times as will provide the funds necessary to so pay such Bonds, and when all reasonable and necessary fees and expenses of the Trustee and the Paying Agent have been paid or provided for.

Notwithstanding anything to the contrary, if any Bonds are rated by a rating service, no such Bonds will be deemed to have been paid and discharged by reason of any deposit pursuant to the Indenture, unless each such rating service has confirmed in writing to the Trustee that its rating will not be withdrawn or lowered as a result of any such deposit.

So long as the Company owes any amounts to the Credit Facility Issuer, if any, pursuant to the Reimbursement Agreement: (A) the lien of the Indenture may not be discharged; (B) such Credit Facility Issuer shall be subrogated to the extent of such amounts owed by the Company to such Credit Facility Issuer to all rights of the Bondholders to enforce the payment of the Bonds from the revenues and all other rights of the Bondholders under the Bonds, the Indenture and the Loan Agreement; (C) the Bondholders will be deemed paid to the extent of money drawn by the Trustee under the Credit Facility; and (D) subject to the Indenture, the Trustee will sign, execute and deliver all documents or instruments and do all things that may be reasonably required by the Credit Facility Issuer to effect the Credit Facility Issuer's subrogation of rights of enforcement and remedies set forth in the Indenture.

Defaults and Remedies

Each of the following events constitutes an "Event of Default" under the Indenture:

(a) failure to make payment of any installment of interest on any Bond (i) if such Bond bears interest at other than the Long Term Rate, within a period of one Business Day from the due date, and (ii) if such Bond bears interest at the Long Term Rate, within a period of five Business Days from the due date;

(b) failure to make punctual payment of the principal of, or premium, if any, on any Bond on the due date, whether at the stated maturity thereof, or upon proceedings for redemption, or upon the maturity thereof by declaration or if payment of the purchase price of any Bond required to be purchased pursuant to the Indenture is not made when such payment has become due and payable;

(c) failure of the Issuer to perform or observe any other of the covenants, agreements or conditions in the Indenture or in the Bonds which failure continues for a period of 30 days after written notice by the Trustee, provided, however, that if such failure is capable of being cured, but cannot be cured in such 30-day period, it will not constitute an event of default under the Indenture if corrective action in respect of such failure is instituted within such 30-day period and is being diligently pursued;

(d) the occurrence of an "event of default" under the Loan Agreement (see "Summary of the Loan Agreement — Events of Default");

(e) written notice from the Credit Facility Issuer to the Trustee of an event of default under the Reimbursement Agreement, by reason of which the Trustee has been directed to accelerate the Bonds; or

(f) if a Credit Facility is then held by the Trustee, on or before the close of business on the tenth calendar day following the honoring of a drawing under such Credit Facility to pay interest on the Bonds on an Interest Payment Date, written notice from the

Credit Facility Issuer to the Trustee that the interest component of the Credit Facility will not be reinstated.

Upon the occurrence of an Event of Default under clauses (a), (b), (e) or (f) above, the Trustee must: (i) declare the principal of all Bonds and interest accrued thereon to be immediately due and payable; (ii) declare all payments under the Loan Agreement to be immediately due and payable and enforce each and every other right granted to the Issuer under the Loan Agreement for the benefit of the Bondholders; and (iii) if a Credit Facility securing the Bonds is in effect, make an immediate drawing under the Credit Facility in accordance with its terms and deposit the proceeds of such drawing in the Bond Fund pending application to the payment of principal of the Bonds, subject to the provisions of the Indenture reserving to the Credit Facility Issuer the right to direct default proceedings and providing for termination of default proceedings upon certain occurrences.

Interest on the Bonds will cease to accrue on the date of issuance of the declaration of acceleration of payment of principal and interest on the Bonds.

In exercising such rights, the Trustee will take any action that, in the judgment of the Trustee, would best serve the interests of the registered owners. Upon the occurrence of an Event of Default under the Indenture, the Trustee may also proceed to pursue any available remedy by suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds then outstanding.

If the Trustee recovers any moneys following an Event of Default, unless the principal of the Bonds shall have been declared due and payable, all such moneys shall be applied in the following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent, (ii) to the payment of all interest then due on the Bonds and (iii) to the payment of unpaid principal and premium, if any, of the Bonds. If the principal of the Bonds has become due or has been accelerated, such moneys shall be applied in the following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent and (ii) to the payment of principal of and interest then due and unpaid on the Bonds. In each case, however, Trustee and Paying Agent fees or costs will not be payable from moneys derived from Credit Facility drawings, any remarketing proceeds or moneys constituting certain Available Moneys under the Indenture.

No Bondholder may institute any suit or proceeding in equity or at law for the enforcement of the Indenture unless an Event of Default has occurred of which the Trustee has been notified or is deemed to have notice, and registered owners holding not less than 25% in aggregate principal amount of Bonds then outstanding shall have made written request to the Trustee to proceed to exercise the powers granted under the Indenture or to institute such action in their own name and the Trustee shall fail or refuse to exercise its powers within a reasonable time after receipt of indemnity satisfactory to it.

Any judgment against the Issuer pursuant to the exercise of rights under the Indenture shall be enforceable only against specific assigned payments, funds and accounts under the Indenture in the hands of the Trustee. No deficiency judgment shall be authorized against the general credit of the Issuer.

No default under paragraph (c) above shall constitute an Event of Default until actual notice is given to the Issuer and the Company by the Trustee, or to the Issuer, the Company and the Trustee by the registered owners holding not less than 25% in aggregate principal amount of all Bonds outstanding or the Issuer and the Company shall have had thirty days after such notice to correct the default and failed to do so. If the default is such that it cannot be corrected within the applicable period but is capable of being cured, it will not constitute an Event of Default if corrective action is instituted within the applicable period.

Notwithstanding the foregoing, in addition to the rights of the Trustee and the Bondholders to direct proceedings as described above, if a Credit Facility is in effect, for so long as such Credit Facility is outstanding and the Credit Facility Issuer is not in default in its duties under the Indenture or the Credit Facility, the Credit Facility Issuer issuing will have the absolute right to direct all proceedings on behalf of the Bondholders of the Bonds. Additionally, if the Event of Default which has occurred is an Event of Default under paragraphs (e) or (f) above, the Credit Facility Issuer, if any, will have no right to direct the Trustee or the Bondholders with respect to any matters, including remedies, and the holders of a majority in aggregate principal amount of the Bonds then outstanding, will have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings hereunder; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

If an Event of Default has occurred under the Indenture due to failure by the Credit Facility Issuer, if any, to honor a properly presented and conforming drawing by the Trustee under the Credit Facility then in effect in accordance with the terms thereof, all obligations of the Trustee to the Credit Facility Issuer and all rights of such Credit Facility Issuer under the Indenture will be suspended until the earlier of the cure of such failure or all of the Bonds have been paid in full.

Waiver of Events of Default

Except as provided below, the Trustee may in its discretion waive any Event of Default under the Indenture and shall do so upon the written request of the registered owners holding a majority in principal amount of all Bonds then outstanding. If, after the principal of all Bonds then outstanding shall have been declared to be due and payable and prior to any judgment or decree for the appointment of a receiver or for the payment of the moneys due shall have been entered, (i) the Company has caused to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of and premium, if any, on any and all Bonds which shall have become due otherwise than by reason of such declaration and the expenses of the Trustee in connection with such default (with interest thereon as provided in the Indenture) and (ii) all Events of Default under the Indenture (other than nonpayment of the principal of Bonds due by said declaration) shall have been remedied, then such Event of Default shall be deemed waived and such declaration and its consequences rescinded and annulled by the Trustee. Such waiver, rescission and annulment shall be binding upon all Bondholders. No such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

The Trustee may not waive any default under clauses (e) or (f) above unless the Trustee has received in writing from the Credit Facility Issuer a written notice of full reinstatement of the full amount of the Credit Facility and a written rescission of the notice of the Event of Default.

Notwithstanding the foregoing, nothing in the Indenture shall affect the right of a registered owner to enforce the payment of principal of, premium, if any, and interest on the Bonds after the maturity thereof.

Supplemental Indentures

The Issuer and the Trustee may enter into indentures supplemental to the Indenture without the consent of or notice to, the Bondholders in order (i) to cure any ambiguity or formal defect or omission in the Indenture, (ii) to grant to the Trustee, as may lawfully be granted, additional rights for the benefit of the Bondholders, (iii) to subject to the Indenture additional revenues, properties or collateral, (iv) to permit qualification of the Indenture under any federal statute or state blue sky law, (v) to add additional covenants and agreements of the Issuer for the protection of the Bondholders or to surrender or limit any rights reserved to the Issuer, (vi) to make any modification or change to the Indenture which, in the sole judgment of the Trustee, does not adversely affect the Trustee or any Bondholder, (vii) to make amendments to provisions relating to federal income tax matters under the Code or other relevant provisions if, in the opinion of Bond Counsel, those amendments would not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, (viii) to make any modifications or changes to the Indenture necessary to provide the securing of a Credit Facility or Alternate Credit Facility or any liquidity or credit support of any kind for the security of the Bonds (including without limitation any line of credit, letter of credit, guaranty agreement or insurance coverage), including any modifications of the Indenture or the Agreement necessary to upgrade or maintain the then applicable ratings on the Bonds; or (ix) to permit the issuance of the Bonds in other than book-entry-only form or to provide changes to or for the book-entry system.

Subject to the consent of the Credit Facility Issuer, if any, exclusive of supplemental indentures for the purposes set forth in the preceding paragraph, the consent of registered owners holding a majority in principal amount of all Bonds then outstanding is required to approve any supplemental indenture, except no such supplemental indenture shall permit, without the consent of all of the registered owners of the Bonds then outstanding, (i) an extension of the maturity of the principal of or the interest on any Bond issued under the Indenture or a reduction in the principal amount of any Bond or the rate of interest or time of redemption or redemption premium thereon, (ii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (iii) a reduction in the principal amount of the Bonds required for consent to such supplemental indenture or (iv) the deprivation of any registered owners of the lien of the Indenture.

If at any time the Issuer shall request the Trustee to enter into any supplemental indenture requiring the consent of the registered owners of the Bonds, the Trustee, upon being satisfactorily indemnified with respect to expenses, must notify all such registered owners. Such notice shall set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the principal office of the Trustee for inspection. If, within sixty days (or such longer period as shall be prescribed by the Issuer or the Company) following the mailing of

such notice, the registered owners holding the requisite amount of the Bonds outstanding shall have consented to the execution thereof, no Bondholder shall have any right to object or question the execution thereof.

No supplemental indenture shall become effective unless the Company consents to the execution and delivery of such supplemental indenture. The Company shall be deemed to have consented to the execution and delivery of any supplemental indenture if the Trustee does not receive a notice of protest or objection signed by the Company on or before 4:30 p.m., local time in the city in which the principal office of the Trustee is located, on the fifteenth day after the mailing to the Company of a notice of the proposed changes and a copy of the proposed supplemental indenture.

Notwithstanding the foregoing, any Supplemental Indenture that requires the consent of the Bondholders that (i) is to become effective while a Credit Facility is in place or while any amounts are outstanding under any Reimbursement Agreement and (ii) adversely affects the Credit Facility Issuer will not become effective unless and until the Credit Facility Issuer consents in writing to the execution and delivery of such Supplemental Indenture.

Cancellation of Credit Facility; Delivery of Alternate Credit Facility

The Trustee will, at the written direction of the Company but subject to the conditions described in this paragraph and the receipt of an Opinion of Bond Counsel stating that the cancellation of such Credit Facility is authorized under the Indenture and under the Act and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, cancel any Credit Facility in accordance with the terms thereof which cancellation may be without substitution therefor or replacement thereof; provided, that any such cancellation will not become effective, surrender of such Credit Facility will not take place and that Credit Facility will not terminate, in any event, until (i) payment by the Credit Facility Issuer has been made for any and all drawings by the Trustee effected on or before such cancellation date (including, if applicable, any drawings for payment of the purchase price of Bonds to be purchased pursuant to the Indenture in connection with such cancellation) and (ii) if the Bonds are in an Long Term Rate Period, only if the then current Long Term Rate Period for the Bonds is ending on, or the Bonds are subject to optional redemption on, the Interest Payment Date immediately preceding the date of such cancellation. Upon written notice given by the Company to the Trustee at least 20 days (35 days if the Bonds are bearing interest at the Long Term Rate) prior to the date of cancellation of any Credit Facility of such cancellation and the effective date of such cancellation, the Trustee will surrender such Credit Facility to the Credit Facility Issuer by which it was issued on or promptly after the effective date of such cancellation in accordance with its terms; provided, that such notice will not be given in any event, if the purchase price of any Bonds to be purchased pursuant to the Indenture in connection with such cancellation includes any premium unless the Company has certified in such notice that the Trustee can draw under a Credit Facility (other than any Alternate Credit Facility being delivered in connection with such cancellation) on the purchase date related to such purchase of Bonds in an aggregate amount sufficient to pay the premium due upon such purchase of Bonds on such purchase date.

The Company may, at its option, provide for the delivery to the Trustee of an Alternate Credit Facility in replacement of any Credit Facility then in effect. At least 20 days (35 days if the Interest Rate on the Bonds is a Long Term Rate) prior to the date of delivery of an Alternate Credit Facility to the Trustee, the Company must give notice, which notice will also be given to the Remarketing Agent, of such replacement to the Trustee, together with an Opinion of Bond Counsel to the effect that the delivery of such Alternate Credit Facility to the Trustee is authorized under the Indenture and the Act and complies with the terms thereof and that the delivery of such Alternate Credit Facility will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. The Trustee will then accept such Alternate Credit Facility and surrender the previously held Credit Facility, if any, to the previous Credit Facility Issuer for cancellation promptly on or after the 5th day after the Alternate Credit Facility becomes effective; provided, however, that such Alternate Credit Facility must become effective on an Interest Payment Date and, if the Bonds are in a Long Term Rate Period, such Alternate Credit Facility may only become effective on either the last Interest Payment Date for such Long Term Rate Period or an Interest Payment Date on which the Bonds are subject to optional redemption. The notice given to the Trustee shall also be given to the Issuer, the then current Credit Facility Issuer, Moody's, if the Bonds are then rated by Moody's, and S&P, if the Bonds are then rated by S&P; provided that the notice will not be given if the purchase price of any Bonds to be purchased pursuant to the Indenture in connection with such cancellation includes any premium unless the Company has certified in such notice that the Trustee can draw under a Credit Facility then in effect on the purchase date related to such purchase of Bonds in an aggregate amount sufficient to pay the premium due upon such purchase of Bonds on such purchase date and until payment under the Credit Facility to be surrendered shall have been made for any and all drawings by the Trustee effected on or before the date of such surrender for cancellation (including, if applicable, any drawings for payment of the purchase price of Bonds to be purchased pursuant to the Indenture in connection with such cancellation).

Any Alternate Credit Facility delivered to the Trustee must be accompanied by an opinion of counsel to the issuer or provider of such Credit Facility stating that such Credit Facility is a legal, valid, binding and enforceable obligation of such issuer or obligor in accordance with its terms.

The Bonds will be subject to mandatory tender for purchase on the date of cancellation of a Credit Facility and on the date of the delivery of an Alternate Credit Facility. See "Summary of the Bonds — Mandatory Purchases of Bonds."

Enforceability of Remedies

The remedies available to the Trustee, the Issuer and the owners upon an event of default under the Loan Agreement or the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies specified by the Loan Agreement or the Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by principles of equity, bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting the rights of creditors generally.

Reoffering

Subject to the terms and conditions of the Remarketing and Bond Purchase Agreement (the "Remarketing Agreement"), between the Company and Morgan Stanley & Co. Incorporated, as Remarketing Agent, the Remarketing Agent has agreed to purchase and reoffer the Bonds delivered to the Paying Agent for purchase, at a price equal to 100% of the principal amount of the Bonds, plus accrued interest (if any), and in connection therewith will receive compensation in the amount of \$32,250, plus reimbursement of certain expenses. Under the terms of the Remarketing Agreement, the Company has agreed to indemnify the Remarketing Agent against certain civil liabilities, including liabilities under federal securities laws.

In the ordinary course of their business, the Remarketing Agent and certain of its affiliates, have engaged, and may in the future engage, in investment banking or commercial banking transactions with the Company.

Tax Treatment

On May 19, 2000, the date of original issuance and delivery of the Bonds, Bond Counsel delivered its opinion stating that under existing law, including current statutes, regulations, administrative rulings and official interpretations, subject to the qualifications and exceptions set forth below, interest on the Bonds will be excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person" as such terms are used in Section 147(a) of the Code. Interest on the Bonds will be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Bond Counsel further opined that, subject to the assumptions stated in the preceding sentence, (i) interest on the Bonds would be excluded from gross income of the owners thereof for Kentucky income tax purposes and (ii) the Bonds would be exempt from all ad valorem taxes in Kentucky. Such opinion has not been updated as of the date hereof and no continuing tax exemption opinion is expressed by Bond Counsel.

Bond Counsel also will deliver an opinion in connection with this reoffering to the effect that the delivery of the Letter of Credit (i) is authorized or permitted by Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act") and the Indenture and (ii) will not adversely affect the validity of the Bonds or any exclusion from gross income of interest on the Bonds for federal income tax purposes to which interest on the Bonds would otherwise be entitled.

The opinions of Bond Counsel as to the excludability of interest from gross income for federal income tax purposes were based upon and assumed the accuracy of certain representations of facts and circumstances, including with respect to the Project, which were within the knowledge of the Company and compliance by the Company with certain covenants and undertakings set forth in the proceedings authorizing the Bonds which are intended to assure that the Bonds are and will remain obligations the interest on which is not includable in gross income of the recipients thereof under the law in effect on the date of such opinion. Bond Counsel did not independently verify the accuracy of the certifications and representations made

by the Company and the Issuer. On the date of the opinion and subsequent to the original delivery of the Bonds on May 19, 2000, such representations of facts and circumstances must be accurate and such covenants and undertakings must continue to be complied with in order that interest on the Bonds be and remain excludable from gross income of the recipients thereof for federal income tax purposes under existing law. Bond Counsel expressed no opinion (i) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate conversion, permitted by the documents other than with the approval of Bond Counsel is taken which adversely affects the tax treatment of the Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the Bonds upon a Determination of Taxability.

Bond Counsel further opined that the Code prescribed a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which, including provisions for potential payments by the Issuers to the federal government, require future or continued compliance after issuance of the Bonds in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with certain of these requirements by the Company or the Issuer with respect to the Bonds could cause the interest on the Bonds to be included in gross income for federal income tax purposes and to be subject to federal income taxation retroactively to the date of their issuance. The Company and the Issuer each covenanted to take all actions required of each to assure that the interest on the Bonds shall be and remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

The opinion of Bond Counsel as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds was subject to the following exceptions and qualifications:

(a) The Code also provides for a “branch profits tax” which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(b) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, Bond Counsel expressed no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Owners of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an

affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income tax credit is not allowed for individuals with an aggregate amount of disqualified income within the meaning of Section 32 of the Code, which exceeds \$2,200. Interest on the Bonds will be taken into account in the calculation of disqualified income. Prospective purchasers of the Bonds should consult their own tax advisors regarding such matters and any other tax consequences of holding the Bonds.

From time to time, there are legislative proposals in Congress which, if enacted, could alter or amend one or more of the federal tax matters referred to above or could adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to obligations (such as the Bonds) issued prior to enactment.

The opinion of Bond Counsel relating to the reoffering of the Bonds in substantially the form in which it is expected to be delivered on the Reoffering Date, redated to the Reoffering Date, is attached as Appendix B-2.

Legal Matters

Certain legal matters in connection with the reoffering of the Bonds will be passed upon by Stoll Keenon Ogden PLLC, Louisville, Kentucky, Bond Counsel. Certain legal matters pertaining to the Company will be passed upon by Jones Day, Chicago, Illinois, and John R. McCall, Esq., Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer of the Company. Winston & Strawn LLP, Chicago, Illinois, will pass upon certain legal matters for the Remarketing Agent.

Continuing Disclosure

Because the Bonds are special and limited obligations of the Issuer, the Issuer is not an “obligated person” for purposes of Rule 15c2-12 (the “Rule”) promulgated by the SEC under the Exchange Act, and does not have any continuing obligations thereunder. Accordingly, the Issuer will not provide any continuing disclosure information with respect to the Bonds or the Issuer.

In order to enable the Remarketing Agent to comply with the requirements of the Rule, the Company has covenanted in a continuing disclosure undertaking agreement delivered to the Trustee for the benefit of the holders of the Bonds (the “Continuing Disclosure Agreement”) to provide certain continuing disclosure for the benefit of the holders of the Bonds. Under its Continuing Disclosure Agreement, the Company has covenanted to take the following actions:

- (a) The Company will provide to each nationally recognized municipal securities information repository (“NRMSIR”), recognized by the SEC pursuant to the

Rule, and the state information depository, if any, of the Commonwealth of Kentucky (a “SID” and, together with the NRMSIR, a “Repository”) recognized by the SEC (1) annual financial information of the type set forth in Appendix A to this Reoffering Circular (including any information incorporated by reference therein) and (2) audited financial statements prepared in accordance with generally accepted accounting principles, in each case not later than 120 days after the end of the Company’s fiscal year.

(b) The Company will file in a timely manner with each NRMSIR or the Municipal Securities Rulemaking Board, and with the SID, if any, notice of the occurrence of any of the following events (if applicable) with respect to the Bonds, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) any unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancement facilities reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (vii) modifications to rights of the holders of the Bonds; (viii) the giving of notice of optional or unscheduled redemption of any Bonds; (ix) defeasance of the Bonds or any portion thereof; (x) release, substitution, or sale of property securing repayment of the Bonds; and (xi) rating changes with respect to the Bonds or the Company or any obligated person, within the meaning of the Rule.

(c) The Company will file in a timely manner with each Repository notice of a failure by the Company to file any of the notices or reports referred to in paragraphs (a) and (b) above by the due date.

The Company may amend its Continuing Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Company that does not change the duties of the Trustee thereunder) or waive any provision thereof, but only with a change in circumstances that arises from a change in legal requirements, change in law, or change in the nature or status of the Company with respect to the Bonds or the type of business conducted by the Company; provided that the undertaking, as amended or following such waiver, would have complied with the requirements of the Rule on the date of issuance of the Bonds, after taking into account any amendments to the Rule as well as any change in circumstances, and the amendment or waiver does not materially impair the interests of the holders of the Bonds to which such undertaking relates, in the opinion of the Trustee or counsel expert in federal securities laws acceptable to both the Company and the Trustee, or is approved by the Beneficial Owners of a majority in aggregate principal amount of the outstanding Bonds. The Company acknowledges that its undertakings pursuant to the Rule described under this heading are intended to be for the benefit for the holders of the Bonds and shall be enforceable by the holders of those Bonds or by the Trustee on behalf of such holders. Any breach by the Company of these undertakings pursuant to the Rule will not constitute an event of default under the Indenture, the Loan Agreement or the Bonds.

This Reoffering Circular has been duly approved, executed and delivered by the Company.

KENTUCKY UTILITIES COMPANY

By: /s/ Daniel K. Arbough
Daniel K. Arbough
Treasurer

Appendix A

[DELETED AND REPLACED – SEE APPENDIX A TO SUPPLEMENT DATED MAY 2, 2011]

APPENDIX B

**Opinion of Bond Counsel and
Form of Reoffering Opinion of Bond Counsel**

APPENDIX B-1

Opinion of Bond Counsel dated May 19, 2000 relating to the Bonds

HARPER, FERGUSON & DAVIS

ATTORNEYS AT LAW

1730 MEIDINGER TOWER

462 SOUTH FOURTH AVENUE

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May 19, 2000

Re: \$12,900,000 County of Mercer, Kentucky, Solid Waste Disposal Facility Revenue Bonds, 2000 Series A (Kentucky Utilities Company Project)

We hereby certify that we have examined certified copies of the proceedings of record of the County of Mercer, Kentucky (the "County"), acting by and through its Fiscal Court as its duly authorized governing body, preliminary to and in connection with the issuance by the County of its Solid Waste Disposal Facility Revenue Bonds, 2000 Series A (Kentucky Utilities Company Project), dated the date of the Bonds, in the aggregate principal amount of \$12,900,000 (the "Bonds"). The Bonds will be issued under the provisions of Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act"), for the purpose of providing funds which will be used, with other funds provided by Kentucky Utilities Company (the "Company") for the current refunding of \$12,900,000 aggregate principal amount of the County's Collateralized Solid Waste Disposal Facility Revenue Bonds (Kentucky Utilities Company Project) 1990 Series A, dated May 1, 1990 (the "Prior Bonds"), the proceeds of which were loaned to the Company to finance the construction of solid waste disposal facilities to serve the Brown Generating Station of the Company in Mercer County, Kentucky ("the Project") in order to provide for the collection, storage, treatment, processing and final disposal of solid waste, as provided by the Act .

The Bonds bear interest initially at the Dutch Auction Rate, as defined in the Indenture, hereinafter described, subject to change as provided in such Indenture. The Bonds will be subject to optional and mandatory redemption prior to maturity at the times, in the manner and upon the terms set forth in each of the Bonds. From such examination of the proceedings of the Fiscal Court of the County referred to above and from an examination of the Act, we are of the opinion that the County is duly authorized and empowered to issue the Bonds under the laws of the Commonwealth of Kentucky now in force.

We have examined an executed counterpart of a certain Loan Agreement, dated as of May 1, 2000 (the "Loan Agreement"), between the County and the Company and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Loan Agreement, pursuant to which the County has agreed to issue the Bonds and to lend the proceeds thereof to the Company to provide funds to pay and discharge, with other funds provided by the Company, the Prior Bonds and the Company has agreed to make Loan payments to the Trustee at times and in amounts fully adequate to pay maturing principal of, interest

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on and redemption premium, if any, on the Bonds as same become due and payable. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Loan Agreement; that the Loan Agreement has been duly authorized, executed and delivered by the County; and that the Loan Agreement is a legal, valid and binding obligation of the County, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Indenture of Trust, dated as of May 1, 2000 (the "Indenture"), by and between the County and The Bank of New York, New York, New York, as trustee (the "Trustee"), securing the Bonds and setting forth the covenants and undertakings of the County in connection with the Bonds and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Indenture. Pursuant to the Indenture, certain of the County's rights under the Loan Agreement, including the right to receive payments thereunder, and all moneys and securities held by the Trustee in accordance with the Indenture (except moneys and securities in the Rebate Fund created thereby) have been assigned to the Trustee, as security for the holders of the Bonds. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Indenture; that the Indenture has been duly authorized, executed and delivered by the County; and that the Indenture is a legal, valid and binding obligation upon the parties thereto according to its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

In our opinion the Bonds have been validly authorized, executed and issued in accordance with the laws of the Commonwealth of Kentucky now in full force and effect, and constitute legal, valid and binding special obligations of the County entitled to the benefit of the security provided by the Indenture and enforceable in accordance with their terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought. The Bonds are payable by the County solely and only from payments and other amounts derived from the Loan Agreement and as provided in the Indenture.

HARPER, FERGUSON & DAVIS

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In our opinion, under existing laws, including current statutes, regulations, administrative rulings and official interpretations by the Internal Revenue Service, subject to the exceptions and qualifications contained in the succeeding paragraph, interest on the Bonds is excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion is expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person," as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. In arriving at this opinion, we have relied upon representations, factual statements and certifications of the Company with respect to certain material facts which are solely within the Company's knowledge in reaching our conclusion, inter alia, that all of the proceeds of the Prior Bonds were used to finance solid waste disposal facilities qualified for financing under Section 142(a)(6) of the Internal Revenue Code of 1986, as amended. Further, in arriving at the opinion set forth in this paragraph as to the exclusion from gross income of interest on the Bonds, we have assumed and this opinion is conditioned on, the payment and discharge of the Prior Bonds on or before the 90th day from the date of issuance of the Bonds, and the accuracy of and continuing compliance by the Company and the County with representations and covenants set forth in the Loan Agreement and the Indenture which are intended to assure compliance with certain tax-exempt interest provisions of the Code. Such representations and covenants must be accurate and must be complied with subsequent to the issuance of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. Failure to comply with certain of such representations and covenants in respect of the Bonds subsequent to the issuance of the Bonds could cause the interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion (i) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate conversion, permitted by the documents with the approval of bond counsel (other than this firm) is taken which adversely affects the tax treatment of the Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the 2000 Bonds upon a Determination of Taxability. We are further of the opinion that interest on the Bonds is excluded from gross income of the recipients thereof for Kentucky income tax purposes and that the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof.

Our opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds is subject to the following exceptions and qualifications:

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(a) The Code provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(b) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, we express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Holders of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that, for taxable years beginning after December 31, 1986, property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income credit is not allowed for individuals with an aggregate amount of disqualified income within the meaning of section 32 of the Code, which exceeds \$2,200. Interest on the Bonds will be taken into account in the calculation of disqualified income.

We have received opinions of John R. McCall, Esq., General Counsel of the Company and Gardner, Carton & Douglas, Chicago, Illinois, counsel to the Company, of even date herewith. In rendering this opinion, we have relied upon said opinions with respect to the matters therein. We have also received an opinion of even date herewith of Hon. Douglas Greenburg, County Attorney of the County, and relied upon said opinion with respect to the matters therein. Said opinions are in forms satisfactory to us as to both scope and content.

HARPER, FERGUSON & DAVIS

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We express no opinion as to the title to, the description of, or the existence or priority of any liens, charges or encumbrances on, the Project.

In rendering the foregoing opinions, we are passing upon only those matters specifically set forth in such opinions and are not passing upon the investment quality of the Bonds or the accuracy or completeness of any statements made in connection with any sale thereof. The opinions herein are expressed as of the date hereof and we assume no obligation to supplement or update such opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We are members of the Bar of the Commonwealth of Kentucky and do not purport to be experts on the laws of any jurisdiction other than the Commonwealth of Kentucky and the United States of America, and we express no opinion as to the laws of any jurisdiction other than those specified.

HARPER, FERGUSON & DAVIS

By: 
SPENCER E. HARPER, JR.

(Form of Reoffering Opinion of Bond Counsel)

December 17, 2008

County of Mercer, Kentucky
Harrodsburg, Kentucky 40330

The Bank of New York Mellon,
as Trustee
West Paterson, New Jersey 07424

Re: Reoffering of \$12,900,000 “County of Mercer, Kentucky, Solid Waste Disposal Facility Revenue Bonds, 2000 Series A (Kentucky Utilities Company Project)”

Ladies and Gentlemen:

This opinion is being furnished in accordance with the requirements of the Indenture of Trust, dated as of May 1, 2000 (the “Indenture”), between the County of Mercer, Kentucky (the “Issuer”) and The Bank of New York Mellon, as Trustee (the “Trustee”), pertaining to \$12,900,000 principal amount of County of Mercer, Kentucky, Solid Waste Disposal Facility Revenue Bonds, 2000 Series A (Kentucky Utilities Company Project), dated May 19, 2000 (the “Bonds”), in order to satisfy certain requirements of the Indenture. Pursuant to the authority of the Indenture and an ordinance adopted by the Issuer, the Company is terminating a municipal bond insurance policy insuring the Bonds and simultaneously delivering a letter of credit to the Trustee for the benefit of the Bondholders. The terms used herein denoted by initial capitals and not otherwise defined shall have the meanings specified in the Indenture.

We have examined the law and such documents and matters as we have deemed necessary to provide this opinion. As to questions of fact material to the opinions expressed herein, we have relied upon the provisions of the Indenture and related documents, and upon representations made to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, as of the date hereof, we are of the opinion that the delivery of a letter of credit and the reoffering of the Bonds as described herein (a) is authorized or permitted by the Act and the Indenture and (b) will not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled. Interest on the Bonds is not and will not be excluded from gross income during any period when the Bonds are held by the Company or a “related person” of the Company as defined in Section 147(a) of the Internal Revenue Code of 1986, as amended.

In rendering this opinion, we assume, without verifying, that the Issuer and the Company have complied and will comply with all covenants contained in the Indenture, the Loan Agreement between the Issuer and the Company, dated May 1, 2000, and other documents relating to the Bonds. We rendered our approving opinion at the time of the issuance of the Bonds relating to, among other things, the validity of the Bonds and the exclusion from federal income taxation of interest on the Bonds. We have not been requested to update or continue

such opinion and have not undertaken to do so. Accordingly, we do not express any opinion with respect to the Bonds except as set forth above.

Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to review or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We express no opinion herein as to the investment quality of the Bonds or the adequacy, accuracy or completeness of any information furnished to any person in connection with any offer or sale of the Bonds.

Respectfully submitted,

STOLL KEENON OGDEN PLLC

Appendix C

[DELETED AND REPLACED – SEE APPENDIX C TO SUPPLEMENT DATED MAY 2, 2011]