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Mr. Jeff DeRouen  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
P.O. Box 615  
Frankfort, Kentucky 40602-0615

February 26, 2014

**Re: *Joint Application of PPL Corporation, E.ON AG, E.ON US Investments Corp., E.ON U.S. LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company for Approval of an Acquisition of Ownership and Control of Utilities***  
**Case No. 2010-00204**

**LG&E and KU Energy LLC**  
State Regulation and Rates  
220 West Main Street  
PO Box 32010  
Louisville, Kentucky 40232  
www.lge-ku.com

Rick E. Lovekamp  
Manager - Regulatory Affairs  
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rick.lovekamp@lge-ku.com

Dear Mr. DeRouen:

Pursuant to the Commission's Order dated September 30, 2010 in the aforementioned case, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"), (collectively, the "Companies") submit one copy of the Securities and Exchange Commission ("SEC") Form 10-K for PPL Corporation and its current and former subsidiaries for Period Ended December 31, 2013. This information is being made pursuant to Appendix C, Commitment No. 21.

SEC documents for PPL Corporation are also available by selecting "Filings and Forms" at <http://www.sec.gov>. Click "Search for Company Filings", select option for "Company or Fund Name" and type in "PPL Corp".

Please confirm your receipt of this filing by placing the File Stamp of your Office with date received on the extra copies. Should you have any questions regarding the information filed herewith, please call me or Don Harris at (502) 627-2021.

Sincerely,

Rick E. Lovekamp

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2012
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-11459	<b>PPL Corporation</b> (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-32944	<b>PPL Energy Supply, LLC</b> (Exact name of Registrant as specified in its charter) (Delaware) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-3074920
1-905	<b>PPL Electric Utilities Corporation</b> (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	<b>LG&amp;E and KU Energy LLC</b> (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, Kentucky 40202-1377 (502) 627-2000	20-0523163
1-2893	<b>Louisville Gas and Electric Company</b> (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, Kentucky 40202-1377 (502) 627-2000	61-0264150
1-3464	<b>Kentucky Utilities Company</b> (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, Kentucky 40507-1462 (502) 627-2000	61-0247570

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock of PPL Corporation	New York Stock Exchange
Corporate Units issued 2011 of PPL Corporation	New York Stock Exchange
Corporate Units issued 2010 of PPL Corporation	New York Stock Exchange
Junior Subordinated Notes of PPL Capital Funding, Inc. 2007 Series A due 2067	New York Stock Exchange

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

Common Stock of PPL Electric Utilities Corporation

Indicate by check mark whether the registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act.

PPL Corporation	Yes <u>X</u>	No <u>    </u>
PPL Energy Supply, LLC	Yes <u>    </u>	No <u>X</u>
PPL Electric Utilities Corporation	Yes <u>    </u>	No <u>X</u>
LG&E and KU Energy LLC	Yes <u>    </u>	No <u>X</u>
Louisville Gas and Electric Company	Yes <u>    </u>	No <u>X</u>
Kentucky Utilities Company	Yes <u>    </u>	No <u>X</u>

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

PPL Corporation	Yes <u>    </u>	No <u>X</u>
PPL Energy Supply, LLC	Yes <u>    </u>	No <u>X</u>
PPL Electric Utilities Corporation	Yes <u>    </u>	No <u>X</u>
LG&E and KU Energy LLC	Yes <u>    </u>	No <u>X</u>
Louisville Gas and Electric Company	Yes <u>    </u>	No <u>X</u>
Kentucky Utilities Company	Yes <u>    </u>	No <u>X</u>

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

PPL Corporation	Yes <u>X</u>	No <u>    </u>
PPL Energy Supply, LLC	Yes <u>X</u>	No <u>    </u>
PPL Electric Utilities Corporation	Yes <u>X</u>	No <u>    </u>
LG&E and KU Energy LLC	Yes <u>X</u>	No <u>    </u>
Louisville Gas and Electric Company	Yes <u>X</u>	No <u>    </u>
Kentucky Utilities Company	Yes <u>X</u>	No <u>    </u>

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

PPL Corporation	Yes <u>X</u>	No <u>    </u>
PPL Energy Supply, LLC	Yes <u>X</u>	No <u>    </u>
PPL Electric Utilities Corporation	Yes <u>X</u>	No <u>    </u>
LG&E and KU Energy LLC	Yes <u>X</u>	No <u>    </u>
Louisville Gas and Electric Company	Yes <u>X</u>	No <u>    </u>
Kentucky Utilities Company	Yes <u>X</u>	No <u>    </u>

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

PPL Corporation	[ X ]
PPL Energy Supply, LLC	[ X ]
PPL Electric Utilities Corporation	[ X ]
LG&E and KU Energy LLC	[ X ]
Louisville Gas and Electric Company	[ X ]
Kentucky Utilities Company	[ X ]



Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
PPL Corporation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PPL Energy Supply, LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PPL Electric Utilities Corporation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LG&E and KU Energy LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Louisville Gas and Electric Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Kentucky Utilities Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Act).

PPL Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Energy Supply, LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
LG&E and KU Energy LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Louisville Gas and Electric Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Kentucky Utilities Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

As of June 29, 2012, PPL Corporation had 580,212,689 shares of its \$.01 par value Common Stock outstanding. The aggregate market value of these common shares (based upon the closing price of these shares on the New York Stock Exchange on that date) held by non-affiliates was \$16,135,714,881. As of January 31, 2013, PPL Corporation had 582,846,910 shares of its \$.01 par value Common Stock outstanding.

As of January 31, 2013, PPL Corporation held all 66,368,056 outstanding common shares, no par value, of PPL Electric Utilities Corporation.

PPL Corporation indirectly holds all of the membership interests in PPL Energy Supply, LLC.

PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.

As of January 31, 2013, LG&E and KU Energy LLC held all 21,294,223 outstanding common shares, no par value, of Louisville Gas and Electric Company.

As of January 31, 2013, LG&E and KU Energy LLC held all 37,817,878 outstanding common shares, no par value, of Kentucky Utilities Company.

**PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K and are therefore filing this form with the reduced disclosure format.**

Documents incorporated by reference:

PPL Corporation has incorporated herein by reference certain sections of PPL Corporation's 2013 Notice of Annual Meeting and Proxy Statement, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2012. Such Statements will provide the information required by Part III of this Report.

**PPL CORPORATION**  
**PPL ENERGY SUPPLY, LLC**  
**PPL ELECTRIC UTILITIES CORPORATION**  
**LG&E AND KU ENERGY LLC**  
**LOUISVILLE GAS AND ELECTRIC COMPANY**  
**KENTUCKY UTILITIES COMPANY**

FORM 10-K ANNUAL REPORT TO  
 THE SECURITIES AND EXCHANGE COMMISSION  
FOR THE YEAR ENDED DECEMBER 31, 2012

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This combined Form 10-K is separately filed by the following individual registrants: PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company is filed by PPL Corporation and separately by PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company on their own behalf. No registrant makes any representation as to information relating to any other registrant, except that information relating to the five PPL Corporation subsidiaries is also attributed to PPL Corporation and the information relating to Louisville Gas and Electric Company and Kentucky Utilities Company is also attributed to LG&E and KU Energy LLC.

Unless otherwise specified, references in this Form 10-K, individually, to PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company or Kentucky Utilities Company are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which are consolidated into such Registrants in accordance with GAAP. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis.

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## GLOSSARY OF TERMS AND ABBREVIATIONS

### PPL Corporation and its current and former subsidiaries

**Central Networks** - collectively Central Networks East plc, Central Networks Limited and certain other related assets and liabilities. On April 1, 2011, PPL WEM Holdings plc (formerly WPD Investment Holdings Limited) purchased all of the outstanding ordinary share capital of these companies from E.ON AG subsidiaries. Central Networks West plc (subsequently renamed Western Power Distribution (West Midlands) plc), wholly owned by Central Networks Limited (subsequently renamed WPD Midlands Holdings Limited), and Central Networks East plc (subsequently renamed Western Power Distribution (East Midlands) plc) are British regional electricity distribution utility companies.

**KU** - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky. The subsidiary was acquired by PPL through the acquisition of LKE in November 2010.

**LG&E** - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky. The subsidiary was acquired by PPL through the acquisition of LKE in November 2010.

**LKE** - LG&E and KU Energy LLC (formerly E.ON U.S. LLC), a subsidiary of PPL and the parent of LG&E, KU and other subsidiaries. PPL acquired E.ON U.S. LLC in November 2010 and changed the name to LG&E and KU Energy LLC.

**LKS** - LG&E and KU Services Company (formerly E.ON U.S. Services Inc.), a subsidiary of LKE that provides services for LKE and its subsidiaries. The subsidiary was acquired by PPL through the acquisition of LKE in November 2010.

**PPL** - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, LKE and other subsidiaries.

**PPL Brunner Island** - PPL Brunner Island, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

**PPL Capital Funding** - PPL Capital Funding, Inc., a wholly owned financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries. Debt issued by PPL Capital Funding is guaranteed as to payment by PPL.

**PPL Electric** - PPL Electric Utilities Corporation, a public utility subsidiary of PPL that transmits and distributes electricity in its Pennsylvania service area and provides electric supply to retail customers in this area as a PLR.

**PPL Energy Funding** - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Energy Supply, PPL Global (effective January 2011) and other subsidiaries.

**PPL EnergyPlus** - PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that markets and trades wholesale and retail electricity and gas, and supplies energy and energy services in competitive markets.

**PPL Energy Supply** - PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent company of PPL Generation, PPL EnergyPlus and other subsidiaries. In January 2011, PPL Energy Supply distributed its membership interest in PPL Global, representing 100% of the outstanding membership interests of PPL Global, to PPL Energy Supply's parent, PPL Energy Funding.

**PPL Generation** - PPL Generation, LLC, a subsidiary of PPL Energy Supply that owns and operates U.S. generating facilities through various subsidiaries.

**PPL Global** - PPL Global, LLC, a subsidiary of PPL Energy Funding that primarily owns and operates WPD a business in the U.K., that is focused on the regulated distribution of electricity. In January 2011, PPL Energy Supply, PPL Global's former parent, distributed its membership interest in PPL Global, representing 100% of the outstanding membership interest of PPL Global, to its parent, PPL Energy Funding.

**PPL Holtwood** - PPL Holtwood, LLC, a subsidiary of PPL Generation that owns hydroelectric generating operations in Pennsylvania.

**PPL Ironwood** - PPL Ironwood LLC, an indirect subsidiary of PPL Generation that owns generating operations in Pennsylvania.

**PPL Martins Creek** - PPL Martins Creek, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

**PPL Montana** - PPL Montana, LLC, an indirect subsidiary of PPL Generation that generates electricity for wholesale sales in Montana and the Pacific Northwest.

**PPL Montour** - PPL Montour, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

**PPL Services** - PPL Services Corporation, a subsidiary of PPL that provides services for PPL and its subsidiaries.

**PPL Susquehanna** - PPL Susquehanna, LLC, the nuclear generating subsidiary of PPL Generation.

**PPL WEM** - PPL WEM Holdings plc (formerly WPD Investment Holdings Limited), an indirect U.K. subsidiary of PPL Global. PPL WEM indirectly owns both WPD (East Midlands) and WPD (West Midlands).

**PPL WW** - PPL WW Holdings Limited (formerly Western Power Distribution Holdings Limited), an indirect U.K. subsidiary of PPL Global. PPL WW Holdings indirectly owns WPD (South Wales) and WPD (South West).

**WPD** - refers to PPL WW and PPL WEM and their subsidiaries.

**WPD (East Midlands)** - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company. The company (formerly Central Networks East plc) was acquired and renamed in April 2011.

**WPD Midlands** - refers to Central Networks, which was renamed after the acquisition.

**WPD (South Wales)** - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company.

**WPD (South West)** - Western Power Distribution (South West) plc, a British regional electricity distribution utility company.

**WPD (West Midlands)** - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company. The company (formerly Central Networks West plc) was acquired and renamed in April 2011.

**WKE** - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-utility generating plants in western Kentucky until July 2009. The subsidiary was acquired by PPL through the acquisition of LKE in November 2010.

#### **Other terms and abbreviations**

**£** - British pound sterling.

**1945 First Mortgage Bond** - PPL Electric's Mortgage and Deed of Trust, dated as of October 1, 1945, to Deutsche Bank Trust Company Americas, as trustee, as supplemented.

**2001 Mortgage Indenture** - PPL Electric's Indenture, dated as of August 1, 2001, to The Bank of New York Mellon (as successor to JPMorgan Chase Bank), as trustee, as supplemented.

**2010 Bridge Facility** - an up to \$6.5 billion Senior Bridge Term Loan Credit Agreement between PPL Capital Funding, as borrower, and PPL, as guarantor, and a group of banks syndicated in June 2010, to serve as a funding backstop in the event alternative financing was not available prior to the closing of PPL's acquisition of E.ON U.S. LLC.

**2010 Equity Unit(s)** - a PPL equity unit, issued in June 2010, consisting of a 2010 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.625% Junior Subordinated Notes due 2018.

**2010 Purchase Contract(s)** - a contract that is a component of a 2010 Equity Unit that requires holders to purchase shares of PPL common stock on or prior to July 1, 2013.

**2011 Bridge Facility** - the £3.6 billion Senior Bridge Term Loan Credit Agreement between PPL Capital Funding and PPL WEM, as borrowers, and PPL, as guarantor, and lenders party thereto, used to fund the April 1, 2011 acquisition of Central Networks, as amended by Amendment No. 1 thereto dated April 15, 2011.

**2011 Equity Unit(s)** - a PPL equity unit, issued in April 2011, consisting of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019.

**2011 Purchase Contract(s)** - a contract that is a component of a 2011 Equity Unit that requires holders to purchase shares of PPL common stock on or prior to May 1, 2014.

**401(h) account** - A sub-account established within a qualified pension trust to provide for the payment of retiree medical costs.

**Act 11** - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC.

**Act 129** - Act 129 of 2008 that became effective in October 2008. The law amends the Pennsylvania Public Utility Code and creates an energy efficiency and conservation program and smart metering technology requirements, adopts new PLR electricity supply procurement rules, provides remedies for market misconduct and makes changes to the AEPS.

**AEPS** - Alternative Energy Portfolio Standard.

**AFUDC** - Allowance for Funds Used During Construction, the cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

**AOCl** - accumulated other comprehensive income or loss.

**ARO** - asset retirement obligation.

**Baseload generation** - includes the output provided by PPL's nuclear, coal, hydroelectric and qualifying facilities.

**Basis** - when used in the context of derivatives and commodity trading, the commodity price differential between two locations, products or time periods.

**Bcf** - billion cubic feet.

**Black Lung Trust** - a trust account maintained under federal and state Black Lung legislation for the payment of claims related to disability or death due to pneumoconiosis.

**Bluegrass CTs** - three natural gas combustion turbines owned by Bluegrass Generation. In 2011, LG&E and KU entered into an asset purchase agreement with Bluegrass Generation for the purchase of these combustion turbines, subject to certain conditions including receipt of applicable regulatory approvals and clearances. In June 2012, LG&E and KU terminated the asset purchase agreement.

**Bluegrass Generation** - Bluegrass Generation Company, L.L.C., an exempt wholesale electricity generator in LaGrange, Kentucky.

**BREC** - Big Rivers Electric Corporation, a power-generating rural electric cooperative in western Kentucky.

**Cane Run Unit 7** - a combined cycle natural gas unit under construction in Kentucky, jointly owned by LG&E and KU, which is expected to provide additional electric generating capacity of 141 MW and 499 MW to LG&E and KU by 2015.

**CAIR** - the EPA's Clean Air Interstate Rule.

**Clean Air Act** - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

**COLA** - license application for a combined construction permit and operating license from the NRC for a nuclear plant.

**CPCN** - Certificate of Public Convenience and Necessity. Authority granted by the KPSC pursuant to Kentucky Revised Statute 278.020 to provide utility service to or for the public or the construction of certain plant, equipment, property or facility for furnishing of utility service to the public.

**CSAPR** - Cross-State Air Pollution Rule.

**Customer Choice Act** - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

**DDCP** - Directors Deferred Compensation Plan.

**Depreciation not normalized** - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

**DNO** - Distribution Network Operator.

**Dodd-Frank Act** - the Dodd-Frank Wall Street Reform and Consumer Protection Act that was signed into law in July 2010.

**DOE** - Department of Energy, a U.S. government agency.

**DPCR4** - Distribution Price Control Review 4, the U.K. 5-year rate review period applicable to WPD that commenced April 1, 2005.

**DPCR5** - Distribution Price Control Review 5, the U.K. 5-year rate review period applicable to WPD that commenced April 1, 2010.

**DRIP** - Dividend Reinvestment and Direct Stock Purchase Plan.

**DSIC** - a distribution system improvement charge authorized under Act 11, which is an alternative ratemaking mechanism providing more-timely cost recovery of qualifying distribution system capital expenditures.

**DSM** - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM plans proposed by any utility under its jurisdiction. Proposed DSM mechanisms may seek full recovery of DSM programs and revenues lost by implementing those programs and/or incentives designed to provide financial rewards to the utility for implementing cost-effective DSM programs. The cost of such programs shall be assigned only to the class or classes of customers which benefit from the programs.

**DUoS** - Distribution Use of System. This forms the majority of WPD's revenues and is the charge to electricity suppliers who are WPD's customers and use WPD's network to distribute electricity.

**EBPB** - Employee Benefit Plan Board. The administrator of PPL's U.S. qualified retirement plans, which is charged with the fiduciary responsibility to oversee and manage those plans and the investments associated with those plans.

**Economic Stimulus Package** - The American Recovery and Reinvestment Act of 2009, generally referred to as the federal economic stimulus package, which was signed into law in February 2009.

**ECR** - Environmental Cost Recovery. Pursuant to Kentucky Revised Statute 278.183, effective January 1993, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements which apply to coal combustion and by-products from the production of energy from coal.

**EEL** - Electric Energy, Inc., owns and operates a coal-fired plant and a natural gas facility in southern Illinois. KU's 20% ownership interest in EEL is accounted for as an equity method investment.

**E.ON AG** - a German corporation and the parent of E.ON UK plc, the former parent of Central Networks, and the indirect parent of E.ON US Investments Corp., the former parent of LKE.

**EPA** - Environmental Protection Agency, a U.S. government agency.

**EPS** - earnings per share.

**Equity Units** - refers collectively to the 2011 and 2010 Equity Units.

**ESOP** - Employee Stock Ownership Plan.

**Euro** - the basic monetary unit among participating members of the European Union.

**EWG** - exempt wholesale generator.

**E.W. Brown** - a generating station in Kentucky with capacity of 1,594 MW.

**FERC** - Federal Energy Regulatory Commission, the federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

**Fitch** - Fitch, Inc., a credit rating agency.

**FTR(s)** - financial transmission right, which is a financial instrument established to manage price risk related to electricity transmission congestion that entitles the holder to receive compensation or requires the holder to remit payment for certain congestion-related transmission charges based on the level of congestion in the transmission grid.

**Fundamental Change** - as it relates to the terms of the 2011 and 2010 Equity Units, will be deemed to have occurred if any of the following occurs with respect to PPL, subject to certain exceptions: (i) a change of control; (ii) a consolidation with or merger into any other entity; (iii) common stock ceases to be listed or quoted; or (iv) a liquidation, dissolution or termination.

**GAAP** - Generally Accepted Accounting Principles in the U.S.

**GBP** - British pound sterling.

**GHG** - greenhouse gas(es).

**GWh** - gigawatt-hour, one million kilowatt-hours.

**Health Care Reform** - The Patient Protection and Affordable Care Act (HR 3590) and the Health Care and Education Reconciliation Act of 2010 (HR 4872), signed into law in March 2010.

**HMRC** - Her Majesty's Revenue & Customs. The tax authority in the U.K., formerly known as Inland Revenue.

**IBEW** - International Brotherhood of Electrical Workers.

**ICP** - Incentive Compensation Plan.

**ICPKE** - Incentive Compensation Plan for Key Employees.

**Intermediate and peaking generation** - includes the output provided by PPL's oil- and natural gas-fired units.

**Ironwood Acquisition** - In April 2012, PPL Ironwood Holdings, LLC, an indirect, wholly owned subsidiary of PPL Energy Supply, completed the acquisition from a subsidiary of The AES Corporation of all of the equity interests of AES Ironwood, L.L.C. (subsequently renamed PPL Ironwood, LLC) and AES Prescott, L.L.C. (subsequently renamed PPL Prescott, LLC), which own and operate, respectively, the Ironwood Facility.

**Ironwood Facility** - a natural gas-fired power plant in Lebanon, Pennsylvania with a summer rating of 665 MW.

**IRS** - Internal Revenue Service, a U.S. government agency.

**ISO** - Independent System Operator.

**KPSC** - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

**KU 2010 Mortgage Indenture** - KU's Indenture dated as of October 1, 2010, to The Bank of New York Mellon, as trustee, as supplemented.

**kVA** - kilovolt ampere.

**kWh** - kilowatt-hour, basic unit of electrical energy.

**LCIDA** - Lehigh County Industrial Development Authority.

**LG&E 2010 Mortgage Indenture** - LG&E's Indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as trustee, as supplemented.

**LIBOR** - London Interbank Offered Rate.

**Long Island generation business** - includes a 79.9 MW gas-fired plant in the Edgewood section of Brentwood, New York and a 79.9 MW oil-fired plant in Shoreham, New York and related tolling agreements. This business was sold in February 2010.

**LTIIP** - Long Term Infrastructure Improvement Plan.

**MATS** - Mercury and Air Toxics Standards.

**MDEQ** - Montana Department of Environmental Quality.

**MEIC** - Montana Environmental Information Center.

**MMBtu** - One million British Thermal Units.

**Montana Power** - The Montana Power Company, a Montana-based company that sold its generating assets to PPL Montana in December 1999. Through a series of transactions consummated during the first quarter of 2002, Montana Power sold its electricity delivery business to NorthWestem.

**Moody's** - Moody's Investors Service, Inc., a credit rating agency.

**MW** - megawatt, one thousand kilowatts.

**MWh** - megawatt-hour, one thousand kilowatt-hours.

**NDT** - PPL Susquehanna's nuclear plant decommissioning trust.

**NERC** - North American Electric Reliability Corporation.

**NorthWestern** - NorthWestem Corporation, a Delaware corporation, and successor in interest to Montana Power's electricity delivery business, including Montana Power's rights and obligations under contracts with PPL Montana.

**NPDES** - National Pollutant Discharge Elimination System.

**NPNS** - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception receive accrual accounting treatment.

**NRC** - Nuclear Regulatory Commission, the federal agency that regulates nuclear power facilities.

**NUGs** - non-utility generators, generating plants not owned by public utilities, whose electrical output must be purchased by utilities under the PURPA if the plant meets certain criteria.

**OCI** - other comprehensive income or loss.

**Ofgem** - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and related matters.

**Opacity** - the degree to which emissions reduce the transmission of light and obscure the view of an object in the background. There are emission regulations that limit the opacity in power plant stack gas emissions.

**OVEC** - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined nameplate capacities of 2,390 MW.

**PADEP** - the Pennsylvania Department of Environmental Protection, a state government agency.

**PEDEFA** - Pennsylvania Economic Development Financing Authority.

**PJM** - PJM Interconnection, L.L.C., operator of the electric transmission network and electric energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

**PLR** - Provider of Last Resort, the role of PPL Electric in providing default electricity supply to retail customers within its delivery area who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

**PP&E** - property, plant and equipment.

**Predecessor** - refers to the LKE, LG&E and KU pre-acquisition activity covering the time period prior to November 1, 2010.

**PUC** - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

**PUC Final Order** - final order issued by the PUC on August 27, 1998, approving the settlement of PPL Electric's restructuring proceeding.

**PUHCA** - Public Utility Holding Company Act of 1935, repealed effective February 2006 by the Energy Policy Act of 2005 and replaced with the Public Utility Holding Company Act of 2005.

**Purchase Contract(s)** - refers collectively to the 2010 and 2011 Purchase Contracts.

**PURPA** - Public Utility Regulatory Policies Act of 1978, legislation passed by the U.S. Congress to encourage energy conservation, efficient use of resources and equitable rates.

**PURTA** - The Pennsylvania Public Utility Realty Tax Act.

**RAV** - regulatory asset value. This term is also commonly known as RAB or regulatory asset base.

**RECs** - renewable energy credits.

**Regional Transmission Expansion Plan** - PJM conducts a long-range Regional Transmission Expansion Planning process that identifies what changes and additions to the grid are needed to ensure future needs are met for both the reliability and the economic performance of the grid. Under PJM agreements, transmission owners are obligated to build transmission projects that are needed to maintain reliability standards and that are reviewed and approved by the PJM Board.

**Registrants** - PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU, collectively.

**Regulation S-X** - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

**RFC** - Reliability First Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

**RFP** - Request for Proposal.

**RMC** - Risk Management Committee.

**RTO** - Regional Transmission Organization.

**S&P** - Standard & Poor's Ratings Services, a credit rating agency.

**Sarbanes-Oxley** - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

**SCR** - selective catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases.

**Scrubber** - an air pollution control device that can remove particulates and/or gases (primarily sulfur dioxide) from exhaust gases.

**SEC** - the U.S. Securities and Exchange Commission, a U.S. government agency whose primary mission is to protect investors and maintain the integrity of the securities markets.

**Securities Act of 1933** - the Securities Act of 1933, 15 U.S. Code, Sections 77a-77aa, as amended.

**SERC** - SERC Reliability Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

**SIFMA Index** - the Securities Industry and Financial Markets Association Municipal Swap Index.

**SIP** - PPL Corporation's 2012 Stock Incentive Plan.

**Smart meter** - an electric meter that utilizes smart metering technology.

**Smart metering technology** - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also has the potential to strengthen network reliability.

**SMGT** - Southern Montana Electric Generation & Transmission Cooperative, Inc., a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus that was terminated effective April 1, 2012.

**SNCR** - selective non-catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases using ammonia.

**Spark Spread** - a measure of gross margin representing the price of power on a per MWh basis less the equivalent measure of the natural gas cost to produce that power. This measure is used to describe the gross margin of PPL and its subsidiaries' merchant natural gas-fired generating fleet. This term is also used to describe a derivative contract in which PPL and its subsidiaries sell power and buy natural gas on a forward basis in the same contract.

**Successor** - refers to the LKE, LG&E and KU post-acquisition activity covering the time period after October 31, 2010.

**Superfund** - federal environmental legislation that addresses remediation of contaminated sites; states also have similar statutes.

**TC2** - Trimble County Unit 2, a coal-fired plant located in Kentucky with a net summer capacity of 732 MW. LKE indirectly owns a 75% interest (consists of LG&E's 14.25% and KU's 60.75% interests) in TC2, or 549 MW of the capacity.

**Tolling agreement** - agreement whereby the owner of an electric generating facility agrees to use that facility to convert fuel provided by a third party into electricity for delivery back to the third party.

**Total shareowner return** - change in market value of a share of the Company's common stock plus the value of all dividends paid on a share of the common stock during the applicable performance period, divided by the price of the common stock as of the beginning of the performance period.

**TRA** - Tennessee Regulatory Authority, the state agency that has jurisdiction over the regulation of rates and service of utilities in Tennessee.

**Utilization Factor** - a measure reflecting the percentage of electricity actually generated by a plant compared with the electricity such plant could produce at full capacity when available.



**VaR** - value-at-risk, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level.

**VEBA** - Voluntary Employee Benefit Association Trust, accounts for health and welfare plans for future benefit payments for employees, retirees or their beneficiaries.

**VIE** - variable interest entity.

**Volumetric risk** - the risk that the actual load volumes provided under full-requirement sales contracts could vary significantly from forecasted volumes.

**VSCC** - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

**VWAP** - as it relates to the 2011 and 2010 Equity Units issued by PPL, the per share volume-weighted-average price as displayed under the heading Bloomberg VWAP on Bloomberg page "PPL <EQUITY> AQR" (or its equivalent successor if such page is not available) in respect of the period from the scheduled open of trading on the relevant trading day until the scheduled close of trading on the relevant trading day (or if such volume-weighted-average price is unavailable, the market price of one share of PPL common stock on such trading day determined, using a volume-weighted-average method, by a nationally recognized independent investment banking firm retained for this purpose by PPL).

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## FORWARD-LOOKING INFORMATION

Statements contained in this Annual Report concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in "Item 1A. Risk Factors" and in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- fuel supply cost and availability;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- weather conditions affecting generation, customer energy use and operating costs;
- operation, availability and operating costs of existing generation facilities;
- the duration of and cost, including lost revenue, associated with scheduled and unscheduled outages at our generating facilities;
- transmission and distribution system conditions and operating costs;
- expansion of alternative sources of electricity generation;
- laws or regulations to reduce emissions of "greenhouse" gases or the physical effects of climate change;
- collective labor bargaining negotiations;
- the outcome of litigation against the Registrants and their subsidiaries;
- potential effects of threatened or actual terrorism, war or other hostilities, cyber-based intrusions or natural disasters;
- the commitments and liabilities of the Registrants and their subsidiaries;
- volatility in market demand and prices for energy, capacity, transmission services, emission allowances and RECs;
- competition in retail and wholesale power and natural gas markets;
- liquidity of wholesale power markets;
- defaults by counterparties under 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 certain economic indices, and decisions regarding capital structure;
- stock price performance of PPL;
- volatility in the fair value of debt and equity securities and its impact on the value of assets in the NDT funds and in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension, retiree medical and nuclear decommissioning liabilities, and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial or commodity markets and economic conditions;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- changes in foreign currency exchange rates for British pound sterling;
- current and future environmental conditions, regulations and other requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- legal, regulatory, political, market or other reactions to the 2011 incident at the nuclear generating facility at Fukushima, Japan, including additional NRC requirements;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits, approvals and rate relief;
- new state, federal or foreign legislation or regulatory developments;
- the outcome of any rate cases or other cost recovery filings by PPL Electric at the PUC or the FERC, by LG&E at the KPSC or the FERC; by KU at the KPSC, VSCC, TRA or the FERC, or by WPD at Ofgem in the U.K.;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures; and
- business dispositions or acquisitions and our ability to successfully operate acquired businesses and realize expected benefits from business acquisitions, including PPL's 2011 acquisition of WPD Midlands and 2010 acquisition of LKE.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of the Registrants on file with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for the Registrants to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and the Registrants undertake no obligation to update the information contained in such statement to reflect subsequent developments or information.

## PART I

### ITEM 1. BUSINESS

#### BACKGROUND

*PPL Corporation*, headquartered in Allentown, Pennsylvania, is an energy and utility holding company that was incorporated in 1994. Through subsidiaries, PPL generates electricity from power plants in the northeastern, northwestern and southeastern U.S.; markets wholesale or retail energy primarily in the northeastern and northwestern portions of the U.S.; delivers electricity to customers in Pennsylvania, Kentucky, Virginia, Tennessee and the U.K.; and delivers natural gas to customers in Kentucky.

PPL's overall strategy is to achieve stable, long-term growth in its regulated electricity delivery businesses through efficient operations and strong customer and regulatory relations, and disciplined optimization of energy supply margins in its energy supply business while mitigating volatility in both cash flows and earnings.

In pursuing this strategy, in 2011 and 2010, PPL completed two significant acquisitions that have reduced PPL's overall business risk profile and reapportioned the mix of PPL's regulated and competitive businesses by increasing the regulated portion of its business:

- On April 1, 2011, PPL, through an indirect, wholly owned subsidiary, PPL WEM, completed its acquisition of all the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. WPD Midlands operates two regulated distribution networks that serve five million end-users in the Midlands area of England.
- On November 1, 2010, PPL acquired all of the limited liability company interests of E.ON U.S. LLC from a wholly owned subsidiary of E.ON AG. Upon completion of the acquisition, E.ON U.S. LLC was renamed LG&E and KU Energy LLC (LKE). LKE is engaged in regulated utility operations through its subsidiaries, LG&E and KU.

See Note 10 to the Financial Statements for additional information on both acquisitions.

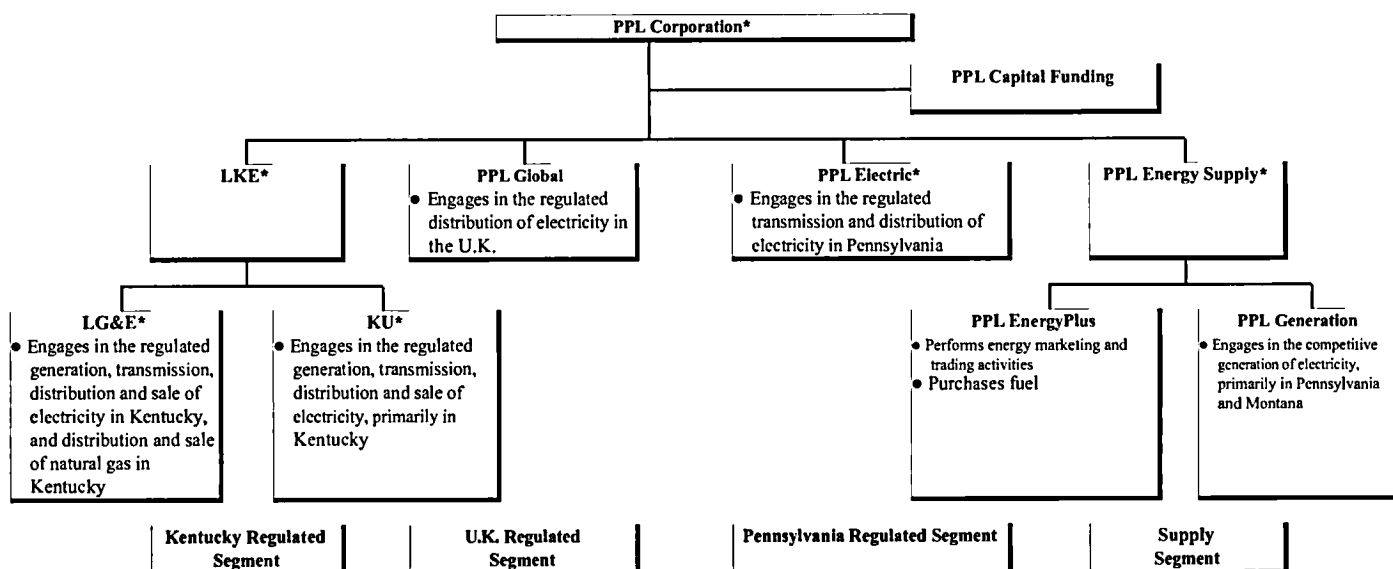
Each rate-regulated business plans to make material capital investments over the next several years to improve infrastructure and customer reliability. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources" for information on each Registrant's capital expenditure projections.

A key objective of PPL's business strategy is to maintain a strong credit profile. PPL's recent growth in rate-regulated businesses has provided the organization with an enhanced corporate level financing alternative, through PPL Capital Funding, that further enables PPL to support targeted credit profiles cost effectively across all of PPL's rated companies. As a result, PPL plans to further utilize PPL Capital Funding in addition to continued direct financing by the operating companies, as appropriate.

At December 31, 2012, PPL had:

- \$12.3 billion in operating revenues for the year (56% from regulated businesses),
- 10.5 million end-users of its utility services,
- approximately 19,000 MW of generation (44% within regulated businesses), and
- approximately 18,000 full-time employees.

PPL's principal subsidiaries at December 31, 2012 are shown below (\* denotes an SEC registrant).



In addition to PPL Corporation, the other SEC registrants included in this filing are:

*LG&E and KU Energy LLC*, headquartered in Louisville, Kentucky, is a holding company with regulated utility operations through subsidiaries, LG&E and KU, and is a subsidiary of PPL. LKE, formed in 2003, is the successor to a Kentucky entity incorporated in 1989.

*Louisville Gas and Electric Company*, headquartered in Louisville, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky. LG&E was incorporated in Kentucky in 1913. At December 31, 2012, LG&E owned 3,354 MW of electric power generation capacity and is implementing capital projects at an existing generation facility to provide 141 MW of additional generating capacity by the end of 2015. LG&E also anticipates retiring 563 MW of coal-fired generating capacity by the end of 2015 to meet certain environmental regulations. LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail native load.

*Kentucky Utilities Company*, headquartered in Lexington, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky, Virginia and Tennessee. KU was incorporated in Kentucky in 1912 and Virginia in 1991. KU serves its Virginia customers under the Old Dominion Power name while its Kentucky and Tennessee customers are served under the KU name. At December 31, 2012, KU owned 4,833 MW of electric power generation capacity and is implementing capital projects at an existing generation facility owned by LG&E to provide 499 MW of additional generating capacity by the end of 2015. KU retired the remaining 71 MW unit at the Tyrone plant in February 2013. KU also anticipates retiring 163 MW of coal-fired generating capacity by the end of 2015 to meet certain environmental regulations. KU and LG&E jointly dispatch their generation units with the lowest cost generation used to serve their retail native load.

*PPL Electric Utilities Corporation*, headquartered in Allentown, Pennsylvania, is a direct subsidiary of PPL incorporated in Pennsylvania in 1920 and a regulated public utility. PPL Electric delivers electricity in its Pennsylvania service territory and provides electricity supply to retail customers in that territory as a PLR under the Customer Choice Act.

*PPL Energy Supply, LLC*, headquartered in Allentown, Pennsylvania, is an indirect subsidiary of PPL formed in 2000 and is an energy company engaged through its subsidiaries in the generation and marketing of electricity, primarily in the northeastern and northwestern power markets of the U.S. PPL Energy Supply's major operating subsidiaries are PPL EnergyPlus and PPL Generation. In January 2011, PPL Energy Supply distributed its entire membership interest in PPL Global to its parent, PPL Energy Funding (the parent holding company of PPL Energy Supply and PPL Global with no other material operations), to better align PPL's organizational structure with the manner in which it manages these businesses and reports segment information in its consolidated financial statements. The distribution separated the U.S.-based competitive energy marketing and supply business from the U.K.-based regulated electricity distribution business. See Note 9 to the Financial Statements for additional information. The 2010 operating results of PPL Global, which represented the U.K. Regulated segment (formerly International Regulated), are classified as discontinued operations. At December 31, 2012, PPL Energy Supply owned or controlled 10,591 MW of electric power generation capacity and is implementing capital projects at certain of its existing generation facilities in Pennsylvania and Montana to provide 153 MW of additional generating capacity by the end of 2013.

PPL's utility subsidiaries, and to a lesser extent, certain competitive supply subsidiaries, are subject to extensive regulation by the FERC related to wholesale power sales and related transactions, electricity transmission service, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties and payments of dividends. PPL and LKE are subject to certain FERC regulations as holding companies under PUHCA and the Federal Power Act, including with respect to accounting and record-keeping, inter-system sales of non-power goods and services and acquisitions of securities in, or mergers with, certain types of electric utility companies.

**Successor and Predecessor Financial Presentation (LKE, LG&E and KU)**

LKE's, LG&E's and KU's Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010 and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, and the cost bases 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 periods are not comparable to the Predecessor periods; however, the core operations of LKE, LG&E and KU have not changed as a result of the acquisition.

**Segment Information**

(PPL)

PPL is organized into four reportable segments: Kentucky Regulated, U.K. Regulated (name changed in 2012 from International Regulated), Pennsylvania Regulated and Supply. There were no changes to reportable segments in 2012 other than the name change noted above.

A comparison of PPL's three regulated segments is shown below:

	<u>KY Regulated (a)</u>	<u>U.K. Regulated (b)</u>	<u>PA Regulated (c)</u>
For the year ended December 31, 2012:			
Operating Revenues (in billions)	\$2.8	\$2.3	\$1.8
Net Income Attributable to PPL Shareowners (in millions)	\$177	\$803	\$132
Electric energy delivered (GWh)	30,908	77,467	36,023
At December 31, 2012:			
Regulatory Asset Base (in billions) (d)	\$6.7	\$8.6	\$3.5
Service area (in square miles)	9,400	21,400	10,000
End-users (in millions)	1.3	7.8	1.4

- (a) Business activities include the generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas.
- (b) Business activities include the distribution of electricity.
- (c) Business activities include the transmission and distribution of electricity.
- (d) Represents RAV for U.K. Regulated, capitalization for KY Regulated and rate base for PA Regulated.

*(PPL Energy Supply)*

PPL Energy Supply has operated in a single reportable segment since 2011. Prior to 2011, PPL Energy Supply's segments consisted of Supply and U.K. Regulated (formerly International Regulated). In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to its parent, PPL Energy Funding, to better align PPL's organizational structure with the manner in which it manages its businesses and reports segment information in its consolidated financial statements. The distribution separated the U.S.-based competitive energy marketing and supply business from the U.K.-based regulated electricity distribution business. The 2010 operating results of PPL Global, which represented the U.K. Regulated segment, are classified as discontinued operations for PPL Energy Supply.

*(PPL Electric, LKE, LG&E and KU)*

PPL Electric, LKE, LG&E and KU each operate within a single reportable segment.

*(PPL)*

See Note 2 to the Financial Statements for financial information about the segments.

- ***Kentucky Regulated Segment (PPL)***

*Consists of the operations of LKE, which owns and operates regulated public utilities engaged in the generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas, representing primarily the activities of LG&E and KU. The Kentucky Regulated segment also includes interest expense related to the 2010 Equity Units that were issued to partially finance the acquisition of LKE.*

*(PPL, LKE, LG&E and KU)*

LKE became a wholly owned subsidiary of PPL on November 1, 2010. LG&E and KU are engaged in the regulated generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, Virginia and Tennessee. LG&E also engages in the distribution and sale of natural gas in Kentucky. LG&E provides electric service to approximately 393,000 customers in Louisville and adjacent areas in Kentucky, covering approximately 700 square miles in 9 counties. LG&E provides natural gas service to approximately 318,000 customers in its electric service area and 7 additional counties in Kentucky. KU provides electric service to approximately 510,000 customers in 77 counties in central, southeastern and western Kentucky; approximately 29,000 customers in 5 counties in southwestern Virginia; and fewer than 10 customers in Tennessee, covering approximately 4,800 non-contiguous square miles. KU also sells wholesale electricity to 12 municipalities in Kentucky under load following contracts. In Virginia, KU operates under the name Old Dominion Power Company.

***Acquisition by PPL***

In September 2010, the KPSC approved a settlement agreement among PPL and all of the intervening parties to PPL's joint application to the KPSC for approval of its acquisition of ownership and control of LKE. In the settlement agreement, the parties agreed that LG&E and KU would commit that no base rate increases would take effect before January 1, 2013. Under the terms of the settlement, LG&E and KU retained the right to seek approval for the deferral of "extraordinary and uncontrollable costs." Interim rate adjustments continued to be permissible during that period through existing fuel, environmental and demand side management recovery mechanisms. In October 2010, both the VSCC and the TRA approved the transfer of control of LKE to PPL. The orders and the settlement agreement approved by the KPSC contained certain other commitments by LG&E and KU with regard to operations, workforce, community involvement and other matters.

Also in October 2010, the FERC approved the application for the transfer of control of the utilities. The approval included various conditional commitments, such as a continuation of certain existing undertakings with intervenors 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 LG&E and KU have agreed not to seek recovery of the same transaction-related costs from retail customers and agreements to coordinate with intervenors in certain pending matters.

See Note 10 to the Financial Statements for additional information on regulatory matters related to the acquisition.



## Franchises and Licenses

LG&E and KU provide electricity delivery service, and LG&E provides natural gas distribution service, in their respective service territories 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 public utilities operating within the electric service areas of LKE. From time to time, bills are introduced into the Kentucky General Assembly which seek to authorize, promote or mandate increased distributed generation, customer choice or other developments. Neither the Kentucky General Assembly nor the KPSC 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 LKE, which may be significant, cannot currently be predicted. Virginia, formerly a deregulated jurisdiction, has enacted legislation that implemented a hybrid model of cost-based regulation. KU's operations in Virginia have been and remain regulated.

Alternative energy sources such as electricity, oil, propane and other fuels provide indirect competition for natural gas revenues of LKE. Marketers may also compete to sell natural gas to certain large end-users. LG&E's natural gas tariffs include gas price pass-through mechanisms relating to its sale of natural gas as a commodity; therefore, customer natural gas purchases from alternative suppliers do not generally impact profitability. However, some large industrial and commercial customers may physically bypass LG&E's facilities and seek delivery service directly from interstate pipelines or other natural gas distribution systems.

## Operating Revenues

Details of operating revenues by customer class are shown below.

	Successor						Predecessor	
	Year Ended December 31, 2012		Year Ended December 31, 2011		Two Months Ended December 31, 2010		Ten Months Ended October 31, 2010	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
<b>LKE (a)</b>								
Commercial	\$ 723	26	\$ 719	26	\$ 123	25	\$ 573	26
Industrial	551	20	533	19	86	17	424	19
Residential	1,071	39	1,087	39	219	44	886	40
Retail - other	270	10	269	9	43	9	212	10
Wholesale - municipal	102	4	104	4	15	3	88	4
Wholesale - other (b)	42	1	81	3	8	2	31	1
Total	<u>\$ 2,759</u>	<u>100</u>	<u>\$ 2,793</u>	<u>100</u>	<u>\$ 494</u>	<u>100</u>	<u>\$ 2,214</u>	<u>100</u>
<b>LG&amp;E</b>								
Commercial	\$ 374	28	\$ 372	27	\$ 66	26	\$ 287	27
Industrial	170	13	152	11	26	10	122	12
Residential	548	41	561	41	113	44	446	42
Retail - other	131	10	130	10	22	9	98	9
Wholesale - other (b) (c)	101	8	149	11	27	11	104	10
Total	<u>\$ 1,324</u>	<u>100</u>	<u>\$ 1,364</u>	<u>100</u>	<u>\$ 254</u>	<u>100</u>	<u>\$ 1,057</u>	<u>100</u>
<b>KU</b>								
Commercial	\$ 349	23	\$ 347	22	\$ 57	22	\$ 286	23
Industrial	381	25	381	25	60	23	302	24
Residential	523	34	526	34	106	40	440	35
Retail - other	139	9	139	9	21	8	114	9
Wholesale - municipal	102	7	104	7	15	6	88	7
Wholesale - other (b) (c)	30	2	51	3	4	1	18	2
Total	<u>\$ 1,524</u>	<u>100</u>	<u>\$ 1,548</u>	<u>100</u>	<u>\$ 263</u>	<u>100</u>	<u>\$ 1,248</u>	<u>100</u>

(a) The LKE Successor information also represents PPL's Kentucky Regulated segment.

(b) Includes wholesale and transmission revenues.

(c) Includes intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.

### Power Supply

At December 31, 2012, LKE owned, controlled or had an ownership interest in generating capacity (summer rating) of 8,187 MW, of which 3,354 MW related to LG&E and 4,833 MW related to KU, in Kentucky, Indiana, and Ohio. See "Item 2. Properties - Kentucky Regulated Segment" for a complete list of LKE's generating facilities.

The system capacity of LKE's owned or controlled generation is based upon a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changes in circumstances.

During 2012, LKE's Kentucky power plants generated the following amounts of electricity.

<u>Fuel Source</u>	<u>Thousands of MWh</u>		
	<u>LKE</u>	<u>LG&amp;E</u>	<u>KU</u>
Coal (a)	32,820	15,051	17,769
Oil / Gas	1,340	463	877
Hydro	250	212	38
Total (b)	<u>34,410</u>	<u>15,726</u>	<u>18,684</u>

(a) Includes 990 MWh of power generated by and purchased from OVEC for LKE, 685 MWh for LG&E and 305 MWh for KU.

(b) This generation represents a 4% decrease for LKE, a 4% decrease for LG&E and a 3% decrease for KU from 2011 output.

A significant portion of LG&E's and KU's generated electricity was used to supply its retail and municipal customer base.

LG&E and KU 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.

See "Item 2. Properties - Kentucky Regulated Segment" for additional information regarding LG&E's and KU's plans for development of Cane Run Unit 7. KU retired the remaining 71 MW unit at the Tyrone plant in February 2013. LG&E and KU also anticipate retiring 563 MW and 163 MW of coal-fired generating capacity by the end of 2015 to meet certain environmental regulations.

### Fuel Supply

Coal is expected to be the predominant fuel used by LG&E and KU for baseload generation for the foreseeable future. However, natural gas will play a more significant role starting in 2015 when Cane Run Unit 7 is expected to be placed into operation. This unit is expected to be used for baseload generation. Natural gas and oil will continue to be used for intermediate and peaking capacity and flame stabilization in coal-fired boilers.

Fuel inventory is maintained at levels estimated to be necessary to avoid operational disruptions at coal-fired generating units. Reliability of coal deliveries can be affected from time to time by a number of factors including fluctuations in demand, coal mine production issues and other supplier or transporter operating difficulties. To enhance the reliability of natural gas supply, LG&E and KU have secured long-term pipeline capacity on the interstate pipeline serving the new combined cycle unit and six simple cycle combustion turbine units.

LG&E and KU have entered into coal supply agreements with various suppliers for coal deliveries through 2017 and normally augment their coal supply agreements with spot market purchases, as needed.

For their existing units, LG&E and KU expect for the foreseeable future to purchase most of their coal from western Kentucky, southern Indiana, southern Illinois and Ohio. The use of high sulfur coal increased during 2012 due to the installation of scrubbers and the sulfuric acid mist mitigation system at KU's E.W. Brown plant. In 2013 and beyond, LG&E and KU may purchase certain quantities of ultra-low sulfur content coal from Wyoming for blending at TC2. Coal is delivered to the generating plants by barge, truck and rail.

*(PPL, LKE and LG&E)*

Natural Gas Supply

Five underground natural gas storage fields, with a current working natural gas capacity of approximately 15 Bcf, are used in providing natural gas service to LG&E's firm sales customers. By using natural gas storage facilities, LG&E avoids the costs typically associated with more expensive pipeline transportation capacity to serve peak winter heating loads. Natural gas is stored during the summer season for withdrawal during the following winter heating season. Without this storage capacity, LG&E would be required to purchase additional natural gas and pipeline transportation services during winter months when customer demand increases and the prices for natural gas supply and transportation services are typically at their highest. Several suppliers under contracts of varying duration provide competitively priced natural gas. At December 31, 2012, LG&E had a 12 Bcf inventory balance of natural gas stored underground with a carrying value of \$42 million.

LG&E has a portfolio of supply arrangements of varying terms with a number of suppliers designed to meet its firm sales obligations. These natural gas supply arrangements include pricing provisions that are market-responsive. In tandem with pipeline transportation services, these natural gas supplies provide the reliability and flexibility necessary to serve LG&E's natural gas customers.

LG&E purchases natural gas supply transportation services from two pipelines. LG&E has contracts with one pipeline that are subject to termination by LG&E between 2015 and 2018. Total winter capacity under these contracts is 194,900 MMBtu/day and summer capacity is 88,000 MMBtu/day. LG&E has a contract with another pipeline that expires in October 2014. Total winter and summer capacity under this contract is 20,000 MMBtu/day during both seasons.

*(PPL, LKE, LG&E and KU)*

Rates and Regulation

LG&E is subject to the jurisdiction of the KPSC and the FERC, and KU is subject to the jurisdiction of the KPSC, the FERC, the VSCC and the TRA. LG&E and KU operate under a FERC-approved open access transmission tariff. LG&E and KU contract with the Tennessee Valley Authority to act as their transmission reliability coordinator. LG&E and KU contracted with Southwest Power Pool, Inc. (SPP), to function as their independent transmission operator, pursuant to FERC requirements under a contract that expired on August 31, 2012. After receiving FERC approval, LG&E and KU transferred from SPP to TranServ International, Inc. as their independent transmission operator beginning September 1, 2012.

In February 2013, LG&E and KU submitted a compliance filing to the FERC reflecting their participation with other utilities in the Southeastern Regional Transmission Planning relating to certain FERC Order 1000 requirements. FERC Order 1000, issued in July 2011, establishes certain procedural and substantive requirements relating to participation, cost allocation and non-incumbent developer aspects of regional and inter-regional electric transmission planning activities.

LG&E's and KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and short-term debt) including certain adjustments to exclude non-regulated investments and costs recovered separately through other rate mechanisms. As such, LG&E and KU earn a return on the net cash invested in regulatory assets and regulatory liabilities.

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities, except the levelized fuel factor, are excluded from the return on rate base utilized in the calculation of Virginia base rates; therefore, no return is earned on the related assets.

KU's rates to municipal customers for wholesale requirements are calculated based on annual updates to a rate formula that utilizes a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates; therefore, no return is earned on the related assets.

See Note 6 to the Financial Statements for additional information on cost recovery mechanisms.

## 2012 Kentucky Rate Case

In June 2012, LG&E and KU filed requests with the KPSC for increases in annual base electric rates of approximately \$62 million at LG&E and approximately \$82 million at KU and an increase in annual base gas rates of approximately \$17 million at LG&E. In November 2012, LG&E and KU along with all of the parties filed a unanimous settlement agreement. Among other things, the settlement provided for increases in annual base electric rates of \$34 million at LG&E and \$51 million at KU and an increase in annual base gas rates of \$15 million at LG&E. The settlement agreement also included revised depreciation rates that result in reduced annual electric depreciation expense of approximately \$9 million for LG&E and approximately \$10 million for KU. The settlement agreement included an authorized return on equity at LG&E and KU of 10.25%. On December 20, 2012, the KPSC issued orders approving the provisions in the settlement agreement. The new rates became effective on January 1, 2013. In addition to the increased base rates, the KPSC approved a gas line tracker mechanism for LG&E to provide for recovery of costs associated with LG&E's gas main replacement program, gas service lines and risers.

## FERC Wholesale Rates

In May 2012, KU submitted to the FERC the annual adjustments to the formula rate which incorporated certain proposed increases. These rates became effective as of July 1, 2012.

### • U.K. Regulated Segment (PPL)

*Includes WPD, a regulated electricity distribution business in the U.K.*

WPD, through indirect wholly owned subsidiaries, operates four of the 15 regulated distribution networks providing electricity service in the U.K. With the April 2011 acquisition of WPD Midlands, the number of end-users served has more than doubled totaling 7.8 million across 21,400 square miles in Wales, southwest and central England. See Note 10 to the Financial Statements for additional information on the acquisition.

Details of revenue by category for the years ended December 31 are shown below.

	2012		2011		2010	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Utility revenues (a)	\$ 2,289	98	\$ 1,618	98	\$ 727	96
Energy-related businesses	47	2	35	2	34	4
Total	\$ 2,336	100	\$ 1,653	100	\$ 761	100

(a) The above years are not comparable as WPD Midlands was acquired in April 2011. 2011 includes eight months of activity as WPD Midlands' results are recorded on a one-month lag.

WPD's energy-related businesses revenues include ancillary activities that support the distribution business, including telecommunications and real estate. WPD's telecommunication revenues are from the rental of fiber optic cables primarily attached to WPD's overhead electricity distribution network. WPD also provides meter services to businesses across the U.K.

### Franchise and Licenses

WPD is authorized by Ofgem to provide electric distribution services within its concession areas and service territories, subject to certain conditions and obligations. For instance, WPD is subject to Ofgem regulation of the regulated revenue it can earn and the quality of service it must provide, and WPD can be fined or have its licenses revoked if it does not meet the mandated standard of service.

### Competition

Although WPD operates in non-exclusive concession areas in the U.K., it currently faces little competition with respect to end-users connected to its network. WPD's four distribution businesses, WPD (South West), WPD (South Wales), WPD (West Midlands) and WPD (East Midlands), are thus regulated monopolies which operate under regulatory price controls.

## Revenue and Regulation

The operations of WPD (South West), WPD (South Wales), WPD (East Midlands) and WPD (West Midlands) are regulated by Ofgem under the direction of the Gas and Electricity Markets Authority. The Electricity Act 1989 provides the fundamental legal framework of electricity companies and established licenses that required each of the DNOs to develop, maintain and operate efficient distribution networks. Ofgem has established a price control mechanism that restricts the amount of revenue that can be earned by regulated business and provides for an increase or reduction in revenues based on incentives or penalties for exceeding or underperforming against pre-established targets.

This regulatory structure is an incentive-based regulatory structure in comparison to the U.S. utility businesses which operate under a cost-based regulatory framework. Under the UK regulatory structure, electricity distribution revenues are currently set every five years, but extending to eight years in the next price control period beginning in April 2015. The revenue that DNOs can earn in each of the five years is the sum of: i) the regulator's view of efficient operating costs, ii) a return on the capital from the RAV plus an annual adjustment for the inflation determined by Retail Price Index (RPI) for the prior calendar year, iii) a return of capital from the RAV (i.e. depreciation), and iv) certain pass-through costs over which the DNO has no control. Additionally, incentives are provided for a range of activities including exceeding certain reliability and customer service targets.

WPD is currently operating under DPCR5 which was completed in December 2009 and is effective for the period from April 1, 2010 through March 31, 2015. Ofgem allowed WPD (South West) and WPD (South Wales) an average increase in total revenues, before inflationary adjustments, of 6.9% in each of the five years and WPD Midlands an average increase in total revenues, before inflationary adjustments, of 4.5% in each of the five years. The revenue increase includes reimbursement for higher operating and capital costs to be incurred driven by additional requirements. In DPCR5, Ofgem decoupled WPD's allowed revenue from volume delivered over the five-year price control period. However, in any fiscal period WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the allowed revenue for a given period. Under recoveries are recovered in the next regulatory year, however, PPL does not record a receivable for under recoveries in the current period. Over recoveries are reflected in the current period as a liability and are not included in revenue.

In addition to providing a base regulated revenue allowance, Ofgem has established incentive mechanisms to provide significant opportunities to enhance overall returns by improving network efficiency, reliability and customer service. Some of the more significant incentive mechanisms under DPCR5 include:

- Interruptions Incentive Scheme (IIS) - This incentive has two major components: 1) Customer interruptions and 2) Customer minutes lost and is designed to incentivize the DNOs to invest and operate their networks to manage and reduce both the frequency and duration of power outages experienced by customers. The target for each DNO is based on a benchmark of data from the last four years of the prior price control period.

Effective April 1, 2012, an additional customer satisfaction incentive mechanism was implemented that includes a customer satisfaction survey, a complaints metric and a measure of stakeholder engagement. This incentive replaced the customer response telephone performance incentive that was effective April 1, 2010.

- Line Loss Incentive - This incentive existed in the prior price control review, DPCR4, and was designed to incentivize DNOs to invest in lower loss equipment, to change the way they operate their systems to reduce losses, and to detect theft and unregistered meters. In November 2012, Ofgem issued a decision not to activate the DPCR5 line loss incentive. See Note 6 to the Financial Statements for information on Ofgem's review of line loss calculations.
- Information Quality Incentive (IQI) - The IQI is designed to incentivize the DNOs to provide good quality information when they submit their business plans to Ofgem during the price control process and to execute the plan they submitted. The IQI eliminates the distinction between capital expenditure and operating expense and instead looks at total expenditure. Total expenditure is allocated 85% to "slow pot" which is added to RAV and recovered over 20 years through the regulatory depreciation of the RAV and 15% to "fast pot" which is recovered during the current price control review period. The IQI then provides for incentives or penalties at the end of DPCR5 based on the ratio of actual expenditures to the expenditures submitted to Ofgem that were the basis for the revenues allowed during the five-year price control review period.

At the beginning of DPCR5, WPD was awarded \$301 million in incentive revenue of which \$222 million will be included in revenue throughout the current price control period with the balance recovered over subsequent price control periods. Since the beginning of DPCR5, WPD earned additional incentive revenue, primarily from IIS of \$83 million and \$30 million for the regulatory years ended March 31, 2012 and 2011, which will be included in revenue for the 2013-14 and 2012-13 regulatory years.

In October 2010, Ofgem announced a new pricing model that will be effective for the U.K. electricity distribution sector, including WPD, beginning April 2015. The model, known as RIIO (Revenues = Incentives + Innovation + Outputs), is intended to encourage investment in regulated infrastructure. The next electricity distribution price control review is referred to as RIIO-ED1. In September 2012, Ofgem published a strategy consultation document providing an overview of its approach for RIIO-ED1 and is expected to publish a policy decision document in February 2013. Key components of the RIIO-ED1 are: an extension of the price review period to eight years, increased emphasis on outputs and incentives, enhanced stakeholder engagement including network customers, a stronger incentive framework to encourage more efficient investment and innovation, expansion of the current Low Carbon Network Fund to stimulate innovation and continued use of a single weighted average cost of capital. Ofgem has also indicated that the depreciation of the RAV for RAV additions after April 1, 2015 will change from 20 years to 45 years. Management is in the process of creating the "well-justified business plans" required by Ofgem for WPD's four DNOs. These plans are expected to be submitted to Ofgem in July 2013 as part of the RIIO-ED1 review process. Once the business plans are complete, management will be in a better position to determine the effect of RIIO-ED1 on future financial results. See "Item 1A. Risk Factors - Risks Related to U.K. Regulated Segment."

### Customers

The majority of WPD's revenue is known as DUoS and is derived from charging energy suppliers for the delivery of electricity to end-users and thus its customers are the suppliers to those end-users. Ofgem requires that all licensed electricity distributors and suppliers become parties to the Distribution Connection and Use of System Agreement. This agreement sets out how creditworthiness will be determined and, as a result, whether the supplier needs to provide collateral.

- **Pennsylvania Regulated Segment (PPL)**

*Includes the regulated electric delivery operations of PPL Electric.*

*(PPL and PPL Electric)*

PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. PPL Electric delivers electricity to approximately 1.4 million customers in a 10,000-square mile territory in 29 counties of eastern and central Pennsylvania. PPL Electric also provides electricity supply in this territory as a PLR.

Details of electric revenues by customer class for the years ended December 31, are shown below.

	2012		2011		2010	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Residential	\$ 1,108	63	\$ 1,266	67	\$ 1,469	60
Industrial	53	3	62	3	123	5
Commercial	366	21	431	23	588	24
Other (a) (b)	236	13	133	7	275	11
Total	<u>\$ 1,763</u>	<u>100</u>	<u>\$ 1,892</u>	<u>100</u>	<u>\$ 2,455</u>	<u>100</u>

(a) Includes regulatory over- or under-recovery reconciliation mechanisms, pole attachment revenues, street lighting and net transmission revenues.

(b) Included in these amounts for 2012, 2011 and 2010 are \$3 million, \$11 million and \$7 million of retail and wholesale electric to affiliate revenue which is eliminated in consolidation for PPL.

### Franchise, Licenses and Other Regulations

PPL Electric is authorized to provide electric public utility service throughout its service area as a result of grants by the Commonwealth of Pennsylvania in corporate charters to PPL Electric and companies to which it has succeeded and as a result of certification by the PUC. PPL Electric is granted the right to enter the streets and highways by the Commonwealth subject to certain conditions. In general, such conditions have been met by ordinance, resolution, permit, acquiescence or other action by an appropriate local political subdivision or agency of the Commonwealth.

### Competition

Pursuant to authorizations from the Commonwealth of Pennsylvania and the PUC, PPL Electric operates a regulated distribution monopoly in its service area. Accordingly, PPL Electric does not face competition in its electric distribution business.

The PPL Electric transmission business, operating under the purview of the FERC-approved PJM Open Access Transmission Tariff, is subject to competition from entities that are not incumbent PJM transmission owners with respect to building and ownership of transmission facilities within PJM. No authority has yet been promulgated that sets forth the parameters of non-incumbent competition.

### Rates and Regulation

#### Transmission and Distribution

PPL Electric's transmission facilities are within PJM, which operates the electric transmission network and electric energy market in the Mid-Atlantic and Midwest regions of the U.S.

PJM serves as a FERC-approved RTO to promote greater participation and competition in the region it serves. In addition to operating the electric transmission network, PJM also administers regional markets for energy, capacity and ancillary services. A primary objective of any RTO is to separate the operation of, and access to, the transmission grid from market participants that buy or sell electricity in the same markets. Electric utilities continue to own the transmission assets and to receive their share of transmission revenues, but the RTO directs the control and operation of the transmission facilities.

As a transmission owner, PPL Electric's transmission revenues are billed to PJM in accordance with a FERC tariff that allows recovery of transmission costs incurred, a return on transmission-related plant and an automatic annual update. As a PLR, PPL Electric also purchases transmission services from PJM. See "PLR" below.

In April 2010, the FERC issued an order concluding that under the PJM Open Access Transmission Tariff, PJM may, but is not required to, designate an entity other than the incumbent PJM transmission owner to own and construct economic expansion projects and receive cost-of-service based compensation for the use of its facilities. Additionally, the FERC directed PJM to file tariff changes necessary for non-incumbent transmission owners to be provided opportunity to propose and construct transmission projects in accordance with exclusions specified in the April 2010 order and consistent with state and local laws and regulations. PJM tariff changes are currently under review by the FERC.

PPL Electric's distribution base rates are calculated based on a return on rate base (net utility plant plus a cash working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions such as materials and supplies inventories and customer deposits and advances) plus certain operating expenses. Operating expenses included in PPL Electric's distribution base rates include wages and benefits, other operation and maintenance expenses, depreciation, and taxes.

In November 2004, Pennsylvania enacted the AEPS, which requires electricity distribution companies and electricity generation suppliers to obtain a portion of the electricity sold to retail customers in Pennsylvania from alternative energy sources. Under the default service procurement plans approved by the PUC, PPL Electric purchases all of the alternative energy generation supply it needs to comply with the AEPS.

Act 129 creates an energy efficiency and conservation program, a demand side management program, smart metering technology requirements, new PLR generation supply procurement rules, remedies for market misconduct, and changes to the existing AEPS.

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms - the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC. In August 2012, the PUC issued a final implementation order adopting procedures, guidelines and a model tariff for implementation of Act 11. Act 11 requires utilities to file an LTIP as a prerequisite to filing for recovery through the DSIC. The LTIP is mandated to be a five- to ten-year plan describing projects eligible for inclusion in the DSIC. PPL Electric filed its LTIP in September 2012 and the PUC subsequently approved the LTIP on January 10, 2013. PPL Electric filed a petition requesting permission to establish a DSIC on January 15, 2013 with rates proposed to be effective beginning May 1, 2013.

See "Regulatory Matters - Pennsylvania Activities" in Note 6 to the Financial Statements for additional information regarding Act 129, Act 11 and other legislative and regulatory impacts.

## PLR

The Customer Choice Act requires Electric Distribution Companies (EDCs), including PPL Electric, to act as a PLR of electricity supply for customers who do not choose to shop for supply with a competitive supplier and provides that electricity supply costs will be recovered by the PLR pursuant to regulations established by the PUC. As of December 31, 2012, the following percentages of PPL Electric's customer load were provided by competitive suppliers: 46% of residential, 84% of small commercial and industrial and 99% of large commercial and industrial customers. The PUC continues to be interested in expanding the competitive market for electricity. See "Regulatory Matters - Pennsylvania Activities" in Note 6 to the Financial Statements for additional information.

PPL Electric's cost of electricity generation is based on a competitive solicitation process. The PUC approved PPL Electric's default service plan for the period January 2011 through May 2013, which includes 14 solicitations for electricity supply beginning January 1, 2011 with a portion extending beyond May 2013. Pursuant to this plan, PPL Electric contracts for all of the electricity supply for residential, small commercial and small industrial customers, large commercial and large industrial customers who elect to take that service from PPL Electric. These solicitations include a mix of spot market purchases and long-term and short-term purchases ranging from five months to ten years to fulfill PPL Electric's obligation to provide customer electricity supply as a PLR. To date, PPL Electric has concluded all of its planned competitive solicitations under the plan.

The PUC has directed all EDCs to file default service procurement plans for the period June 1, 2013 through May 31, 2015. PPL Electric filed its plan in May 2012. In that plan, PPL Electric proposed a process to obtain supply for its default service customers and a number of initiatives designed to encourage more customers to purchase electricity supply from the competitive retail market. In its January 24, 2013 final order, the PUC approved PPL Electric's plan with modifications and directed PPL Electric to establish collaborative processes to address several retail competition issues.

Numerous alternative suppliers have offered to provide generation supply in PPL Electric's service territory. Whether its customers purchase electricity supply from these alternative suppliers or from PPL Electric as a PLR, the purchase of such supply has no impact on the financial results of PPL Electric. The costs to purchase PLR supply, including charges paid to PJM for related transmission services, are passed directly by PPL Electric to its PLR customers without markup. See "Energy Purchase Commitments" in Note 15 to the Financial Statements for additional information regarding PPL Electric's solicitations.

## Rate Cases

### 2012 Rate Case

In March 2012, PPL Electric filed a request with the PUC to increase distribution rates by approximately \$105 million, effective January 1, 2013. On December 28, 2012, in its final order, the PUC approved a 10.4% return on equity and a total distribution revenue increase of about \$71 million. The approved rates became effective January 1, 2013.

Also in its December 28, 2012 final order, the PUC directed PPL Electric to file a proposed Storm Damage Expense Rider within 90 days following the order. PPL Electric plans to file a proposed Storm Damage Expense Rider with the PUC and, as part of that filing, request recovery of the \$28 million of qualifying storm costs incurred as a result of the October 2012 landfall of Hurricane Sandy.

See "Regulatory Matters - Pennsylvania Activities - Storm Costs" in Note 6 to the Financial Statements for additional information on Hurricane Sandy.

## FERC Formula Rates

Transmission rates are regulated by the FERC. PPL Electric's transmission revenues are billed in accordance with a FERC-approved PJM open access transmission tariff that utilizes a formula-based rate recovery mechanism.

PPL Electric has initiated its formula rate 2012, 2011 and 2010 Annual Updates. Each update has been subsequently challenged by a group of municipal customers. In August 2011, the FERC issued an order substantially rejecting the 2010 formal challenge and the municipal customers filed a request for rehearing of that order. In September 2012, the FERC issued an order setting for evidentiary hearings and settlement judge procedures a number of issues raised in the 2010 and 2011 formal challenges. Settlement conferences were held in late 2012 and early 2013. In February 2013, the FERC set for evidentiary hearings and settlement judge procedures a number of issues in the 2012 formal challenge and consolidated that



challenge with the 2010 and 2011 challenges. PPL Electric anticipates that there will be additional settlement conferences held in 2013. PPL and PPL Electric cannot predict the outcome of the foregoing proceedings, which remain pending before the FERC.

In March 2012, PPL Electric filed a request with the FERC seeking recovery of its regulatory asset related to the deferred state tax liability that existed at the time of the transition from the flow-through treatment of state income taxes to full normalization. This change in tax treatment occurred in 2008 as a result of prior FERC initiatives that transferred regulatory jurisdiction of certain transmission assets from the PUC to FERC. At December 31, 2012 and December 31, 2011, \$52 million and \$53 million are classified as taxes recoverable through future rates and included on the Balance Sheets in "Other Noncurrent Assets - Regulatory assets." In May 2012, the FERC issued an order approving PPL Electric's request to recover the deferred tax regulatory asset over a 34-year period beginning June 1, 2012.

See Note 6 to the Financial Statements for additional information on rate mechanisms.

*(PPL and PPL Energy Supply)*

• **Supply Segment**

*Owns and operates competitive domestic power plants to generate electricity; markets and trades this electricity, purchased power, and other energy-related products to competitive wholesale and retail markets; and acquires and develops competitive domestic generation projects. Consists primarily of the activities of PPL Generation and PPL EnergyPlus.*

PPL Energy Supply has generation assets that are located in the northeastern and northwestern U.S. markets. The northeastern generating capacity is located primarily in Pennsylvania within PJM and northwestern generating capacity is located in Montana. PPL Energy Supply enters into energy and energy-related contracts to hedge the variability of expected cash flows associated with its generating units and marketing activities, as well as for trading purposes. PPL EnergyPlus sells the electricity produced by PPL Energy Supply's generation plants based on prevailing market rates. PPL Energy Supply's total expected generation in 2013 is anticipated to be used to meet its committed contractual sales. PPL Energy Supply has entered into commitments of varying quantities and terms for 2014 and beyond.

Details of revenue by category for the years ended December 31, are shown below.

	2012		2011		2010	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Energy						
Wholesale (a)	\$ 4,200	76	\$ 5,240	82	\$ 4,347	85
Retail	848	16	727	11	415	8
Trading	4		(2)		2	
Total energy	5,052	92	5,965	93	4,764	93
Energy-related businesses (b)	448	8	464	7	364	7
Total	\$ 5,500	100	\$ 6,429	100	\$ 5,128	100

- (a) Included in these amounts for 2012, 2011, and 2010 are \$78 million, \$26 million and \$320 million of wholesale electricity sales to an affiliate, PPL Electric, which are eliminated in consolidation for PPL.
- (b) Energy-related businesses primarily support the generation, marketing and trading businesses of PPL Energy Supply. Their activities include developing renewable energy projects and providing energy-related products and services to commercial and industrial customers through their mechanical contracting and services subsidiaries. Energy-related businesses for PPL's Supply segment had additional revenues not related to PPL Energy Supply of \$13 million, \$8 million and \$11 million for 2012, 2011 and 2010, which are not included in this table.

**Power Supply**

PPL Energy Supply owned or controlled generating capacity (summer rating) of 10,591 MW at December 31, 2012. The system capacity of PPL Energy Supply's owned or controlled generation is based upon a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changes in circumstances. Generating capacity controlled by PPL Generation and other PPL Energy Supply subsidiaries includes power obtained through PPL EnergyPlus' power purchase agreements. See "Item 2. Properties - Supply Segment" for a complete listing of PPL Energy Supply's generating capacity.

During 2012, PPL Energy Supply owned or controlled power plants that generated the following amounts of electricity.

<u>Fuel Source</u>	Thousands of MWhs		
	Northeastern	Northwestern	Total
Nuclear	15,224		15,224
Oil / Gas	9,383		9,383
Coal	16,857	3,232	20,089
Hydro	552	3,443	3,995
Renewables (a)	342		342
Total	42,358	6,675	49,033

(a) PPL Energy Supply subsidiaries own or control renewable energy projects located in Pennsylvania, New Jersey, Vermont, Connecticut and New Hampshire with a generating capacity (summer rating) of 70 MW. PPL EnergyPlus sells the energy, capacity and RECs produced by these plants into the wholesale market as well as to commercial, industrial and institutional customers.

PPL Energy Supply's generation subsidiaries are EWGs that sell electricity into wholesale markets. EWGs are subject to regulation by the FERC, which has authorized these EWGs to sell the electricity generated at market-based prices. This electricity is sold to PPL EnergyPlus under FERC-jurisdictional power purchase agreements. PPL Susquehanna is subject to the jurisdiction of the NRC in connection with the operation of the Susquehanna nuclear units. Certain of PPL Energy Supply's other subsidiaries are subject to the jurisdiction of the NRC in connection with the operation of their fossil plants with respect to certain level and density monitoring devices. Certain operations of PPL Generation's subsidiaries are also subject to OSHA and comparable state statutes.

See Note 9 to the Financial Statements for information on the 2011 sale of certain non-core generation facilities, the 2010 sale of the Long Island generation business and the 2010 completion of the sale of the Maine hydroelectric generation business.

See "Item 2. Properties - Supply Segment" for additional information regarding PPL Generation's plans for capital projects in Pennsylvania and Montana that are expected to provide 153 MW of additional electric generating capacity by the end of 2013.

### Fuel Supply

PPL EnergyPlus acts as agent for PPL Generation to procure and optimize its various fuels.

### Coal

#### *Pennsylvania*

PPL EnergyPlus actively manages PPL Energy Supply's coal requirements by purchasing coal principally from mines located in northern Appalachia.

During 2012, PPL Generation purchased 5.6 million tons of coal required for its wholly owned Pennsylvania plants under short-term and long-term contracts. The amount of coal in inventory varies from time to time depending on market conditions and plant operations.

PPL Generation, by and through its agent PPL EnergyPlus, has agreements in place that will provide more than 23 million tons of PPL Generation's projected coal needs for the Pennsylvania power plants from 2013 through 2018.

A PPL Generation subsidiary owns a 12.34% interest in the Keystone plant and a 16.25% interest in the Conemaugh plant. PPL Generation owns a 12.34% interest in Keystone Fuels, LLC and a 16.25% interest in Conemaugh Fuels, LLC. The Keystone plant contracts with Keystone Fuels, LLC for its coal requirements, which provided 4.3 million tons of coal to the Keystone plant in 2012. The Conemaugh plant requirements are purchased under contract from Conemaugh Fuels, LLC, which provided 4.1 million tons of coal to the Conemaugh plant in 2012.

All PPL Generation coal plants within Pennsylvania are equipped with scrubbers, which use limestone in their operations. Acting as agent for PPL Generation, PPL EnergyPlus has entered into contracts with limestone suppliers that will provide for those plants' limestone requirements through 2014. During 2012, 382,000 tons of limestone were delivered to Brunner Island and Montour under these contracts. Annual limestone requirements approximate 400,000-500,000 tons.

## *Montana*

PPL Montana has a 50% leasehold interest in Colstrip Units 1 and 2, and a 30% leasehold interest in Colstrip Unit 3. NorthWestern owns a 30% interest in Colstrip Unit 4. PPL Montana and NorthWestern have a sharing agreement that governs each party's responsibilities and rights relating to the operation of Colstrip Units 3 and 4. Under the terms of that agreement, each party is responsible for 15% of the total non-coal operating and construction costs of Colstrip Units 3 and 4, regardless of whether a particular cost is specific to Colstrip Unit 3 or 4 and is entitled to take up to 15% of the available generation from Units 3 and 4. Each party is responsible for its own coal costs. PPL Montana, along with the other Colstrip owners, is party to contracts to purchase 100% of its coal requirements with defined coal quality characteristics and specifications. PPL Montana, along with the other Colstrip Units 1 and 2 owner, has a long-term purchase and supply agreement with the current supplier for Units 1 and 2, which provides these units 100% of their coal requirements through December 2014, and at least 85% of such requirements from January 2015 through December 2019. PPL Montana, along with the other Colstrip Units 3 and 4 owners, has a long-term coal supply contract for Units 3 and 4, which provides these units 100% of their coal requirements through December 2019.

These units were originally built with scrubbers and PPL Montana has entered into a long-term contract to purchase the limestone requirements for these units. The contract extends through December 2030.

Coal supply contracts are in place to purchase low-sulfur coal with defined quality characteristics and specifications for PPL Montana's Corette plant. The contracts covered 100% of the plant's coal requirements in 2012 and similar contracts are in place to supply 100% of the expected coal requirements through 2014.

## Oil and Natural Gas

### *Pennsylvania*

PPL Generation's Martins Creek Units 3 and 4 burn both oil and natural gas. During 2012, 100% of the physical gas requirements for the Martins Creek units were purchased on the spot market while oil requirements were supplied from inventory. At December 31, 2012, there were no long-term agreements for oil or natural gas for these units.

Short-term and long-term gas transportation contracts are in place for approximately 38% of the maximum daily requirements of the Lower Mt. Bethel facility. During 2012, 100% of the physical gas requirements were purchased on the spot market.

In 2008, PPL EnergyPlus acquired the rights to an existing long-term tolling agreement associated with the capacity and energy of the Ironwood Facility. In April 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the acquisition of the equity interests in the owner and operator of the Ironwood Facility. See Note 10 to the Financial Statements for additional information. Beginning in 2010, PPL EnergyPlus has long-term transportation contracts that can deliver up to approximately 25% of Ironwood's maximum daily gas requirements. Daily gas requirements can also be met through a combination of short-term transportation capacity release transactions coupled with upstream supply. PPL EnergyPlus currently has no long-term physical gas contracts. During 2012, 100% of the physical gas requirements were purchased on the spot market.

## Nuclear

The nuclear fuel cycle consists of several material and service components: the mining and milling of uranium ore to produce uranium concentrates; the conversion of these concentrates into uranium hexafluoride, a gas component; the enrichment of the hexafluoride gas; the fabrication of fuel assemblies for insertion and use in the reactor core; and the temporary storage and final disposal of spent nuclear fuel.

PPL Susquehanna has a portfolio of supply contracts, with varying expiration dates, for nuclear fuel materials and services. These contracts are expected to provide sufficient fuel to permit Unit 1 to operate into the first quarter of 2016 and Unit 2 to operate into the first quarter of 2017. PPL Susquehanna anticipates entering into additional contracts to ensure continued operation of the nuclear units.

Federal law requires the U.S. government to provide for the permanent disposal of commercial spent nuclear fuel, but there is no definitive date by which a repository will be operational. As a result, it was necessary to expand Susquehanna's on-site spent fuel storage capacity. To support this expansion, PPL Susquehanna contracted for the design and construction of a spent fuel storage facility employing dry cask fuel storage technology. The facility is modular, so that additional storage capacity can be added as needed. The facility began receiving spent nuclear fuel in 1999. PPL Susquehanna estimates, under current operating conditions, that there is sufficient storage capacity in the spent nuclear fuel pools and the on-site spent fuel storage facility at Susquehanna to accommodate spent fuel discharged through approximately 2017. If necessary, the on-site spent fuel storage facility can be expanded, assuming appropriate regulatory approvals are obtained, such that, together, the spent fuel pools and the expanded dry fuel storage facility will accommodate all of the spent fuel expected to be discharged through the current licensed life of the plant.

In 1996, the U.S. Court of Appeals for the District of Columbia Circuit ruled that the Nuclear Waste Policy Act imposed on the DOE an unconditional obligation to begin accepting spent nuclear fuel on or before January 31, 1998. In January 2004, PPL Susquehanna filed suit in the U.S. Court of Federal Claims for unspecified damages suffered as a result of the DOE's breach of its contract to accept and dispose of spent nuclear fuel. In May 2011, the parties entered into a settlement agreement which resolved all claims of PPL Susquehanna through December 2013. PPL Susquehanna has received payments for claims through 2011. PPL Susquehanna is eligible to receive payment of annual claims for allowed costs, as set forth in the settlement agreement, that are incurred through December 31, 2013. In exchange, PPL Susquehanna has waived any claims against the United States government for costs paid or injuries sustained related to storing spent nuclear fuel at the Susquehanna plant through December 31, 2013.

### Energy Marketing

PPL EnergyPlus sells the capacity and electricity produced by PPL Generation subsidiaries, along with purchased power, FTRs, natural gas, oil, uranium, emission allowances and RECs in competitive wholesale and competitive retail markets.

Purchases and sales at the wholesale level are made at competitive prices under FERC market-based prices. PPL EnergyPlus is licensed to provide retail electric supply to customers in Delaware, the District of Columbia, Maryland, New Jersey, Montana and Pennsylvania and licensed to provide retail natural gas supply to customers in Delaware, Maryland, New Jersey, New York and Pennsylvania. Within the constraints of its hedging policy, PPL EnergyPlus actively manages its portfolios of energy and energy-related products to optimize their value and to limit exposure to price fluctuations. See "Commodity Volumetric Activity" in Note 19 to the Financial Statements for the strategies PPL Energy Supply employs to optimize the value of its wholesale and retail energy portfolio.

### Competition

Since the early 1990s, there has been increased competition in U.S. energy markets because of federal and state competitive market initiatives. While some states, such as Pennsylvania and Montana, have created a competitive market for electricity generation, other states continue to consider different types of regulatory initiatives concerning competition in the power and gas industry. Some states that were considering creating competitive markets have slowed their plans or postponed further consideration. In addition, states that have created competitive markets have, from time to time, considered new market rules and re-regulation measures that could result in more limited opportunities for competitive energy suppliers. Interest in re-regulation, however, has slowed due to the current environment of declining power prices. As such, the markets in which PPL Energy Supply participates are highly competitive.

PPL Energy Supply faces competition in wholesale markets for available energy, capacity and ancillary services. Competition is impacted by electricity and fuel prices, congestion along the power grid, new market entrants, construction by others of generating assets, technological advances in power generation, the actions of environmental and other regulatory authorities and other factors. PPL Energy Supply primarily competes with other electricity suppliers based on its ability to aggregate generation supply at competitive prices from different sources and to efficiently utilize transportation from third-party pipelines and transmission from electric utilities and ISOs. Competitors in wholesale power markets include regulated utilities, industrial companies, NUGs, competitive subsidiaries of regulated utilities and other energy marketers. See "Item 1A. Risk Factors - Risks Related to Supply Segment" and PPL's and PPL Energy Supply's "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" and Note 15 to the Financial Statements for more information concerning the risks faced with respect to competitive energy markets.

### Franchise and Licenses

See "Energy Marketing" above for a discussion of PPL EnergyPlus' licenses in various states. PPL EnergyPlus also has an export license from the DOE to sell capacity and/or energy to electric utilities in Canada.

PPL Susquehanna operates Units 1 and 2 pursuant to NRC operating licenses that expire in 2042 for Unit 1 and in 2044 for Unit 2.

In 2008, a PPL Energy Supply subsidiary, PPL Bell Bend, LLC, submitted a COLA to the NRC for a new nuclear generating unit (Bell Bend) to be built adjacent to the Susquehanna plant. Also in 2008, the COLA was formally docketed and accepted for review by the NRC. PPL Bell Bend, LLC does not expect to complete the COLA review process with the NRC prior to 2015. See Note 8 to Financial Statements for additional information.

PPL Holtwood operates the Holtwood hydroelectric generating plant pursuant to a FERC-granted license that expires in 2030. In October 2009, the FERC approved the request to expand the Holtwood plant. See Note 8 to the Financial Statements for additional information. PPL Holtwood operates the Wallenpaupack hydroelectric generating plant pursuant to a FERC-granted license that expires in 2044.

PPL's 11 hydroelectric facilities and one storage reservoir in Montana are licensed by the FERC. The Thompson Falls and Kerr licenses expire in 2025 and 2035, the licenses for the nine Missouri-Madison facilities expire in 2040, and the license for the Mystic facility expires in 2050.

In connection with the relicensing of these generating facilities, applicable law permits the FERC to relicense the original licensee or license a new licensee or allow the U.S. government to take over the facility. If the original licensee is not relicensed, it is compensated for its net investment in the facility, not to exceed the fair value of the property taken, plus reasonable damages to other property affected by the lack of relicensing. See Note 15 to the Financial Statements for additional information on the Kerr Dam license.

- **Other Corporate Functions (PPL)**

PPL Services provides corporate functions such as financial, legal, human resources and information technology services. Most of PPL Services' costs are charged directly to the respective PPL subsidiaries for the services provided or are indirectly charged to applicable subsidiaries based on an average of the subsidiaries' relative invested capital, operation and maintenance expenses and number of employees.

PPL Capital Funding, PPL's financing subsidiary, provides financing for the operations of PPL and certain subsidiaries, but PPL Capital Funding's costs are not charged to any Registrant other than PPL. PPL Capital Funding participated significantly in the financing for the acquisitions of LKE and WPD Midlands. The associated financing costs, as well as the financing costs associated with prior issuances of certain other PPL Capital Funding securities, have been and will continue to be assigned to the appropriate segments for purposes of PPL management's assessment of segment performance. PPL's recent growth in rate-regulated businesses provides the organization with an enhanced corporate level financing alternative, through PPL Capital Funding, that further enables PPL to support targeted credit profiles cost effectively across all of PPL's rated companies. As a result, PPL plans to further utilize PPL Capital Funding in addition to continued direct financing by the operating companies, as appropriate. Beginning in 2013, the proceeds and the financing costs associated primarily with PPL Capital Funding's future securities issuances are not expected to be directly assignable or allocable to any segment.

Also, the costs of certain other miscellaneous corporate level activities are not charged to any subsidiaries or allocated or assigned to any segment for purposes of assessing performance by PPL management.

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

### **SEASONALITY**

The demand for and market prices of electricity and natural gas are affected by weather. As a result, the Registrants' operating results in the future may fluctuate substantially on a seasonal basis, especially when more severe weather conditions such as heat waves or extreme winter weather make such fluctuations more pronounced. The pattern of this fluctuation may change depending on the type and location of the facilities owned and the terms of contracts to purchase or sell electricity. See "Financial Condition - Liquidity and Capital Resources - Environmental Matters" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information regarding climate change.

## FINANCIAL CONDITION

See the Registrants' "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for this information.

## CAPITAL EXPENDITURE REQUIREMENTS

See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in the Registrants' "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for information concerning projected capital expenditure requirements for 2013 through 2017. See Note 15 to the Financial Statements for additional information concerning the potential impact on capital expenditures from environmental matters.

## ENVIRONMENTAL MATTERS

The Registrants are subject to certain existing and developing federal, regional, state and local laws and regulations with respect to air and water quality, land use and other environmental matters. The EPA is in the process of proposing and finalizing an unprecedented number of environmental regulations that will directly affect the electricity industry. These initiatives cover air, water and waste. See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in the Registrants' "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for information concerning environmental capital expenditures during 2012 and projected environmental capital expenditures for the years 2013-2017. Also, see "Environmental Matters" in Note 15 to the Financial Statements for additional information. To comply with primarily air-related environmental requirements, PPL's forecast for capital expenditures reflects a best estimate projection of expenditures that may be required within the next five years. Such projections are \$1.1 billion for LG&E, \$1.2 billion for KU and \$246 million for PPL Energy Supply. Actual costs (including capital, allowance purchases and operational modifications) may be significantly lower or higher depending on the final requirements and market conditions. Environmental compliance costs incurred by LG&E and KU are subject to recovery through a rate recovery mechanism. See Note 6 to the Financial Statements for additional information.

The Registrants are unable to predict the ultimate effect of evolving environmental laws and regulations upon their existing and proposed facilities and operations and competitive positions. In complying with statutes, regulations and actions by regulatory bodies involving environmental matters, including, among other things, air and water quality, GHG emissions, hazardous and solid waste management and disposal, and regulation of toxic substances, PPL's and LKE's subsidiaries may be required to modify, replace or cease operating certain of their facilities. PPL's and LKE's subsidiaries may also incur significant capital expenditures and operating expenses in amounts which are not now determinable but could be significant.

## EMPLOYEE RELATIONS

At December 31, 2012, PPL and its subsidiaries had the following full-time employees.

PPL Energy Supply (a)	4,733
PPL Electric	2,311
LKE	
KU	931
LG&E	991
LKS	1,380
Total LKE	3,302
PPL Global (primarily WPD)	6,116
PPL Services and other	1,267
Total PPL	17,729

(a) Includes labor union employees of mechanical contracting subsidiaries, whose numbers tend to fluctuate due to the nature of this business.

Approximately 5,600 employees, or 48%, of PPL's domestic workforce are members of labor unions, with four IBEW labor unions representing approximately 4,300 employees. The bargaining agreement with the largest IBEW labor union, which expires in May 2014, covers approximately 1,500 PPL Electric, 1,600 PPL Energy Supply and 400 other employees. Approximately 700 employees of LG&E and 70 employees of KU are represented by an IBEW labor union. Both LG&E and KU have three-year labor agreements with the IBEW, which expire in November 2014 and August 2015. The KU IBEW agreement includes a wage reopener in 2014. Approximately 70 employees of KU are represented by a United Steelworkers of America (USWA) labor union, under an agreement that expires in August 2014. PPL Montana's largest bargaining unit, an IBEW labor union, represents approximately 260 employees at the Colstrip plant. The four-year labor agreement expires in April 2016. PPL Montana's second largest bargaining unit, also an IBEW labor union, represents approximately 80 employees at hydroelectric facilities and the Corette plant, under an agreement that expires in April 2013.

Approximately 3,900, or 64%, of PPL's U.K. workforce are members of labor unions. WPD recognizes four unions, the largest of which represents 41% of its union workforce. WPD's Electricity Business Agreement, which covers approximately 3,850 union employees, may be amended by agreement between WPD and the unions and is terminable with 12 months' notice by either side.

#### **AVAILABLE INFORMATION**

PPL's Internet website is [www.pplweb.com](http://www.pplweb.com). On the Investor Center page of that website, PPL provides access to all SEC filings of the Registrants (including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(d) or 15(d)) free of charge, as soon as reasonably practicable after filing with the SEC. Additionally, the Registrants' filings are available at the SEC's website ([www.sec.gov](http://www.sec.gov)) and at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549, or by calling 1-800-SEC-0330.

## **ITEM 1A. RISK FACTORS**

The Registrants face various risks associated with their businesses. Our businesses, financial condition, cash flows or results of operations could be materially adversely affected by any of these risks. In addition, this report also contains forward-looking and other statements about our businesses that are subject to numerous risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 15 to the Financial Statements for more information concerning the risks described below and for other risks, uncertainties and factors that could impact our businesses and financial results.

As used in this Item 1A., the terms "we," "our" and "us" generally refer to PPL and its consolidated subsidiaries taken as a whole, or to PPL Energy Supply and its consolidated subsidiaries taken as a whole within the Supply segment discussions, or PPL Electric and its consolidated subsidiaries taken as a whole within the Pennsylvania Regulated segment discussion, or LKE and its consolidated subsidiaries taken as a whole within the Kentucky Regulated segment discussion.

### **Risks Related to All Segments**

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

***We plan to selectively pursue growth of generation, transmission and distribution capacity, which involves a number of uncertainties and may not achieve the desired financial results.***

We plan to pursue expansion of our generation, transmission and distribution capacity over the next several years through power uprates at certain of our existing power plants, the potential construction of new power plants, the potential acquisition of existing plants, the potential construction or acquisition of transmission and distribution projects and capital investments to upgrade transmission and distribution infrastructure. We will rigorously scrutinize opportunities to expand our generating capability and may determine not to proceed with any expansion. These types of projects involve numerous risks. Any planned power uprates could result in cost overruns, reduced plant efficiency and higher operating and other costs. With respect to the construction of new plants, the acquisition of existing plants, or the construction or acquisition of transmission and distribution projects, we may be required to expend significant sums for preliminary engineering, permitting, resource exploration, legal and other expenses before it can be established whether a project is feasible, economically attractive or capable of being financed. Expansion in our regulated businesses is dependent on future load or service requirements and subject to applicable regulatory processes. The success of both a new or acquired project would likely be contingent, among other things, upon the negotiation of satisfactory operating contracts, obtaining acceptable financing and maintaining acceptable credit ratings, as well as receipt of required and appropriate governmental approvals. If we were unable to complete construction or expansion of a project, we may not be able to recover our investment in the project. Furthermore, we might be unable to operate any new or acquired plants as efficiently as projected, which could result in higher than projected operating and other costs and reduced earnings.

***Adverse conditions in the economic and financial markets in which we operate could adversely affect our financial condition and results of operations.***

Adverse conditions in the financial markets during 2008 and the associated contraction of liquidity in the wholesale energy markets contributed significantly to declines in wholesale energy prices, and has significantly impacted our earnings since the second half of 2008. The breadth and depth of these negative economic conditions had a wide-ranging impact on the U.S. and U.K. business environment, including our businesses. As a result of the economic downturn, demand for energy commodities declined significantly. This reduced demand continues to impact the key domestic wholesale energy markets we serve (such as PJM) and our Pennsylvania and Kentucky utility businesses. The combination of lower demand for power and increased supply of natural gas has put downward price pressure on wholesale energy markets in general, further impacting our energy marketing results. In general, current economic and commodity market conditions will continue to challenge predictability regarding our unhedged future energy margins, liquidity and overall financial condition.

Our businesses are heavily dependent on credit and capital, among other things, for capital expenditures and providing collateral to support hedging in our energy marketing business. Global bank credit capacity declined and the cost of renewing or establishing new credit facilities increased significantly in 2008, primarily as a result of general credit concerns nationwide, introducing uncertainties as to our businesses' ability to enter into long-term energy commitments or reliably estimate the longer-term cost and availability of credit. Although bank credit conditions have improved since mid-2009, and we currently expect to have adequate access to needed credit and capital based on current conditions, deterioration in the financial markets could adversely affect our financial condition and liquidity. Additionally, regulations to be adopted to implement the Dodd-Frank Act and Basel III in Europe may impose requirements on our businesses and the businesses of others with whom we contract such as banks or other counterparties, or simply result in increased costs to conduct our business or access sources of capital and liquidity upon which the conduct of our businesses is dependent.



***Our operating revenues could fluctuate on a seasonal basis, especially as a result of extreme weather conditions.***

Our businesses are subject to seasonal demand cycles. For example, in some markets demand for, and market prices of, electricity peak during hot summer months, while in other markets such peaks occur in cold winter months. As a result, our overall operating results in the future may fluctuate substantially on a seasonal basis if weather conditions such as heat waves, extreme cold, unseasonably mild weather or severe storms occur. The patterns of these fluctuations may change depending on the type and location of our facilities and the terms of our contracts to sell electricity.

***Operating expenses could be affected by weather conditions, including storms, as well as by significant man-made or accidental disturbances, including terrorism or natural disasters.***

Weather and these other factors can significantly affect our profitability or operations by causing outages, damaging infrastructure and requiring significant repair costs. Storm outages and damage often either or both directly decrease revenues and increase expenses, due to reduced usage and higher restoration charges. In addition, weather and other disturbances may affect capital markets and general economic conditions and impact future growth.

***Our businesses 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 levels, and thus may impact consumer demand for electric power. Temperature increases could result in increased summer or decreased winter overall electricity consumption and precipitation changes could result in altered availability of water for hydro generation or plant cooling operations. These or other meteorological changes could lead to increased operating costs, capital expenses or power purchase costs. Greenhouse gas regulation could increase the cost of electric power, particularly power generated by fossil fuels, and such increases could have a depressive effect on regional economies. Reduced economic and consumer activity in our service areas -- both generally and specific to certain industries and consumers accustomed to previously lower cost power -- could reduce demand for the power we generate, market and deliver. Also, demand for our energy-related services could be similarly lowered should consumers' preferences or market factors move toward favoring energy efficiency, low-carbon power sources or reduced electric usage.

***We cannot predict the outcome of the legal proceedings and investigations currently being conducted with respect to our current and past business activities. An adverse determination could have a material adverse effect on our financial condition, results of operations or cash flows.***

We are involved in legal proceedings, claims and litigation and subject to ongoing state and federal investigations arising out of our business operations, the most significant of which are summarized in "Legal Matters," "Regulatory Issues" and "Environmental Matters - Domestic" in Note 15 to the Financial Statements. We cannot predict the ultimate outcome of these matters, nor can we reasonably estimate the costs or liabilities that could potentially result from a negative outcome in each case.

***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 to fund our significant capital expenditures, debt service 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 opportunities necessary or advisable to respond to credit market changes. Changes in these conditions could result in increased costs and decreased liquidity to our regulated utility businesses.

***A downgrade in our credit ratings could negatively affect our ability to access capital and increase the cost of maintaining our credit facilities and any new debt.***

Credit ratings assigned by Moody's, Fitch and S&P to our businesses and their financial obligations have a significant impact on the cost of capital incurred by our businesses. Although we do not expect these ratings to limit our ability to fund short-term liquidity needs or access new long-term debt, any ratings downgrade could increase our short-term borrowing costs and negatively affect our ability to fund short-term liquidity needs and access new long-term debt. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources - Ratings Triggers" for additional information on the impact of a downgrade in our credit rating.

***Significant increases in our operation and maintenance expenses, including health care and pension costs, could adversely affect our future earnings and liquidity.***

We continually focus on limiting and reducing where possible our operation and maintenance expenses. However, we expect to continue to face increased cost pressures in our operations. Increased costs of materials and labor may result from general inflation, increased regulatory requirements (especially in respect of environmental regulations), the need for higher-cost expertise in the workforce or other factors. In addition, pursuant to collective bargaining agreements, we are contractually committed to provide specified levels of health care and pension benefits to certain current employees and retirees. We provide a similar level of benefits to our management employees. These benefits give rise to significant expenses. Due to general inflation with respect to such costs, the aging demographics of our workforce and other factors, we have experienced significant health care cost inflation in recent years, and we expect our health care costs, including prescription drug coverage, to continue to increase despite measures that we have taken and expect to take to require employees and retirees to bear a higher portion of the costs of their health care benefits. In addition, we expect to continue to incur significant costs with respect to the defined benefit pension plans for our employees and retirees. The measurement of our expected future health care and pension obligations, costs and liabilities is highly dependent on a variety of assumptions, most of which relate to factors beyond our control. These assumptions include investment returns, interest rates, health care cost trends, inflation rates, benefit improvements, salary increases and the demographics of plan participants. If our assumptions prove to be inaccurate, our future costs and cash contribution requirements to fund these benefits could increase significantly.

***We may be required to record impairment charges in the future for certain of our investments, which could adversely affect our earnings.***

Under GAAP, we are required to test our recorded goodwill for impairment on an annual basis, or more frequently if events or circumstances indicate that these assets may be impaired. Although no goodwill impairments were recorded based on our annual review in the fourth quarter of 2012, we are unable to predict whether future impairment charges may be necessary.

We also review our long-lived assets, including equity investments, for impairment when events or circumstances indicate that the carrying value of these assets may not be recoverable. See Notes 1, 9 and 18 to the Financial Statements for additional information on impairment charges taken during the reporting periods. We are unable to predict whether impairment charges, or other losses on sales of other assets or businesses, may occur in future years.

***We may incur liabilities in connection with discontinued operations.***

In connection with various divestitures, we have indemnified or guaranteed parties against certain liabilities and with respect to certain transactions. These indemnities and guarantees relate, among other things, to liabilities which may arise with respect to the period during which we or our subsidiaries operated the divested business, and to certain ongoing contractual relationships and entitlements with respect to which we or our subsidiaries made commitments in connection with the divestiture.

***We are subject to liability risks relating to our generation, transmission and distribution 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 liability, caused to or by employees, customers, contractors, vendors, contractual or financial counterparties and other third parties.

***Our facilities may not operate as planned, which may increase our expenses and decrease our revenues and have an adverse effect on our financial performance.***

Operation of power plants, transmission and distribution facilities, information technology systems and other assets and activities subjects us to a variety of 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. These events may impact our ability to conduct our businesses efficiently and lead to increased costs, expenses or losses. Operation of our delivery systems below our expectations may result in lost revenue and increased expense, including higher maintenance costs which may not be recoverable from customers. Planned and unplanned outages at our power plants may require us to purchase power at then-current market prices to satisfy our commitments or, in the alternative, pay penalties and damages for failure to satisfy them.

Although we maintain customary insurance coverage for certain of these risks, no assurance can be given that such insurance coverage will be sufficient to compensate us fully in the event losses occur.

***The operation of our businesses is subject to cyber-based security and integrity risk.***

Numerous functions affecting the efficient operation of our businesses are dependent on the secure and reliable storage, processing and communication of electronic data and the use of sophisticated computer hardware and software systems. The operation of our generation plants, including the Susquehanna nuclear plant, and of our energy and fuel trading businesses, as well as our transmission and distribution operations are all reliant on cyber-based technologies and, therefore, subject to the risk that such systems could be the target of disruptive actions, principally by terrorists or vandals, or otherwise be compromised by unintentional events. As a result, operations could be interrupted, property could be damaged and customer information lost or stolen, causing us to incur significant losses of revenues, other substantial liabilities and damages and costs to replace or repair damaged equipment.

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

Changes in tax law 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, employment-related and other taxes. We also estimate our ability to utilize tax benefits and tax credits. Due to the revenue needs of the jurisdictions in which our businesses operate, various tax and fee increases may be proposed or considered. We cannot predict whether such tax legislation or regulation will be introduced or enacted or the effect of any such changes on our businesses. If enacted, any changes could increase tax expense and could have a significant negative impact on our results of operations and cash flows.

***We are subject to the risk that our workforce and its knowledge base may become depleted in coming years.***

PPL is experiencing an increase in attrition due primarily to the number of retiring employees. Over the period from 2014 through 2018, 23.5% of PPL's total workforce is projected to leave the company, with the risk that critical knowledge will be lost and that it may be difficult to replace departed personnel due to a declining trend in the number of available skilled workers and an increase in competition for such workers.

*(PPL, PPL Energy Supply and LKE)*

**Risk Related to Registrant Holding Companies**

***PPL's, PPL Energy Supply's and LKE's cash flows and ability to meet their obligations with respect to indebtedness and under guarantees, and PPL's ability to pay dividends, largely depends on the financial performance of their subsidiaries and, as a result, is effectively subordinated to all existing and future liabilities of those subsidiaries.***

PPL, PPL Energy Supply and LKE are holding companies and conduct their operations primarily through subsidiaries. Substantially all of the consolidated assets of these Registrants are held by such subsidiaries. Accordingly, their cash flows and ability to meet their debt and guaranty obligations, as well as PPL's ability to pay dividends, are largely dependent upon the earnings of those subsidiaries and the distribution or other payment of such earnings in the form of dividends, distributions, loans or advances or repayment of loans and advances. The subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts due from their parents or to make any funds available for such a payment. The ability of the subsidiaries of the Registrants to pay dividends or distributions to such Registrants in the future will depend on the subsidiaries' future earnings and cash flows and the needs of their businesses, and may be restricted by their obligations to holders of their outstanding debt and other creditors, as well as any contractual or legal restrictions in effect at such time, including the requirements of state corporate law applicable to payment of dividends and distributions, and regulatory requirements, including restrictions on the ability of PPL Electric, LG&E and KU to pay dividends under Section 305(a) of the Federal Power Act.

Because PPL, PPL Energy Supply and LKE are holding companies, their debt and guaranty obligations are effectively subordinated to all existing and future liabilities of their subsidiaries. Therefore, PPL's, PPL Energy Supply's and LKE's rights and the rights of their creditors, including rights of any debt holders, to participate in the assets of any of their subsidiaries, in the event that such a subsidiary is liquidated or reorganized, will be subject to the prior claims of such subsidiary's creditors. Although certain agreements to which certain subsidiaries are parties limit their ability to incur additional indebtedness, PPL, PPL Energy Supply and LKE and their subsidiaries retain the ability to incur substantial additional indebtedness and other liabilities. In addition, if PPL elects to receive distributions of earnings from its foreign operations, PPL may incur U.S. income taxes, net of any available foreign tax credits, on such amounts.

(PPL, PPL Electric, LKE, LG&E and KU)

### **Risks Related to Domestic Regulated Utility Operations**

Our domestic regulated utility businesses face many of the same risks, in addition to those risks that are unique to the Kentucky Regulated segment and the Pennsylvania Regulated segment. Set forth below are risk factors common to both domestic regulated segments, followed by sections identifying separately the risks specific to each of these segments.

***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. Regulators may not approve the rates we request.***

We currently provide services to our utility customers at rates approved by one or more federal or state regulatory commissions, including those commissions referred to below. While such regulation is generally premised on the recovery of prudently incurred costs and a reasonable rate of return on invested capital, the rates that we may charge our regulated generation, transmission and distribution customers are subject to authorization of the applicable regulatory authorities. There can be no assurance that such regulatory authorities will consider all of our costs to have been prudently incurred or that the regulatory process by which rates are determined will always result in rates that achieve full recovery of our costs or an adequate return on our capital investments. While our rates are generally regulated based on an analysis of our costs incurred in a base year or based on future projected costs, the rates we are allowed to charge may or may not match our costs at any given time. Our regulated utility businesses are subject to substantial capital expenditure requirements over the next several years, which will likely require rate increase requests to the regulators. If our costs are not adequately recovered through rates, it could have an adverse effect on our business, results of operations, cash flows and financial condition.

***Our domestic utility businesses are subject to significant and complex governmental regulation.***

Various federal and state entities, including but not limited to the FERC, KPSC, VSCC, TRA and PUC regulate many aspects of the domestic utility operations of PPL, including:

- the rates that we may charge and the terms and conditions of our service and operations;
- financial and capital structure matters;
- siting, construction and operation 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.

***We could be subject to higher costs and/or penalties related to mandatory reliability standards.***

Under the Energy Policy Act of 2005, owners and operators of the bulk power electricity system are now subject to mandatory reliability standards promulgated by the NERC and enforced by the FERC. Compliance with reliability standards may subject us to higher operating costs and/or increased capital expenditures, and violations of these standards could result in substantial penalties which may not be recoverable from customers.

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

Wholesale revenues 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 predictable 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 PPL participates.

***Our domestic regulated businesses 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.***

The domestic regulated utility businesses are capital intensive and require significant investments in energy generation (in the case of LG&E and KU) and transmission, distribution and other infrastructure projects, such as projects for environmental compliance and system reliability. The completion of these projects without delays or cost overruns is subject to risks in many areas, including:

- 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 if such expenditures are not granted rate recovery by our regulators.

### **Risks Specific to Kentucky Regulated Segment**

*(PPL, LKE, LG&E and KU)*

***The costs of compliance with, and liabilities under, environmental laws are significant and are subject to continuing changes.***

Extensive federal, state and local environmental laws and regulations are applicable to LG&E's and KU's generation business, including its air emissions, water discharges and the management of hazardous and solid waste, among other business-related activities; and the costs of compliance or alleged non-compliance cannot be predicted but could be material. In addition, our costs may increase significantly if the requirements or scope of environmental laws, regulations or similar rules are expanded or changed. Costs may take the form of increased capital expenditures 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 and industrial power users, and may impact the costs of their products and demand for our services.

***Ongoing changes in environmental regulations or their implementation requirements and our compliance strategies relating thereto entail a number of uncertainties.***

The environmental standards governing LG&E's and KU's businesses, particularly as applicable to coal-fired generation and related activities, continue to be subject to uncertainties due to ongoing rulemakings and other regulatory developments, legislative activities and litigation. The uncertainties associated with these developments introduce risks to our management of operations and regulatory compliance. Environmental developments, including revisions to applicable standards, changes in compliance deadlines and invalidation of rules on appeal may require major changes in compliance strategies, operations or assets and adjustments to prior plans. Depending on the extent, frequency and timing of such changes, the companies may be subject to inconsistent requirements under multiple regulatory programs, compressed windows for decision-making and short compliance deadlines that may require aggressive schedules for construction, permitting, and other regulatory approvals. Under such circumstances, the companies may face higher risks of unsuccessful implementation of environmental-related business plans, noncompliance with applicable environmental rules, or increased costs of implementation.

### **Risks Specific to Pennsylvania Regulated Segment**

*(PPL and PPL Electric)*

***We may be subject to higher transmission costs and other risks as a result of PJM's regional transmission expansion plan (RTEP) process.***

PJM and the FERC have the authority to require upgrades or expansion of the regional transmission grid, which can result in substantial expenditures for transmission owners. As discussed in Note 8 to the Financial Statements, we expect to make substantial expenditures to construct the Susquehanna-Roseland transmission line that PJM has determined is necessary for the reliability of the regional transmission grid. Although the FERC has granted our request for incentive rate treatment of such facilities, we cannot be certain that all costs that we may incur will be recoverable. In addition, the date when these facilities will be in service, which can be significantly impacted by delays related to public opposition or other factors, is subject to the outcome of future events that are not all within our control. As a result, we cannot predict the ultimate financial or operational impact of this project or other RTEP projects on PPL Electric.

***We could be subject to higher costs and/or penalties related to Pennsylvania Conservation and Energy Efficiency Programs.***

PPL Electric is subject to Act 129 which contains requirements for energy efficiency and conservation programs and for the use of smart metering technology, imposes new PLR electricity supply procurement rules, provides remedies for market misconduct, and made changes to the existing AEPS. The law also requires electric utilities to meet specified goals for reduction in customer electricity usage and peak demand by specified dates (2011 and 2013 for Phase 1 and by 2016 for Phase 2). Utilities not meeting these requirements of Act 129 are subject to significant penalties that cannot be recovered in rates. Numerous factors outside of our control could prevent compliance with these requirements and result in penalties to us.

(PPL)

**Risks Related to U.K. Regulated Segment**

***Our U.K. delivery business is subject to risks with respect to rate regulation and operational performance.***

Our U.K. delivery business is rate-regulated and operates under an incentive-based regulatory framework. In addition, its ability to manage operational risk is critical to its financial performance. Disruption to the distribution network could reduce profitability both directly through the higher costs for network restoration and also through the system of penalties and rewards that Ofgem has in place relating to customer service levels.

In December 2009, Ofgem completed its rate review for the five-year period from April 1, 2010 through March 31, 2015, reducing regulatory rate uncertainty in the U.K. Regulated segment until the next rate review which will be effective April 1, 2015. The regulated income of the U.K. Regulated segment and also the RAV are to some extent linked to movements in the Retail Price Index (RPI), a measure of inflation. Reductions in the RPI would adversely impact revenues and the debt-to-RAV ratio.

***Our U.K. distribution business exposes us to risks related to U.K. laws and regulations, taxes, economic conditions, foreign currency exchange rate fluctuations, and political conditions and policies of the U.K. government. These risks may reduce the results of operations from our U.K. distribution business:***

- changes in laws or regulations relating to U.K. operations, including tax laws and regulations;
- changes in government policies, personnel or approval requirements;
- changes in general economic conditions affecting the U.K.;
- regulatory reviews of tariffs for distribution companies;
- severe weather and natural disaster impacts on the electric sector and our assets;
- changes in labor relations;
- limitations on foreign investment or ownership of projects and returns or distributions to foreign investors;
- limitations on the ability of foreign companies to borrow money from foreign lenders and lack of local capital or loans;
- fluctuations in foreign currency exchange rates and in converting U.K. revenues to U.S. dollars, which can increase our expenses and/or impair our ability to meet such expenses, and difficulty moving funds out of the country in which the funds were earned; and
- compliance with U.S. foreign corrupt practices laws.

***The WPD Midlands acquisition may not achieve its intended results, including anticipated cost savings, efficiencies and other benefits.***

Although we completed the WPD Midlands acquisition with the expectation that it will result in various benefits, including a significant amount of cost savings and other financial and operational benefits, there can be no assurance regarding the extent to which we will be able to realize these cost-savings or other benefits. Achieving the anticipated benefits, including cost savings, is subject to a number of uncertainties, including whether the businesses acquired can be operated in the manner we intend. Events outside of our control, including but not limited to regulatory changes or developments in the U.K., could also adversely affect our ability to realize the anticipated benefits from the WPD Midlands acquisition.

***The WPD Midlands acquisition exposes us to additional risks and uncertainties with respect to the acquired businesses and their operations.***

Although the WPD Midlands acquisition increased our relative investment in regulated operations, which we believe should help mitigate our exposure to downturns in the wholesale power markets, it will increase our dependence on rate-of-return regulation.

The WPD businesses generally are subject to risks similar to those to which we were subject in our pre-acquisition U.K. businesses. These include:

- There are various changes being contemplated by Ofgem to the current electricity distribution, gas transmission and gas distribution regulatory frameworks in the U.K. and there can be no assurance as to the effects such changes will have on our U.K. regulated businesses in the future, including the acquired businesses. In particular, in October 2010, Ofgem announced a new regulatory framework that is expected to become effective in April 2015 for the electricity distribution sector in the U.K. The framework, known as RIIO (Revenues = Incentives + Innovation + Outputs), focuses on sustainability, environmental-focused output measures, promotion of low carbon energy networks and financing of new investments. The new regulatory framework is expected to have a wide-ranging effect on electricity distribution companies operating in the U.K., including changes to price controls and price review periods. Our U.K. regulated businesses' compliance with this new regulatory framework may result in significant additional capital expenditures, increases in operating and compliance costs and adjustments to our pricing models.
- Ofgem has formal powers to propose modifications to each distribution license. We are not currently aware of any planned modification to any of our U.K. regulated businesses distribution licenses that would result in a material adverse change to the U.K. regulated businesses and PPL. There can, however, be no assurance that a restrictive modification will not be introduced in the future, which could have an adverse effect on the operations and financial condition of the U.K. regulated businesses and PPL.
- A failure to operate our U.K. networks properly could lead to compensation payments or penalties, or a failure to make capital expenditures in line with agreed investment programs could lead to deterioration of the network. While our U.K. regulated businesses' investment programs are targeted to maintain asset conditions over a five-year period and reduce customer interruptions and customer minutes lost over that period, no assurance can be provided that these regulatory requirements will be met.
- A failure by any of our U.K. regulated businesses to comply with the terms of a distribution license may lead to the issuance of an enforcement order by Ofgem that could have an adverse impact on PPL. Ofgem has powers to levy fines of up to 10 percent of revenue for any breach of a distribution license or, in certain circumstances, such as insolvency, the distribution license itself may be revoked. Unless terminated in the circumstances mentioned above, a distribution license continues indefinitely until revoked by Ofgem following no less than 25 years' written notice.
- We will be subject to increased foreign currency exchange rate risks because a greater portion of our cash flows and reported earnings will be generated by our U.K. business operations. These risks relate primarily to changes in the relative value of the British pound sterling and the U.S. dollar between the time we initially invest U.S. dollars in our U.K. businesses and the time that cash is repatriated to the U.S. from the U.K., including cash flows from our U.K. businesses that may be distributed as future dividends to our shareholders or repayments of intercompany loans. In addition, our consolidated reported earnings on a U.S. GAAP basis may be subject to increased earnings translation risk, which is the result of the conversion of earnings as reported in our U.K. businesses on a British pound sterling basis to a U.S. dollar basis in accordance with U.S. GAAP requirements.
- Environmental costs and liabilities associated with aspects of the acquired businesses may differ from those of our existing business.

## Risks Related to Supply Segment

*(PPL and PPL Energy Supply)*

***We face intense competition in our energy supply business, which may adversely affect our ability to operate profitably.***

Unlike our regulated utility businesses, our energy supply business is dependent on our ability to operate in a competitive environment and is not assured of any rate of return on capital investments through a predetermined rate structure. Competition is impacted by electricity and fuel prices, new market entrants, construction by others of generating assets and transmission capacity, technological advances in power generation, the actions of environmental and other regulatory authorities and other factors. These competitive factors may negatively impact our ability to sell electricity and related products and services, as well as the prices that we may charge for such products and services, which could adversely affect our results of operations and our ability to grow our business.

We sell our available energy and capacity into the competitive wholesale markets through contracts of varying duration. Competition in the wholesale power markets occurs principally on the basis of the price of products and, to a lesser extent, on the basis of reliability and availability. We believe that the commencement of commercial operation of new electricity generating facilities in the regional markets where we own or control generation capacity and the evolution of demand side management resources will continue to increase competition in the wholesale electricity market in those regions, which could have an adverse effect on capacity prices and the prices we receive for electricity.

We also face competition in the wholesale markets for electricity capacity and ancillary services. We primarily compete with other electricity suppliers based on our ability to aggregate supplies at competitive prices from different sources and to efficiently utilize transportation from third-party pipelines and transmission from electric utilities and ISOs. We also compete against other energy marketers on the basis of relative financial condition and access to credit sources, and our competitors may have greater financial resources than we have.

Competitors in the wholesale power markets in which PPL Generation subsidiaries and PPL EnergyPlus operate include regulated utilities, industrial companies, non-utility generators, competitive subsidiaries of regulated utilities and financial institutions.

***Adverse changes in commodity prices and related costs may decrease our future energy margins, which could adversely affect our earnings and cash flows.***

Our energy margins, or the amount by which our revenues from the sale of power exceed our costs to supply power, are impacted by changes in market prices for electricity, fuel, fuel transportation, emission allowances, RECs, electricity transmission and related congestion charges and other costs. Unlike most commodities, the limited ability to store electric power requires that it must be consumed at the time of production. As a result, wholesale market prices for electricity may fluctuate substantially over relatively short periods of time and can be unpredictable. Among the factors that influence such prices are:

- demand for electricity;
- supply and demand for electricity available from current or new generation resources;
- variable production costs, primarily fuel (and the associated fuel transportation costs) and emission allowance expense for the generation resources used to meet the demand for electricity;
- transmission capacity and service into, or out of, markets served;
- changes in the regulatory framework for wholesale power markets;
- liquidity in the wholesale electricity market, as well as general creditworthiness of key participants in the market; and
- weather and economic conditions impacting demand for or the price of electricity or the facilities necessary to deliver electricity.

***We do not always hedge against risks associated with electricity and fuel price volatility.***

We attempt to mitigate risks associated with satisfying our contractual electricity sales obligations by either reserving generation capacity to deliver electricity or purchasing the necessary financial or physical products and services through competitive markets to satisfy our net firm sales contracts. We also routinely enter into contracts, such as fuel and electricity purchase and sale commitments, to hedge our exposure to fuel requirements and other electricity-related commodities. However, based on economic and other considerations, we may decide not to hedge the entire exposure of our operations from commodity price risk. To the extent we do not hedge against commodity price risk, our results of operations and financial position may be adversely affected.



***We are exposed to operational, price and credit risks associated with selling and marketing products in the wholesale and retail electricity markets.***

We purchase and sell electricity in wholesale markets under market-based tariffs authorized by FERC throughout the U.S. and also enter into short-term agreements to market available electricity and capacity from our generation assets with the expectation of profiting from market price fluctuations. If we are unable to deliver firm capacity and electricity under these agreements, we could be required to pay damages. These damages would generally be based on the difference between the market price to acquire replacement capacity or electricity and the contract price of any undelivered capacity or electricity. Depending on price volatility in the wholesale electricity markets, such damages could be significant. Extreme weather conditions, unplanned generation facility outages, environmental compliance costs, transmission disruptions, and other factors could affect our ability to meet our obligations, or cause significant increases in the market price of replacement capacity and electricity.

Our wholesale power agreements typically include provisions requiring us to post collateral for the benefit of our counterparties if the market price of energy varies from the contract prices in excess of certain pre-determined amounts. We currently believe that we have sufficient credit to fulfill our potential collateral obligations under these power contracts. However, our obligation to post collateral could exceed the amount of our facilities or our ability to increase our facilities could be limited by financial markets or other factors. See Note 7 to the Financial Statements for a discussion of PPL's credit facilities.

We also face credit risk that parties with whom we contract in both the wholesale and retail markets will default in their performance, in which case we may have to sell our electricity into a lower-priced market or make purchases in a higher-priced market than existed at the time of contract. Whenever feasible, we attempt to mitigate these risks using various means, including agreements that require our counterparties to post collateral for our benefit if the market price of energy varies from the contract price in excess of certain pre-determined amounts. However, there can be no assurance that we will avoid counterparty nonperformance risk, including bankruptcy, which could adversely impact our ability to meet our obligations to other parties, which could in turn subject us to claims for damages.

***The load following contracts that PPL EnergyPlus is awarded do not provide for specific levels of load and actual load significantly below or above our forecasts could adversely affect our energy margins.***

We generally hedge our load following obligations with energy purchases from third parties, and to a lesser extent with our own generation. If the actual load is significantly lower than the expected load, we may be required to resell power at a lower price than was contracted for to supply the load obligation, resulting in a financial loss. Alternatively, a significant increase in load could adversely affect our energy margins because we are required under the terms of the load following contracts to provide the energy necessary to fulfill increased demand at the contract price, which could be lower than the cost to procure additional energy on the open market. Therefore, any significant decrease or increase in load compared with our forecasts could have a material adverse effect on our results of operations and financial position.

***We may experience disruptions in our fuel supply, which could adversely affect our ability to operate our generation facilities.***

We purchase fuel from a number of suppliers. Disruption in the delivery of fuel and other products consumed during the production of electricity (such as coal, natural gas, oil, water, uranium, lime, limestone and other chemicals), including disruptions as a result of weather, transportation difficulties, global demand and supply dynamics, labor relations, environmental regulations or the financial viability of our fuel suppliers, could adversely affect our ability to operate our facilities, which could result in lower sales and/or higher costs and thereby adversely affect our results of operations.

***Unforeseen changes in the price of coal and natural gas could cause us to incur excess coal inventories and contract termination costs.***

Extraordinarily low natural gas prices during 2012 caused natural gas to be the more cost competitive fuel compared to coal for generating electricity. Because we enter into guaranteed supply contracts to provide for the amount of coal needed to operate our base load coal-fired generating facilities, we may experience periods where we hold excess amounts of coal if fuel pricing results in our reducing or idling coal-fired generating facilities in favor of operating available alternative natural gas-fired generating facilities. In addition, we may incur costs to terminate supply contracts for coal in excess of our generating requirements.

***Our risk management policy and programs relating to electricity and fuel prices, interest rates and counterparty credit and non-performance risks may not work as planned, and we may suffer economic losses despite such programs.***

We actively manage the market risk inherent in our generation and energy marketing activities, as well as our debt and counterparty credit positions. We have implemented procedures to monitor compliance with our risk management policy and programs, including independent validation of transaction and market prices, verification of risk and transaction limits, portfolio stress tests, sensitivity analyses and daily portfolio reporting of various risk management metrics. Nonetheless, our risk management programs may not work as planned. For example, actual electricity and fuel prices may be significantly different or more volatile than the historical trends and assumptions upon which we based our risk management calculations. Additionally, unforeseen market disruptions could decrease market depth and liquidity, negatively impacting our ability to enter into new transactions. We enter into financial contracts to hedge commodity basis risk, and as a result are exposed to the risk that the correlation between delivery points could change with actual physical delivery. Similarly, interest rates or foreign currency exchange rates could change in significant ways that our risk management procedures were not designed to address. As a result, we cannot always predict the impact that our risk management decisions may have on us if actual events result in greater losses or costs than our risk models predict or greater volatility in our earnings and financial position.

In addition, our trading, marketing and hedging activities are exposed to counterparty credit risk and market liquidity risk. We have adopted a credit risk management policy and program to evaluate counterparty credit risk. However, if counterparties fail to perform, we may be forced to enter into alternative arrangements at then-current market prices. In that event, our financial results are likely to be adversely affected.

***Our costs to comply with existing and new environmental laws are expected to continue to be significant, and we plan to incur significant capital expenditures for pollution control improvements that, if delayed, would adversely affect our profitability and liquidity.***

Our business is subject to extensive federal, state and local statutes, rules and regulations relating to environmental protection. To comply with existing and future environmental requirements and as a result of voluntary pollution control measures we may take, we have spent and expect to spend substantial amounts in the future on environmental control and compliance.

In order to comply with existing and previously proposed federal and state environmental laws and regulations primarily governing air emissions from coal-fired plants, since 2005 PPL has spent more than \$1.6 billion to install scrubbers and other pollution control equipment (primarily aimed at sulfur dioxide, particulate matter and nitrogen oxides with co-benefits for mercury emissions reduction) in its competitive generation fleet. Many states and environmental groups have challenged certain federal laws and regulations relating to air emissions as not being sufficiently strict. As a result, state and federal regulations have been adopted that would impose more stringent restrictions than are currently in effect, which could require us significantly to increase capital expenditures for additional pollution control equipment.

We may not be able to obtain or maintain all environmental regulatory approvals necessary for our planned capital projects which are necessary to our business. If there is a delay in obtaining any required environmental regulatory approval or if we fail to obtain, maintain or comply with any such approval, operations at our affected facilities could be halted, reduced or subjected to additional costs. Furthermore, at some of our older generating facilities it may be uneconomic for us to install necessary pollution control equipment, which could cause us to retire those units.

For more information regarding environmental matters, including existing and proposed federal, state and local statutes, rules and regulations to which we are subject, see "Environmental Matters - Domestic" in Note 15 to the Financial Statements.

***We rely on transmission and distribution assets that we do not own or control to deliver our wholesale electricity. If transmission is disrupted, or not operated efficiently, or if capacity is inadequate, our ability to sell and deliver power may be hindered.***

We depend on transmission and distribution facilities owned and operated by utilities and other energy companies to deliver the electricity and natural gas we sell in the wholesale market, as well as the natural gas we purchase for use in our electricity generation facilities. If transmission is disrupted (as a result of weather, natural disasters or other reasons) or not operated efficiently by ISOs and RTOs, in applicable markets, or if capacity is inadequate, our ability to sell and deliver products and satisfy our contractual obligations may be hindered, or we may be unable to sell products at the most favorable terms.

The FERC has issued regulations that require wholesale electric transmission services to be offered on an open-access, non-discriminatory basis. Although these regulations are designed to encourage competition in wholesale market transactions for electricity, there is the potential that fair and equal access to transmission systems will not be available or that transmission capacity will not be available in the amounts we require. We cannot predict the timing of industry changes as a result of these initiatives or the adequacy of transmission facilities in specific markets or whether ISOs and RTOs in applicable markets will efficiently operate transmission networks and provide related services.

***Despite federal and state deregulation initiatives, our supply business is still subject to extensive regulation, which may increase our costs, reduce our revenues, or prevent or delay operation of our facilities.***

Our generation subsidiaries sell electricity into the wholesale market. Generally, our generation subsidiaries and our marketing subsidiaries are subject to regulation by the FERC. The FERC has authorized us to sell generation from our facilities and power from our marketing subsidiaries at market-based prices. The FERC retains the authority to modify or withdraw our market-based rate authority and to impose "cost of service" rates if it determines that the market is not competitive, that we possess market power or that we are not charging just and reasonable rates. Any reduction by the FERC in the rates we may receive or any unfavorable regulation of our business by state regulators could materially adversely affect our results of operations. See "FERC Market-Based Rate Authority" in Note 15 to the Financial Statements for information regarding recent court decisions that could impact the FERC's market-based rate authority program.

In addition, the acquisition, construction, ownership and operation of electricity generation facilities require numerous permits, approvals, licenses and certificates from federal, state and local governmental agencies. We may not be able to obtain or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory approvals or if we fail to obtain or maintain any required approval or fail to comply with any applicable law or regulation, the operation of our assets and our sales of electricity could be prevented or delayed or become subject to additional costs.

***If market deregulation is reversed or discontinued, our business prospects and financial condition could be materially adversely affected.***

In some markets, state legislators, government agencies and other interested parties have made proposals to change the use of market-based pricing, re-regulate areas of these markets that have previously been competitive or permit electricity delivery companies to construct, contract for, or acquire generating facilities. The ISOs that oversee the transmission systems in certain wholesale electricity markets have from time to time been authorized to impose price limitations and other mechanisms to address extremely high prices in the power markets. These types of price limitations and other mechanisms may reduce profits that our wholesale power marketing and trading business would have realized under competitive market conditions absent such limitations and mechanisms. Although we generally expect electricity markets to continue to be competitive, other proposals to re-regulate our industry may be made, and legislative or other actions affecting the electric power restructuring process may cause the process to be delayed, discontinued or reversed in states in which we currently, or may in the future, operate. See "New Jersey Capacity Legislation" and "Maryland Capacity Order" in Note 15 to the Financial Statements.

***Changes in technology may negatively impact the value of our power plants.***

A basic premise of our generation business is that generating electricity at central power plants achieves economies of scale and produces electricity at relatively low prices. There are alternate technologies to produce electricity, most notably fuel cells, micro turbines, windmills and photovoltaic (solar) cells, the development of which has been expanded due to global climate change concerns. Research and development activities are ongoing to seek improvements in alternate technologies. It is possible that advances will reduce the cost of alternate methods of electricity production to a level that is equal to or below that of certain central station production. Also, as new technologies are developed and become available, the quantity and pattern of electricity usage (the "demand") by customers could decline, with a corresponding decline in revenues derived by generators. These alternate energy sources could result in a decline to the dispatch and capacity factors of our plants. As a result of all of these factors, the value of our generation facilities could be significantly reduced.

***We are subject to certain risks associated with nuclear generation, including the risk that our Susquehanna nuclear plant could become subject to increased security or safety requirements that would increase capital and operating expenditures, uncertainties regarding spent nuclear fuel, and uncertainties associated with decommissioning our plant at the end of its licensed life.***

Nuclear generation accounted for about 31% of our 2012 generation output. The risks of nuclear generation generally include:

- the potential harmful effects on the environment and human health from the operation of nuclear facilities and the storage, handling and disposal of radioactive materials;
- limitations on the amounts and types of insurance commercially available to cover losses and liabilities that might arise in connection with nuclear operations; and
- uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of their licensed lives. The licenses for our two nuclear units expire in 2042 and 2044. See Note 21 to the Financial Statements for additional information on the ARO related to the decommissioning.

The NRC has broad authority under federal law to impose licensing requirements, including security, safety and employee-related requirements for the operation of nuclear generation facilities. In the event of noncompliance, the NRC has authority to impose fines or shut down a unit, or both, depending upon its assessment of the severity of the situation, until compliance is achieved. In addition, revised security or safety requirements promulgated by the NRC could necessitate substantial capital or operating expenditures at our Susquehanna nuclear plant. There also remains substantial uncertainty regarding the temporary storage and permanent disposal of spent nuclear fuel, which could result in substantial additional costs to PPL that cannot be predicted. In addition, although we have no reason to anticipate a serious nuclear incident at our Susquehanna plant, if an incident did occur, any resulting operational loss, damages and injuries could have a material adverse effect on our results of operations, cash flows and financial condition. See Note 15 to the Financial Statements for a discussion of nuclear insurance.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

**PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company**

None.

## ITEM 2. PROPERTIES

(PPL, LKE, LG&E and KU)

### Kentucky Regulated Segment

LG&E's and KU's properties consist primarily of regulated generation facilities, electric transmission and distribution assets and natural gas transmission and distribution assets in Kentucky. The electric generating capacity at December 31, 2012 was:

Primary Fuel/Plant (a)	Total MW Capacity (b) Summer	LKE	LG&E		KU	
		Ownership or Lease Interest in MW	% Ownership	Ownership or Lease Interest in MW	% Ownership	Ownership or Lease Interest in MW
<b>Coal</b>						
Ghent	1,932	1,932			100.00	1,932
Mill Creek	1,472	1,472	100.00	1,472		
E.W. Brown - Units 1-3	684	684			100.00	684
Cane Run - Units 4-6	563	563	100.00	563		
Trimble County - Unit 1 (c)	511	383	75.00	383		
Trimble County - Unit 2 (c)	732	549	14.25	104	60.75	445
Green River	163	163			100.00	163
OVEC - Clifty Creek (d)	1,304	106	5.63	73	2.50	33
OVEC - Kyger Creek (d)	1,086	88	5.63	61	2.50	27
Tyrone (e)	71	71			100.00	71
	<u>8,518</u>	<u>6,011</u>		<u>2,656</u>		<u>3,355</u>
<b>Natural Gas/Oil</b>						
E.W. Brown Unit 5 (f)(g)	132	132	53.00	69	47.00	63
E.W. Brown Units 6-7 (f)	292	292	38.00	111	62.00	181
E.W. Brown Units 8-11 (g)	486	486			100.00	486
Trimble County Units 5-6	314	314	29.00	91	71.00	223
Trimble County Units 7-10	628	628	37.00	232	63.00	396
Paddy's Run Units 11-12	35	35	100.00	35		
Paddy's Run Unit 13	147	147	53.00	78	47.00	69
Haefling	36	36			100.00	36
Zorn	14	14	100.00	14		
Cane Run Unit 11	14	14	100.00	14		
	<u>2,098</u>	<u>2,098</u>		<u>644</u>		<u>1,454</u>
<b>Hydro</b>						
Ohio Falls	54	54	100.00	54		
Dix Dam	24	24			100.00	24
	<u>78</u>	<u>78</u>		<u>54</u>		<u>24</u>
<b>Total</b>	<u>10,694</u>	<u>8,187</u>		<u>3,354</u>		<u>4,833</u>

- (a) LG&E and KU's properties are primarily located in Kentucky, with the exception of the units owned by OVEC. Clifty Creek is located in Indiana and Kyger Creek is located in Ohio.
- (b) 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.
- (c) TC1 and TC2 are jointly owned with Illinois Municipal Electric Agency and Indiana Municipal Power Agency. Each owner is entitled to its proportionate share of the units' total output and funds its proportionate share of capital, fuel and other operating costs. See Note 14 to the Financial Statements for additional information.
- (d) This unit is owned by OVEC. LKE has a power purchase agreement that entitles LKE to its proportionate share of the unit's total output and LKE funds its proportionate share of fuel and other operating costs. See Note 15 to the Financial Statements for additional information.
- (e) This unit was retired in February 2013. See Note 8 to the Financial Statements for additional information.
- (f) Includes a leasehold interest. See Note 11 to the Financial Statements for additional information.
- (g) There is an inlet air cooling system attributable to these units. 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 10 MW of capacity for LG&E and an additional 88 MW of capacity for KU.

For a description of LG&E's and KU's service areas, see "Item 1. Business - Background." At December 31, 2012, LG&E's transmission system included in the aggregate, 45 substations (32 of which are shared with the distribution system) with a total capacity of 7 million kVA and 917 circuit miles of lines. LG&E's distribution system included 97 substations (32 of which are shared with the transmission system) with a total capacity of 5 million kVA, 3,908 miles of overhead lines and 2,390 miles of underground wires. KU's transmission system included 134 substations (55 of which are shared with the distribution system) with a total capacity of 13 million kVA and 4,079 circuit miles of lines. KU's distribution system included 480 substations (55 of which are shared with the transmission system) with transformer capacity of 7 million kVA, 14,134 miles of overhead lines and 2,299 miles of underground conduit.

LG&E's natural gas transmission system includes 4,272 miles of gas distribution mains and 388 miles of gas transmission mains, consisting of 255 miles of gas transmission pipeline, 124 miles of gas transmission storage lines, 6 miles of gas combustion turbine lines and 3 miles of gas transmission pipeline in regulator facilities. Five underground natural gas storage fields, with a total working natural gas capacity of approximately 15 Bcf, are used in providing natural gas service to ultimate consumers. KU's service area includes an additional 11 miles of gas transmission pipeline providing gas supply to natural gas combustion turbine electrical generating units.

Substantially all of LG&E's and KU's respective real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and, in the case of LG&E, the storage and distribution of natural gas, is subject to the lien of either the LG&E 2010 Mortgage Indenture or the KU 2010 Mortgage Indenture. See Note 7 to the Financial Statements for additional information.

LG&E and KU continuously reexamine development projects based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them or pursue other options. At December 31, 2012, LG&E and KU planned to implement the following incremental capacity increases and decreases at the following plants located in Kentucky.

Primary Fuel/Plant	Total Net Summer MW Capacity (a) Increase / (Decrease)	LG&E		KU		Date of Incremental Capacity Increase / Decrease
		% Ownership	Ownership or Lease Interest in MW	% Ownership	Ownership or Lease Interest in MW	
<b>Coal</b>						
Cane Run - Units 4-6 - (b)	(563)	100.00	(563)			2015
Green River - (b)	(163)			100.00	(163)	2015
Tyrone - (c)	(71)			100.00	(71)	2013
Total Capacity Decreases	(797)		(563)		(234)	
<b>Natural Gas</b>						
Cane Run - Unit 7 (d)	640	22.00	141	78.00	499	2015

- (a) The capacity of generating units is based on a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changed circumstances.
- (b) LG&E and KU anticipate retiring these units by the end of 2015. See Notes 8 and 15 to the Financial Statements for additional information.
- (c) KU retired this unit in February 2013. See Note 8 to the Financial Statements for additional information.
- (d) In May 2012, LG&E and KU received approval to build this unit at the existing Cane Run site. See Note 8 to the Financial Statements for additional information.

(PPL)

#### U.K. Regulated Segment

For a description of WPD's service territory, see "Item 1. Business - Background." At December 31, 2012, WPD had electric distribution lines in public streets and highways pursuant to legislation and rights-of-way secured from property owners. WPD's distribution system in the U.K. includes 1,592 substations with a total capacity of 68 million kVA, 57,472 circuit miles of overhead lines and 79,755 cable miles of underground conductors.

(PPL and PPL Electric)

#### Pennsylvania Regulated Segment

For a description of PPL Electric's service territory, see "Item 1. Business - Background." At December 31, 2012, PPL Electric had electric transmission and distribution lines in public streets and highways pursuant to franchises and rights-of-way secured from property owners. PPL Electric's transmission system includes 61 substations with a total capacity of 18 million kVA and 3,973 pole miles in service. PPL Electric's distribution system includes 339 substations with a total capacity of 12 million kVA, 37,031 circuit miles of overhead lines and 8,098 cable miles of underground conductors in service. All of PPL Electric's facilities are located in Pennsylvania. Substantially all of PPL Electric's distribution properties and certain transmission properties are subject to the lien of the PPL Electric 2001 Mortgage Indenture.

See Note 8 to the Financial Statements for information on the Regional Transmission Line Expansion Plan.

(PPL and PPL Energy Supply)

Supply Segment

PPL Energy Supply's electric generating capacity (summer rating) at December 31, 2012 was:

Primary Fuel/Plant	Total MW Capacity (a)	% Ownership	PPL Energy Supply's Ownership or Lease Interest in MW (a)	Location
<b>Natural Gas/Oil</b>				
Martins Creck	1,745	100.00	1,745	Pennsylvania
Ironwood	665	100.00	665	Pennsylvania
Lower Mt. Bethel	543	100.00	543	Pennsylvania
Combustion turbines	363	100.00	363	Pennsylvania
	<u>3,316</u>		<u>3,316</u>	
<b>Coal</b>				
Montour	1,518	100.00	1,518	Pennsylvania
Brunner Island	1,455	100.00	1,455	Pennsylvania
Colstrip Units 1 & 2 (b)	614	50.00	307	Montana
Conemaugh (c)	1,749	16.25	284	Pennsylvania
Colstrip Unit 3 (b)	740	30.00	222	Montana
Keystone (c)	1,714	12.34	212	Pennsylvania
Corette	153	100.00	153	Montana
	<u>7,943</u>		<u>4,151</u>	
<b>Nuclear</b>				
Susquehanna (c)	2,528	90.00	2,275	Pennsylvania
<b>Hydro</b>				
Various	604	100.00	604	Montana
Various	175	100.00	175	Pennsylvania
	<u>779</u>		<u>779</u>	
<b>Qualifying Facilities</b>				
Renewables (d)	61	100.00	61	Pennsylvania
Renewables	9	100.00	9	Various
	<u>70</u>		<u>70</u>	
<b>Total</b>	<u>14,636</u>		<u>10,591</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) Represents the leasehold interest held by PPL Montana. See Note 11 to the Financial Statements for additional information.
- (c) This unit is jointly owned. Each owner is entitled to its proportionate share of the unit's total output and funds its proportionate share of fuel and other operating costs. See Note 14 to the Financial Statements for additional information.
- (d) Includes facilities owned, controlled or for which PPL Energy Supply has the rights to the output.

Amounts guaranteed by PPL Montour and PPL Brunner Island in connection with an \$800 million secured energy marketing and trading facility are secured by liens on the generating facilities owned by PPL Montour and PPL Brunner Island. See Note 7 to the Financial Statements for additional information.

PPL Energy Supply from time to time reexamines development projects based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. See Note 15 to the Financial Statements for information on PPL Energy Supply's intention, beginning in April 2015, to place its Corette plant in long-term reserve status. At December 31, 2012, PPL Energy Supply subsidiaries planned to implement the following incremental capacity increases.

<u>Primary Fuel/Plant</u>	<u>Location</u>	<u>Total MW Capacity (a)</u>	<u>PPL Energy Supply Ownership or Lease Interest in MW</u>	<u>Expected In-Service Date (b)</u>
<b>Hydro</b>				
Holtwood (c)	Pennsylvania	125	125 (100%)	2013
Great Falls (d)	Montana	28	28 (100%)	2013
<b>Total</b>		<u>153</u>	<u>153</u>	

- (a) The capacity of generating units is based on a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changed circumstances.
- (b) The expected in-service dates are subject to receipt of required approvals, permits and other contingencies.
- (c) This project includes installation of two additional large turbine-generators and the replacement of four existing runners.
- (d) This project involves construction of a new powerhouse and retirement of the exiting powerhouse.

### **ITEM 3. LEGAL PROCEEDINGS**

See Notes 5, 6 and 15 to the Financial Statements for information regarding legal, tax litigation, regulatory and environmental proceedings and matters.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.



## PART II

### **ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash" for information regarding certain restrictions on the ability to pay dividends for PPL, LKE, LG&E and KU.

#### **PPL Corporation**

Additional information for this item is set forth in the sections entitled "Quarterly Financial, Common Stock Price and Dividend Data," "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" and "Shareowner and Investor Information" of this report. At January 31, 2013, there were 66,130 common stock shareowners of record.

#### Issuer Purchase of Equity Securities during the Fourth Quarter of 2012:

	(a)	(b)	(c)	(d)
Period	Total Number of Shares (or Units) Purchased (1)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans of Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
October 1 to October 31, 2012				
November 1 to November 30, 2012	4,665	\$29.35		
December 1 to December 31, 2012				
Total	4,665	\$29.35		

(1) Represents shares of common stock withheld by PPL at the request of its executive officers to pay income taxes upon the vesting of the officers' restricted stock awards, as permitted under the terms of PPL's ICP and ICPKE.

#### **PPL Energy Supply, LLC**

There is no established public trading market for PPL Energy Supply's membership interests. PPL Energy Funding, a direct wholly owned subsidiary of PPL, owns all of PPL Energy Supply's outstanding membership interests. Distributions on the membership interests will be paid as determined by PPL Energy Supply's Board of Managers.

PPL Energy Supply made cash distributions to PPL Energy Funding of \$787 million in 2012 and \$316 million in 2011. See Note 9 to the Financial Statements regarding the distribution, including \$325 million of cash, of PPL Energy Supply's membership interests in PPL Global to PPL Energy Funding in January 2011.

#### **PPL Electric Utilities Corporation**

There is no established public trading market for PPL Electric's common stock, as PPL owns 100% of the outstanding common shares. Dividends paid to PPL on those common shares are determined by PPL Electric's Board of Directors. PPL Electric paid common stock dividends to PPL of \$95 million in 2012 and \$92 million in 2011.

#### **LG&E and KU Energy LLC**

There is no established public trading market for LKE's membership interests. PPL owns all of LKE's outstanding membership interests. Distributions on the membership interests will be paid as determined by LKE's Board of Directors. LKE made cash distributions to PPL of \$155 million in 2012 and \$533 million in 2011 (including \$248 million from the proceeds of a note issuance).

#### **Louisville Gas and Electric Company**

There is no established public trading market for LG&E's common stock, as LKE owns 100% of the outstanding common shares. Dividends paid to LKE on those common shares are determined by LG&E's Board of Directors. LG&E paid common stock dividends to LKE of \$75 million in 2012 and \$83 million in 2011.

## Kentucky Utilities Company

There is no established public trading market for KU's common stock, as LKE owns 100% of the outstanding common shares. Dividends paid to LKE on those common shares are determined by KU's Board of Directors. KU paid common stock dividends to LKE of \$100 million in 2012 and \$124 million in 2011.

**ITEM 6. SELECTED FINANCIAL AND OPERATING DATA**

<b>PPL Corporation (a) (b)</b>	<b>2012 (c)</b>	<b>2011 (c)</b>	<b>2010 (c)</b>	<b>2009</b>	<b>2008</b>
<b>Income Items (in millions)</b>					
Operating revenues	\$ 12,286	\$ 12,737	\$ 8,521	\$ 7,449	\$ 7,857
Operating income	3,109	3,101	1,866	896	1,703
Income from continuing operations after income taxes attributable to PPL shareowners	1,532	1,493	955	414	857
Net income attributable to PPL shareowners	1,526	1,495	938	407	930
<b>Balance Sheet Items (in millions) (d)</b>					
Total assets	43,634	42,648	32,837	22,165	21,405
Short-term debt	652	578	694	639	679
Long-term debt	19,476	17,993	12,663	7,143	7,838
Noncontrolling interests	18	268	268	319	319
Common equity	10,480	10,828	8,210	5,496	5,077
Total capitalization	30,626	29,667	21,835	13,597	13,913
<b>Financial Ratios</b>					
Return on average common equity - %	13.76	14.93	13.26	7.48	16.88
Ratio of earnings to fixed charges (e)	2.9	3.1	2.7	1.9	3.1
<b>Common Stock Data</b>					
Number of shares outstanding - Basic (in thousands)					
Year-end	581,944	578,405	483,391	377,183	374,581
Weighted-average	580,276	550,395	431,345	376,082	373,626
Income from continuing operations after income taxes available to PPL common shareowners - Basic EPS					
	\$ 2.62	\$ 2.70	\$ 2.21	\$ 1.10	\$ 2.28
Income from continuing operations after income taxes available to PPL common shareowners - Diluted EPS					
	\$ 2.61	\$ 2.70	\$ 2.20	\$ 1.10	\$ 2.28
Net income available to PPL common shareowners - Basic EPS					
	\$ 2.61	\$ 2.71	\$ 2.17	\$ 1.08	\$ 2.48
Net income available to PPL common shareowners - Diluted EPS					
	\$ 2.60	\$ 2.70	\$ 2.17	\$ 1.08	\$ 2.47
Dividends declared per share of common stock					
	\$ 1.44	\$ 1.40	\$ 1.40	\$ 1.38	\$ 1.34
Book value per share (d)					
	\$ 18.01	\$ 18.72	\$ 16.98	\$ 14.57	\$ 13.55
Market price per share (d)					
	\$ 28.63	\$ 29.42	\$ 26.32	\$ 32.31	\$ 30.69
Dividend payout ratio - % (f)					
	55	52	65	128	54
Dividend yield - % (g)					
	5.03	4.76	5.32	4.27	4.37
Price earnings ratio (f) (g)					
	11.01	10.89	12.13	29.92	12.43
<b>Sales Data - GWh</b>					
Domestic - Electric energy supplied - retail (h)	42,379	40,147	14,595	38,912	40,374
Domestic - Electric energy supplied - wholesale (h) (i)	56,302	65,681	75,489	38,988	42,712
Domestic - Electric energy delivered - retail (j)	66,931	67,806	42,463	36,689	38,013
U.K. - Electric energy delivered (k)	77,467	58,245	26,820	26,358	27,724

- (a) The earnings each year were affected by several items that management considers special. See "Results of Operations - Segment Results" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a description of special items in 2012, 2011 and 2010. The earnings were also affected by the sales of various businesses. See Note 9 to the Financial Statements for a discussion of discontinued operations in 2012, 2011 and 2010.
- (b) See "Item 1A. Risk Factors" and Notes 6 and 15 to the Financial Statements for a discussion of uncertainties that could affect PPL's future financial condition.
- (c) Includes WPD Midlands activity since its April 1, 2011 acquisition date. Includes LKE activity since its November 1, 2010 acquisition date.
- (d) As of each respective year-end.
- (e) Computed using earnings and fixed charges of PPL and its subsidiaries. Fixed charges consist of interest on short- and long-term debt, amortization of debt discount, expense and premium - net, other interest charges, the estimated interest component of operating rentals and preferred securities distributions of subsidiaries. See Exhibit 12(a) for additional information.
- (f) Based on diluted EPS.
- (g) Based on year-end market prices.
- (h) The electric energy supplied changes in 2010 reflect the expiration of the PLR contract between PPL EnergyPlus and PPL Electric as of December 31, 2009.
- (i) GWh are included until the transaction closing for facilities that were sold.
- (j) Prior period volumes were restated to include unbilled volumes.
- (k) Year 2011 includes eight months of deliveries associated with the acquisition of WPD Midlands as volumes are reported on a one-month lag.

**ITEM 6. SELECTED FINANCIAL AND OPERATING DATA**

**PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company**

Item 6 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

## PPL CORPORATION AND SUBSIDIARIES

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information provided in this Item 7 should be read in conjunction with PPL's Consolidated Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

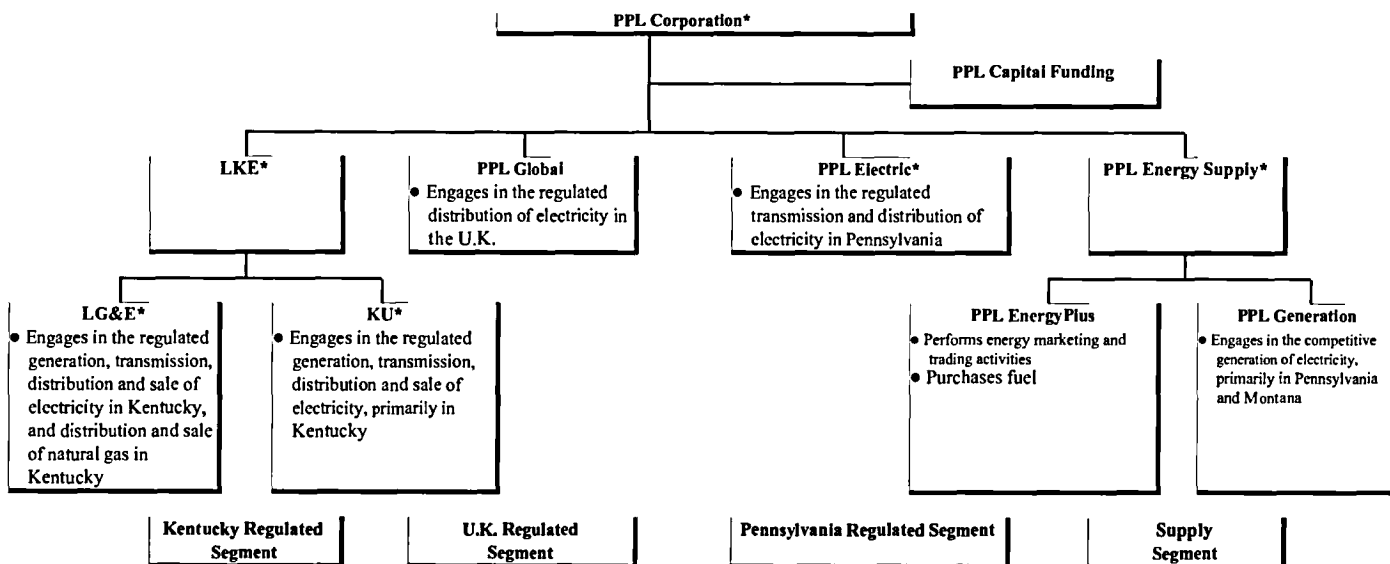
- "Overview" provides a description of PPL and its business strategy, a summary of Net Income Attributable to PPL Shareowners and a discussion of certain events related to PPL's results of operations and financial condition.
- "Results of Operations" provides a summary of PPL's earnings, a review of results by reportable segment and a description of key factors by segment expected to impact future earnings. This section ends with explanations of significant changes in principal items on PPL's Statements of Income, comparing 2012 with 2011 and 2011 with 2010.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL's liquidity position and credit profile. This section also includes a discussion of forecasted sources and uses of cash and rating agency actions.
- "Financial Condition - Risk Management - Energy Marketing & Trading and Other" provides an explanation of PPL's risk management programs relating to market and credit risk.
- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of PPL and that require its management to make significant estimates, assumptions and other judgments of matters inherently uncertain.

#### Overview

##### **Introduction**

PPL is an energy and utility holding company with headquarters in Allentown, Pennsylvania. Through subsidiaries, PPL generates electricity from power plants in the northeastern, northwestern and southeastern U.S., markets wholesale and retail energy primarily in the northeastern and northwestern portions of the U.S., delivers electricity to customers in Pennsylvania, Kentucky, Virginia, Tennessee and the U.K. and delivers natural gas to customers in Kentucky.

PPL's principal subsidiaries are shown below (\* denotes an SEC registrant):



## Business Strategy

PPL's overall strategy is to achieve stable, long-term growth in its regulated electricity delivery businesses through efficient operations and strong customer and regulatory relations, and disciplined optimization of energy supply margins in its energy supply business while mitigating volatility in both cash flows and earnings. In pursuing this strategy, PPL acquired LKE in November 2010 and WPD Midlands in April 2011. These acquisitions have reduced PPL's overall business risk profile and reappportioned the mix of PPL's regulated and competitive businesses by increasing the regulated portion of its business. Each of the rate-regulated businesses plans to make material capital investments over the next several years to improve infrastructure and customer reliability. As a result of these acquisitions, approximately 71% of PPL's assets were in its regulated businesses at December 31, 2012 and approximately 73% of "Net Income Attributable to PPL Shareowners" was from regulated businesses for the year ended December 31, 2012.

The increase in regulated assets is expected to provide earnings stability through regulated returns on equity and the ability to recover costs of capital investments, in contrast to the competitive energy supply business where earnings and cash flows are subject to commodity market volatility.

Results for periods prior to the acquisitions of LKE and WPD Midlands are not comparable with, or indicative of, results for periods subsequent to the acquisitions.

With the acquisition of WPD Midlands, PPL has a higher proportion of overall earnings subject to foreign currency translation risk. The U.K. subsidiaries also have currency exposure to the U.S. dollar to the extent they have U.S. dollar denominated debt. To manage these risks, PPL generally uses contracts such as forwards, options and cross currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

PPL's strategy for its energy supply business is to optimize the value from its competitive generation and marketing portfolio. PPL endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk.

To manage financing costs and access to credit markets, a key objective of PPL's business strategy is to maintain a strong credit profile and strong liquidity position. In addition, PPL has financial and operational risk management programs that, among other things, are designed to monitor and manage its exposure to earnings and cash flow volatility related to changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of its generating units.

## Financial and Operational Developments

### Net Income Attributable to PPL Shareowners

Net Income Attributable to PPL Shareowners for the years ended December 31 by segment and in total was:

	2012	2011	2010
Kentucky Regulated (a)	\$ 177	\$ 221	\$ 26
U.K. Regulated (b)	803	325	261
Pennsylvania Regulated Supply	132	173	115
Corporate and Other (c)	414	776	612
Net Income Attributable to PPL Shareowners	<u>\$ 1,526</u>	<u>\$ 1,495</u>	<u>\$ 938</u>
EPS - basic	\$ 2.61	\$ 2.71	\$ 2.17
EPS - diluted	\$ 2.60	\$ 2.70	\$ 2.17

- (a) LKE was acquired on November 1, 2010. Therefore, 2012 and 2011 include a full year of LKE results, while 2010 includes two months of LKE results.
- (b) WPD Midlands was acquired on April 1, 2011 and its results are recorded on a one-month lag. Therefore, 2012 includes a full year of WPD Midlands' results, while 2011 includes eight months of WPD Midlands' results. 2011 was also impacted by certain acquisition related costs. These costs are considered special items by management and are discussed in further detail in "Results of Operations - Earnings - U.K. Regulated Segment." See Notes 7 and 10 to the Financial Statements for additional information on the acquisition and related financing.
- (c) Includes \$22 million, after tax (\$31 million, pre-tax), of certain third-party acquisition-related costs, including advisory, accounting, and legal fees associated with the acquisition of LKE that are recorded in "Other Income (Expense) - net" on the Statement of Income. Also includes \$52 million, after tax (\$80 million, pre-tax), of 2010 Bridge Facility costs that are recorded in "Interest Expense" on the Statement of Income. These costs are considered special items by management. See Notes 7 and 10 to the Financial Statements for additional information on the acquisition and related financing.

Earnings in 2012 increased 2% over 2011 and earnings in 2011 increased 59% over 2010. The changes in Net Income Attributable to PPL Shareowners from year to year were, in part, attributable to the acquisition of LKE and WPD Midlands and certain items that management considers special. See "Results of Operations" for further discussion of PPL's business segments, details of special items and analysis of the consolidated results of operations.

### Economic and Market Conditions

Unregulated Gross Energy Margins associated with PPL Energy Supply's competitive generation and marketing business are impacted by changes in market prices and demand for electricity and natural gas, power plant availability, competition in the markets for retail customers, fuel costs and availability, fuel transportation costs and other costs. Current depressed wholesale market prices for electricity and natural gas have resulted from general weak economic conditions and other factors, including the impact of expanded domestic shale gas development and production. As a result of these factors, PPL Energy Supply has experienced a shift in the dispatching of its competitive generation from coal-fired to combined-cycle gas-fired generation as illustrated in the following table:

	Average Utilization Factors (a)	
	2012	2009 - 2011
Pennsylvania coal plants	69%	87%
Montana coal plants	67%	89%
Combined-cycle gas plants	98%	72%

- (a) All periods reflect the year ended December 31.

This reduction in coal-fired generation output had resulted in a surplus of coal inventory at certain of PPL Energy Supply's Pennsylvania coal plants. To mitigate the risk of exceeding available coal storage, PPL Energy Supply incurred pre-tax charges of \$29 million in 2012 to reduce its 2012 and 2013 contracted coal deliveries. PPL Energy Supply will continue to manage its coal inventory to mitigate the financial impact and physical implications of an oversupply; however, no additional coal contract modifications are expected at this time.

In addition, current economic and commodity market conditions indicate a lower value of unhedged future energy margins (primarily in 2014 and forward years) compared to the energy margins in 2012. As has been PPL Energy Supply's practice in periods of changing business conditions, PPL Energy Supply continues to review its future business and operational plans, including capital and operation and maintenance expenditures, as well as its hedging strategies, to help counter the financial effects of low commodity prices.

PPL's businesses are subject to extensive federal, state and local environmental laws, rules and regulations. Although PPL Energy Supply's competitive generation assets are well positioned to meet these requirements, certain regulated generation assets at LG&E and KU will require substantial capital investment. LG&E and KU project \$2.3 billion of capital investment over the next five years to satisfy certain of these requirements. See Note 15 to the Financial Statements for additional information on these requirements. These requirements have resulted in LKE's anticipated retirement of five coal-fired units with a combined summer capacity rating of 726 MW by 2015. KU retired the 71 MW unit at the Tyrone plant in February 2013. See Note 8 to the Financial Statements for additional information regarding the anticipated retirement of these units as well as plans to build a combined-cycle natural gas facility in Kentucky. Also, in 2012 KU recorded a \$25 million pre-tax impairment of its EEL investment as a result of environmental regulations and low energy prices. Finally, in September 2012 PPL announced its intention, beginning in April 2015, to place its Corette plant in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with MATS. The Corette plant asset group's carrying amount at December 31, 2012 was approximately \$68 million. Although the Corette plant asset group was not determined to be impaired at December 31, 2012, it is reasonably possible that an impairment could occur in future periods, as higher priced sales contracts settle, adversely impacting projected cash flows.

In light of these economic and market conditions, as well as current and projected environmental regulatory requirements, PPL considered whether certain of its other generating assets were impaired, and determined that no impairment charges were required at December 31, 2012. PPL is unable to predict whether future environmental requirements or market conditions will result in impairment charges for other generating assets or other retirements.

PPL and its subsidiaries may also be impacted in future periods by the uncertainty in the worldwide financial and credit markets. In addition, PPL may be impacted by reductions in the credit ratings of financial institutions and evolving regulations in the financial sector. Collectively, these factors could reduce availability or restrict PPL and its subsidiaries' ability to maintain sufficient levels of liquidity, reduce capital market activities, change collateral posting requirements and increase the associated costs to PPL and its subsidiaries.

PPL cannot predict the future impact that these economic and market conditions and regulatory requirements may have on its financial condition or results of operations.

#### Susquehanna Turbine Blade Inspection

During 2012, PPL Energy Supply performed inspections of the Unit 1 and Unit 2 turbine blades at the PPL Susquehanna nuclear power plant in order to further address the issue of turbine blade cracking that was first identified in 2011. The after-tax earnings impact of these 2012 inspections, including reduced energy-sales margins and repair expenses, was approximately \$53 million. The after-tax earnings impact of turbine blade related outages in 2011 was approximately \$63 million.

#### Ironwood Acquisition

In April 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the acquisition of the equity interests in the owner and operator of the Ironwood Facility. The Ironwood Facility began operation in 2001 and, since 2008, PPL EnergyPlus has supplied natural gas for the facility and received the facility's full electricity output and capacity value pursuant to a tolling agreement that expires in 2021. The acquisition provides PPL Energy Supply, through its subsidiaries, operational control of additional combined-cycle gas generation in PJM. See Note 10 to the Financial Statements for additional information.

#### Bankruptcy of SMGT

In October 2011, SMGT, a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus expiring in June 2019 (SMGT Contract), filed for protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Montana. At the time of the bankruptcy filing, SMGT was PPL EnergyPlus' largest unsecured credit exposure. This contract was accounted for as NPNS by PPL EnergyPlus.



The SMGT Contract provided for fixed volume purchases on a monthly basis at established prices. Pursuant to a court order and subsequent stipulations entered into between the SMGT bankruptcy trustee and PPL EnergyPlus, since the date of its Chapter 11 filing through January 2012, SMGT continued to purchase electricity from PPL EnergyPlus at the price specified in the SMGT Contract, and made timely payments for such purchases, but at lower volumes than as prescribed in the SMGT Contract. In January 2012, the trustee notified PPL EnergyPlus that SMGT would not purchase electricity under the SMGT Contract for the month of February. In March 2012, the U.S. Bankruptcy Court for the District of Montana issued an order approving the request of the SMGT bankruptcy trustee and PPL EnergyPlus to terminate the SMGT Contract. As a result, the SMGT Contract was terminated effective April 1, 2012, allowing PPL EnergyPlus to resell to other customers the electricity previously contracted to SMGT under the SMGT Contract.

PPL EnergyPlus' receivable under the SMGT Contract totaled approximately \$21 million at December 31, 2012, which has been fully reserved.

In July 2012, PPL EnergyPlus filed its proof of claim in the SMGT bankruptcy proceeding. The total claim is approximately \$375 million, including the above receivable, predominantly an unsecured claim representing the value for energy sales that will not occur as a result of the termination of the SMGT Contract. No assurance can be given as to the collectability of the claim, thus no amounts have been recorded in the 2012 financial statements.

PPL Energy Supply cannot predict any amounts that it may recover in connection with the SMGT bankruptcy or the prices and other terms on which it will be able to market to third parties the power that SMGT will not purchase from PPL EnergyPlus due to the termination of the SMGT Contract.

#### Tax Litigation

In 1997, the U.K. imposed a Windfall Profits Tax (WPT) on privatized utilities, including WPD. PPL filed its federal tax returns for years subsequent to its 1997 and 1998 claims for refund on the basis that the U.K. WPT was creditable. In September 2010, the U.S. Tax Court (Tax Court) ruled in PPL's favor in a dispute with the IRS, concluding that the U.K. WPT is a creditable tax for U.S. tax purposes. As a result, and with finalization of other issues, PPL recorded a \$42 million tax benefit in 2010. In January 2011, the IRS appealed the Tax Court's decision to the U.S. Court of Appeals for the Third Circuit (Third Circuit). In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision, holding that the U.K. WPT is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a \$39 million expense in 2011. In February 2012, PPL filed its petition for rehearing of the Third Circuit's opinion. In March 2012, the Third Circuit denied PPL's petition. In June 2012, the U.S. Court of Appeals for the Fifth Circuit issued a contrary opinion in an identical case involving another company. In July 2012, PPL filed a petition for a writ of certiorari seeking U.S. Supreme Court review of the Third Circuit's opinion. The Supreme Court granted PPL's petition on October 29, 2012, and oral argument was held on February 20, 2013. PPL expects the case to be decided before the end of the Supreme Court's current term in June 2013 and cannot predict the outcome of this matter.

#### Terminated Bluegrass CTs Acquisition

In September 2011, LG&E and KU entered into an asset purchase agreement with Bluegrass Generation for the purchase of the Bluegrass CTs, aggregating approximately 495 MW, plus limited associated contractual arrangements required for operation of the units, for a purchase price of \$110 million, pending receipt of applicable regulatory approvals. In May 2012, the KPSC issued an order approving the request to purchase the Bluegrass CTs. In November 2011, LG&E and KU filed an application with the FERC under the Federal Power Act requesting approval to purchase the Bluegrass CTs. In May 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to approval by the FERC of satisfactory mitigation measures to address market-power concerns. After a review of potentially available mitigation options, LG&E and KU determined that the options were not commercially justifiable. In June 2012, LG&E and KU terminated the asset purchase agreement for the Bluegrass CTs in accordance with its terms and made applicable filings with the KPSC and FERC.

#### Cane Run Unit 7 Construction

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build Cane Run Unit 7. In May 2012, the KPSC issued an order approving the request. A formal request for recovery of the costs associated with the construction was not included in the CPCN filing with the KPSC but is expected to be included in future rate case proceedings. LG&E and KU commenced preliminary construction activities in the third quarter of 2012 and project construction is expected to be completed by May 2015. The project, which includes building a natural gas supply pipeline and related transmission projects, has an estimated cost of approximately \$600 million.

### Future Capacity Needs

In addition to the construction of a combined cycle gas unit at the Cane Run station, LG&E and KU continue to assess future capacity needs. As a part of the assessment, LG&E and KU issued an RFP in September 2012 for up to 700 MW of capacity beginning as early as 2015.

### Storm Costs

During 2012, PPL Electric experienced several PUC-reportable storms, including Hurricane Sandy, resulting in total restoration costs of \$81 million, of which \$61 million were initially recorded in "Other operation and maintenance" on the Statement of Income. In particular, in late October 2012, PPL Electric experienced widespread significant damage to its distribution network from Hurricane Sandy resulting in total restoration costs of \$66 million, of which \$50 million were initially recorded in "Other operation and maintenance" on the Statement of Income. However, a PPL subsidiary has a \$10 million reinsurance policy with a third party insurer, for which a receivable was recorded with an offsetting credit to "Other operation and maintenance" on the Statement of Income. PPL Electric recorded a regulatory asset of \$28 million in December 2012 (offset to "Other operation and maintenance" on the Statement of Income). In February 2013, PPL Electric received an order from the PUC granting permission to defer qualifying storm costs in excess of insurance recoveries associated with Hurricane Sandy.

See "Regulatory Matters - Pennsylvania Activities - Storm Costs" in Note 6 to the Financial Statements for information on \$84 million of storm costs incurred in 2011.

### Rate Case Proceedings

#### *Pennsylvania*

In March 2012, PPL Electric filed a request with the PUC to increase distribution rates by approximately \$105 million, effective January 1, 2013. In its December 28, 2012 final order, the PUC approved a 10.4% return on equity and a total distribution revenue increase of about \$71 million. The approved rates became effective January 1, 2013.

Also, in its December 28, 2012 final order, the PUC ordered PPL Electric to file a proposed Storm Damage Expense Rider within 90 days following the order. PPL Electric plans to file a proposed Storm Damage Expense Rider with the PUC and, as part of that filing, request recovery of the \$28 million of qualifying storm costs incurred as a result of the October 2012 landfall of Hurricane Sandy.

#### *Kentucky*

In June 2012, LG&E and KU filed requests with the KPSC for increases in annual base electric rates of approximately \$62 million at LG&E and approximately \$82 million at KU and an increase in annual base gas rates of approximately \$17 million at LG&E. In November 2012, LG&E and KU along with all of the parties filed a unanimous settlement agreement. Among other things, the settlement provided for increases in annual base electric rates of \$34 million at LG&E and \$51 million at KU and an increase in annual base gas rates of \$15 million at LG&E. The settlement agreement also included revised depreciation rates that result in reduced annual electric depreciation expense of approximately \$9 million for LG&E and approximately \$10 million for KU. The settlement agreement included an authorized return on equity at LG&E and KU of 10.25%. On December 20, 2012, the KPSC issued orders approving the provisions in the settlement agreement. The new rates became effective on January 1, 2013. In addition to the increased base rates, the KPSC approved a gas line tracker mechanism for LG&E to provide for recovery of costs associated with LG&E's gas main replacement program, gas service lines and risers.

### Regional Transmission Line Expansion Plan

#### *Susquehanna-Roseland*

In 2007, PJM directed the construction of a new 150-mile, 500-kilovolt transmission line between the Susquehanna substation in Pennsylvania and the Roseland substation in New Jersey that it identified as essential to long-term reliability of the Mid-Atlantic electricity grid. PJM determined that the line was needed to prevent potential overloads that could occur on several existing transmission lines in the interconnected PJM system. PJM directed PPL Electric to construct the portion of the Susquehanna-Roseland line in Pennsylvania and Public Service Electric & Gas Company to construct the portion of the line in New Jersey.

On October 1, 2012, the National Park Service (NPS) issued its Record of Decision (ROD) on the proposed Susquehanna-Roseland transmission line affirming the route chosen by PPL Electric and Public Service Electric & Gas Company as the preferred alternative under the NPS's National Environmental Policy Act review. On October 15, 2012, a complaint was filed in the United States District Court for the District of Columbia by various environmental groups, including the Sierra Club, challenging the ROD and seeking to prohibit its implementation; and on December 6, 2012, the groups filed a petition for injunctive relief seeking to prohibit all construction activities until the court issues a final decision on the complaint. PPL Electric has intervened in the lawsuit. The chosen route had previously been approved by the PUC and New Jersey Board of Public Utilities.

On December 13, 2012, PPL Electric received federal construction and right of way permits to build on National Park Service lands.

Construction activities have begun on portions of the 101-mile route in Pennsylvania. The line is expected to be completed before the peak summer demand period of 2015. At December 31, 2012, PPL Electric's estimated share of the project cost was \$560 million.

PPL and PPL Electric cannot predict the ultimate outcome or timing of any legal challenges to the project or what additional actions, if any, PJM might take in the event of a further delay to its scheduled in-service date for the new line.

#### *Northeast/Pocono*

In October 2012, the FERC issued an order in response to PPL Electric's December 2011 request for ratemaking incentives for the Northeast/Pocono Reliability project (a new 58-mile 230 kV transmission line, three new substations and upgrades to adjacent facilities). The incentives were specifically tailored to address the risks and challenges PPL Electric will face in building the project. The FERC granted the incentive for inclusion of all prudently incurred construction work in progress (CWIP) costs in rate base and denied the request for a 100 basis point adder to the return on equity incentive. The order required a follow-up compliance filing from PPL Electric to ensure proper accounting treatment of AFUDC and CWIP for the project, which PPL Electric will submit to the FERC in March 2013. PPL Electric expects the project to be completed in 2017. At December 31, 2012, PPL Electric estimates the total project costs to be approximately \$200 million with approximately \$190 million qualifying for the CWIP incentive.

#### Legislation - Regulatory Procedures and Mechanisms

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms - the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it begins a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets. In August 2012, the PUC issued a final implementation order adopting procedures, guidelines and a model tariff for the implementation of Act 11. Act 11 requires utilities to file an LTIP as a prerequisite to filing for recovery through the DSIC. The LTIP is mandated to be a five- to ten-year plan describing projects eligible for inclusion in the DSIC. In September 2012, PPL Electric filed its LTIP describing projects eligible for inclusion in the DSIC. The PUC approved the LTIP on January 10, 2013 and PPL Electric filed a petition requesting permission to establish a DSIC on January 15, 2013, with rates proposed to be effective beginning May 1, 2013.

#### FERC Formula Rates

In March 2012, PPL Electric filed a request with the FERC seeking recovery of its regulatory asset related to the deferred state tax liability that existed at the time of the transition from the flow-through treatment of state income taxes to full normalization. This change in tax treatment occurred in 2008 as a result of prior FERC initiatives that transferred regulatory jurisdiction of certain transmission assets from the PUC to FERC. At December 31, 2012 and December 31, 2011, \$52 million and \$53 million respectively, are classified as taxes recoverable through future rates and included on the Balance Sheets in "Other Noncurrent Assets - Regulatory assets." In May 2012, the FERC issued an order approving PPL Electric's request to recover the deferred tax regulatory asset over a 34 year period beginning June 1, 2012.

#### U.K. Tax Rate Change

In July 2012, the U.K.'s Finance Act of 2012 (the Act) became effective. The Act reduced the U.K. statutory income tax rate from 25% to 24%, retroactive to April 1, 2012 and from 24% to 23%, effective April 1, 2013. As a result of these changes, PPL recognized a deferred tax benefit of \$75 million in 2012.

### Ofgem Review of Line Loss Calculation

WPD had a \$94 million liability recorded at December 31, 2012, compared with \$170 million at December 31, 2011, related to the close-out of line losses for the prior price control period, DPCR4. Ofgem is currently consulting on the methodology to be used by all network operators to calculate the final line loss incentive/penalty for the DPCR4. In October 2011, Ofgem issued a consultation paper citing two potential changes to the methodology, both of which would result in a reduction of the liability. In March 2012, Ofgem issued a decision regarding the preferred methodology. In July 2012, Ofgem issued a consultation paper regarding certain aspects of the preferred methodology as it relates to the DPCR4 line loss incentive/penalty and a proposal to delay the target date for making a final decision until April 2013. In October 2012, a license modification was issued to allow Ofgem to publish the final decisions on these matters by April 2013. In November 2012, Ofgem issued an additional consultation on the final DPCR4 line loss close-out that published values for each DNO and further indicated the preferred methodology that would replace the methodology under WPD's licenses. Based on applying the preferred methodology for DPCR4, the liability was reduced by \$79 million, with a credit recorded in "Utility" on the Statement of Income, to reflect what WPD expects to be the final close-out settlement under Ofgem's preferred methodology. This consultation also confirmed the final decisions will be published by April 2013. In February 2013, Ofgem issued additional consultation proposing to delay the April 2013 decision date. PPL cannot predict when this matter will be resolved.

Ofgem also stated in the November 2012 consultation that the line loss incentive implemented at the last rate review will be withdrawn and no incentive will apply for the DPCR5 period. That decision resulted in the elimination of the DPCR5 liability of \$11 million, with a credit recorded in "Utility" on the Statement of Income.

### Equity Forward Contract

In April 2012, PPL made a registered underwritten public offering of 9.9 million shares of its common stock. In conjunction with that offering, the underwriters exercised an option to purchase 591 thousand additional shares of PPL common stock solely to cover over-allotments.

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 9.9 million shares of PPL's common stock. Settlement of these initial forward sale agreements will occur no later than April 2013. As a result of the underwriters' exercise of the overallotment option, PPL entered into additional forward sale agreements covering the additional 591 thousand shares of PPL common stock. Settlement of the subsequent forward sale agreements will occur no later than July 2013.

PPL will not receive any proceeds or issue any shares of common stock until settlement of the forward sale agreements. PPL intends to use any net proceeds that it receives upon settlement to repay short-term debt obligations and for other general corporate purposes.

The forward sale agreements are classified as equity transactions. As a result, no amounts will be recorded in the consolidated financial statements until the settlement of the forward sale agreements. Prior to those settlements, the only impact to the financial statements will be the inclusion of incremental shares within the calculation of diluted EPS using the treasury stock method. See Note 7 to the Financial Statements for additional information.

### 2010 Equity Units

During 2013, two events will occur related to the components of the 2010 Equity Units. PPL will receive proceeds of \$1.150 billion through the issuance of PPL common stock to settle the 2010 Purchase Contracts and PPL Capital Funding expects to remarket the 4.625% Junior Subordinated Notes due 2018. See Note 7 to the Financial Statements for additional information.

### Redemption of PPL Electric Preference Stock

In June 2012, PPL Electric redeemed all 2.5 million shares of its 6.25% Series Preference Stock, par value \$100 per share. The price paid for the redemption was the par value, without premium (\$250 million in the aggregate). At December 31, 2011, the preference stock was reflected in "Noncontrolling Interests" on PPL's Balance Sheet.

## Results of Operations

The "Statement of Income Analysis" explains the year-to-year changes in significant earnings components, including certain income statement line items, Kentucky Gross Margins, Pennsylvania Gross Delivery Margins and Unregulated Gross Energy Margins.

On April 1, 2011, PPL completed its acquisition of WPD Midlands. As PPL is consolidating WPD Midlands on a one-month lag, consistent with its accounting policy on consolidation of foreign subsidiaries, a full year of WPD Midlands' results of operations are included in PPL's results for 2012, and eight months of WPD Midlands' results of operations are included in PPL's results for 2011, with no comparable amounts for 2010. When discussing PPL's results of operations for 2012 compared with 2011 and 2011 compared with 2010, the results of WPD Midlands are isolated for purposes of comparability. WPD Midlands' results are included within "Segment Results - U.K. Regulated Segment (formerly the International Regulated Segment, renamed in 2012)." See Note 10 to the Financial Statements for additional information regarding the acquisition.

On November 1, 2010, PPL completed its acquisition of LKE. LKE's results of operations are included in PPL's results for the full year of 2012 and 2011, while 2010 includes LKE's operating results for the two months ended December 31, 2010. When discussing PPL's results of operations for 2011 compared with 2010, the results of LKE are isolated for purposes of comparability. LKE's results are shown separately within "Segment Results - Kentucky Regulated Segment." See Note 10 to the Financial Statements for additional information regarding the acquisition.

Tables analyzing changes in amounts between periods within "Segment Results" and "Statement of Income Analysis" are presented on a constant U.K. foreign currency exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant U.K. foreign currency exchange rate basis are calculated by translating current year results at the prior year weighted-average U.K. foreign currency exchange rate.

### Earnings

	2012	2011	2010
Net Income Attributable to PPL Shareowners	\$ 1,526	\$ 1,495	\$ 938
EPS - basic	\$ 2.61	\$ 2.71	\$ 2.17
EPS - diluted	\$ 2.60	\$ 2.70	\$ 2.17

### Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's results from the operation of regulated electricity generation, transmission and distribution assets, primarily in Kentucky, as well as in Virginia and Tennessee. This segment also includes LKE's results from the regulated distribution and sale of natural gas in Kentucky.

Net Income Attributable to PPL Shareowners includes the following results:

	2012	2011	% Change	2010 (a)
Utility revenues	\$ 2,759	\$ 2,793	(1)	\$ 493
Fuel	872	866	1	139
Energy purchases	195	238	(18)	68
Other operation and maintenance	778	751	4	139
Depreciation	346	334	4	49
Taxes, other than income	46	37	24	2
Total operating expenses	2,237	2,226		397
Other Income (Expense) - net	(15)	(1)	1,400	(1)
Other-Than-Temporary Impairments	25		n/a	
Interest Expense (b)	219	217	1	55
Income Taxes	80	127	(37)	16
Income (Loss) from Discontinued Operations (net of income taxes)	(6)	(1)	500	2
Net Income Attributable to PPL Shareowners	\$ 177	\$ 221	(20)	\$ 26

(a) Represents the results of operations for the two-month period from November 1, 2010 through December 31, 2010.

(b) Includes allocated interest expense of \$68 million in 2012, \$70 million in 2011 and \$31 million in 2010 related to the 2010 Equity Units and interest rate swaps.

The changes in the components of the Kentucky Regulated segment's results between 2012 and 2011 were due to the following factors, which reflect reclassifications for items included in Kentucky Gross Margins and certain items that management considers special. See additional detail of these special items in the table below. The 2011 and 2010 comparison has not been included as the periods are not comparable (2010 includes two months of activity as LKE was acquired on November 1, 2010).

	2012 vs. 2011
Kentucky Gross Margins	\$ (8)
Other operation and maintenance	(16)
Depreciation	(10)
Taxes, other than income	(9)
Other Income (Expense) - net	(14)
Interest Expense	(2)
Income Taxes	31
Special items, after-tax	(16)
Total	<u>\$ (44)</u>

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Kentucky Gross Margins.
- Higher other operation and maintenance in 2012 compared with 2011 primarily due to \$11 million of expenses related to an increased scope of scheduled outages and a \$6 million credit to establish a regulatory asset recorded when approved in 2011 related to 2009 storm costs.
- Higher depreciation in 2012 compared with 2011 due to PP&E additions.
- Lower other income (expense) - net in 2012 compared with 2011 primarily due to losses from the EEI investment.
- Lower income taxes in 2012 compared with 2011 primarily due to lower pre-tax income.

The following after-tax gains (losses), which management considers special items, also impacted the Kentucky Regulated segment's results.

	Income Statement Line Item	2012	2011	2010
Adjusted energy-related economic activity, net, net of tax of \$0, (\$1), \$1	Utility Revenues		\$ 1	\$ (1)
Impairments:				
Other asset impairments, net of tax of \$10, \$0, \$0 (a)	Other-Than-Temporary-Impairments	\$ (15)		
LKE acquisition-related adjustments:				
Net operating loss carryforward and other tax-related adjustments	Income Taxes and Other O&M	4		
Other:				
LKE discontinued operations, net of tax of \$4, \$1, (\$2) (b)	Disc. Operations	(5)	(1)	2
Total		<u>\$ (16)</u>	<u>\$</u>	<u>\$ 1</u>

- (a) KU recorded an impairment of its equity method investment in EEI. See Note 18 to the Financial Statements for additional information.  
(b) 2012 includes an adjustment to an indemnification liability.

### 2013 Outlook

Excluding special items, PPL projects higher segment earnings in 2013 compared with 2012, primarily driven by electric and gas base rate increases effective January 1, 2013, returns on additional environmental capital investments and retail load growth, partially offset by higher operation and maintenance.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7 and Notes 6 and 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.

### U.K. Regulated Segment

The U.K. Regulated segment consists primarily of the regulated electric distribution operations in the U.K. As a result of the WPD Midlands acquisition on April 1, 2011, the U.K. Regulated segment includes eight months of WPD Midlands' results in 2011. Similar to PPL WW, WPD Midlands' results are recorded on a one-month lag.

Net Income Attributable to PPL Shareowners includes the following results (includes PPL WW and WPD Midlands on a consolidated basis, except for 2012 and 2011 acquisition-related adjustments, which are shown separately):

	2012	2011	2010
Utility revenues (a)	\$ 2,289	\$ 1,618	\$ 727
Energy-related businesses	47	35	34
Total operating revenues	<u>2,336</u>	<u>1,653</u>	<u>761</u>
Other operation and maintenance	439	374	182
Depreciation	279	211	117
Taxes, other than income	147	113	52
Energy-related businesses	34	17	17
Total operating expenses	<u>899</u>	<u>715</u>	<u>368</u>
Other Income (Expense) - net	(51)	13	3
Interest Expense (b)	421	336	135
Income Taxes	153	98	
WPD Midlands acquisition-related adjustments, net of tax	(9)	(192)	
Net Income Attributable to PPL (c)	<u>\$ 803</u>	<u>\$ 325</u>	<u>\$ 261</u>

(a) Includes \$1,423 million in 2012 and \$790 million in 2011 for WPD Midlands.

(b) Includes allocated interest expense of \$47 million and \$38 million for 2012 and 2011 related primarily to the 2011 Equity Units.

(c) Includes \$570 million in 2012 and \$137 million in 2011 for WPD Midlands, net of acquisition-related adjustments.

The changes in the components of the U.K. Regulated segment's results between these periods were due to the following factors, which reflect reclassifications for certain items that management considers special and with WPD Midlands isolated for comparability purposes. See additional detail of special items in the table below. The amounts for PPL WW and WPD Midlands are presented on a constant U.K. foreign currency exchange rate basis in order to isolate the impact of the change in the exchange rate.

	2012 vs. 2011	2011 vs. 2010
PPL WW		
Utility revenues	\$ 49	\$ 77
Other operation and maintenance	(26)	(10)
Interest expense	16	(14)
Depreciation	(8)	(2)
Other	(4)	5
Income taxes	17	(55)
WPD Midlands, after-tax	224	240
U.S.		
Interest expense and other	(15)	(41)
Income taxes	(25)	37
Foreign currency exchange rates, after-tax	(14)	15
Special items, after-tax	264	(188)
Total	<u>\$ 478</u>	<u>\$ 64</u>

#### PPL WW

- The increase in utility revenues in 2012 compared with 2011 was due to the impact of the April 2012 and 2011 price increases which resulted in \$78 million of higher utility revenues, partially offset by \$13 million of lower volumes due primarily to a downturn in the economy and weather.

The increase in utility revenues in 2011 compared with 2010 was due to the impact of the April 2011 and 2010 price increases that resulted in \$76 million of additional revenue.

- The increases in other operation and maintenance in 2012 compared with 2011 and 2011 compared with 2010 were due to higher pension expense resulting from an increase in amortization of actuarial losses.
- The decrease in interest expense in 2012 compared with 2011 was due to lower interest expense on index-linked notes.

The increase in interest expense in 2011 compared with 2010 was due to \$11 million of higher interest expense arising from a March 2010 debt issuance.

- The increase in depreciation expense in 2012 compared with 2011 was due to \$10 million of depreciation related to PP&E additions.

- The decrease in income taxes in 2012 compared with 2011 was due to the tax deductibility of interest on acquisition financing of \$12 million and \$9 million from a benefit relating to customer contributions for capital expenditures.

The increase in income taxes in 2011 compared with 2010 was due to a \$46 million benefit recorded in 2010 for realized capital losses that offset a gain relating to a business activity sold in 1999 and \$15 million due to higher 2011 pre-tax income.

#### WPD Midlands

- Earnings in 2012 compared with 2011 were affected by an additional four months of results in 2012 totaling \$171 million, after-tax.
- The comparable eight month period was affected by higher utility revenue of \$125 million resulting from the April 1, 2012 price increase and \$26 million of lower pension expense, partially offset by \$26 million of higher taxes due to higher pre-tax income, \$25 million of additional interest expense on debt issuances in 2011 and 2012 and \$25 million of higher taxes due to a U.K./U.S. intercompany tax transaction.

#### U.S.

- The increase in interest expense and other in 2012 compared with 2011 was due to \$9 million of higher interest expense primarily associated with the 2011 Equity Units issued to finance the WPD Midlands acquisition.

The increase in interest expense and other in 2011 compared with 2010 was due to \$38 million of higher interest expense primarily associated with the 2011 Equity Units issued to finance the WPD Midlands acquisition.

- The increase in income taxes in 2012 compared with 2011 was due to \$28 million of tax benefits recorded in 2011 as a result of U.K. pension plan contributions and a \$20 million adjustment primarily related to the recalculation of 2010 U.K. earnings and profits, partially offset by \$25 million from the U.K./U.S. intercompany tax transaction.

The decrease in income taxes in 2011 compared with 2010 was due to a \$41 million tax benefit resulting from changes in the taxable amount of planned U.K. cash repatriations, a tax benefit of \$28 million from U.K. pension plan contributions and lower income taxes due to lower 2011 pre-tax income. These tax benefits were partially offset by \$24 million of favorable 2010 adjustments to uncertain tax benefits primarily related to Windfall Profits Tax and \$11 million of higher income taxes on interest income related to acquisition financing.

#### Foreign Currency Exchange Rates

- Changes in foreign currency exchange rates negatively affected the segment's earnings for 2012 compared with 2011 and positively affected 2011 compared with 2010. The weighted-average exchange rates for the British pound sterling, including the effects of currency hedges, were approximately \$1.58 in 2012, \$1.61 in 2011, and \$1.57 in 2010.

The following after-tax gains (losses), which management considers special items, also impacted the U.K. Regulated segment's results.

	Income Statement		
	Line Item		
	2012	2011	2010
Foreign currency-related economic hedges, net of tax of \$18, (\$2), \$0 (a)	\$ (33)	\$ 5	\$ 1
WPD Midlands acquisition-related adjustments:			
2011 Bridge Facility costs, net of tax of \$0, \$14, \$0 (b)		(30)	
Foreign currency loss on 2011 Bridge Facility, net of tax of \$0, \$19, \$0 (c)		(38)	
Net hedge gains, net of tax of \$0, (\$17), \$0 (e)		38	
Hedge ineffectiveness, net of tax of \$0, \$3, \$0 (d)		(9)	
U.K. stamp duty tax, net of tax of \$0, \$0, \$0 (e)		(21)	
Separation benefits, net of tax of \$4, \$26, \$0 (f)	(11)	(75)	
Other acquisition-related adjustments, net of tax of (\$1), \$20, \$0 (g)	2	(57)	
Other:			
Change in U.K. tax rate (h)	75	69	18
Windfall profits tax litigation (i)		(39)	12
Line loss adjustment, net of tax of (\$23), \$0, \$0 (j)	74		
Total	<u>\$ 107</u>	<u>\$ (157)</u>	<u>\$ 31</u>



- (a) Represents unrealized gains (losses) on contracts that economically hedge anticipated earnings denominated in GBP.
- (b) Represents fees incurred in connection with establishing the 2011 Bridge Facility.
- (c) Represents the foreign currency loss on the repayment of the 2011 Bridge Facility, including a pre-tax foreign currency loss of \$15 million associated with proceeds received on the U.S. dollar-denominated senior notes issued by PPL WEM in April 2011 that were used to repay a portion of PPL WEM's borrowing under the 2011 Bridge Facility. The foreign currency risk was economically hedged with forward contracts to purchase GBP, which resulted in pre-tax gains of \$55 million.
- (d) Represents a combination of ineffectiveness associated with closed out interest rate swaps and a charge recorded as a result of certain interest rate swaps failing hedge effectiveness testing.
- (e) Tax on the transfer of ownership of property in the U.K., which is not tax deductible for income tax purposes.
- (f) 2012 represents severance compensation and early retirement deficiency costs. 2011 primarily represents severance compensation, early retirement deficiency costs and outplacement services for employees separating from the WPD Midlands companies as a result of a reorganization to transition the WPD Midlands companies to the same operating structure as WPD (South West) and WPD (South Wales). 2011 also includes severance compensation and early retirement deficiency costs associated with certain employees who separated from the WPD Midlands companies, but were not part of the reorganization.
- (g) 2011 primarily includes \$34 million, pre-tax, of advisory, accounting and legal fees which are recorded in "Other Income (Expense) - net" on the Statement of Income; \$37 million, pre-tax, of costs, primarily related to the termination of certain contracts, rebranding costs and relocation costs that were recorded to "Other operation and maintenance" expense on the Statement of Income; and \$6 million, pre-tax, of costs associated with the integration of certain information technology assets, that were recorded in "Depreciation" on the Statement of Income.
- (h) The U.K. Finance Act of 2012, enacted in July 2012, reduced the U.K. statutory income tax rate from 25% to 24% retroactive to April 1, 2012 and from 24% to 23% effective April 1, 2013. The U.K. Finance Act of 2011, enacted in July 2011, reduced the U.K. statutory income tax rate from 27% to 26% retroactive to April 1, 2011 and reduced the rate from 26% to 25% effective April 1, 2012. The U.K. Finance Act of 2010, enacted in July 2010, reduced the U.K. statutory income tax rate from 28% to 27% effective April 1, 2011. As a result, WPD reduced its net deferred tax liabilities and recognized deferred tax benefits in 2012, 2011 and 2010. WPD Midlands' portion of the deferred tax benefit was \$43 million and \$35 million for 2012 and 2011.
- (i) In 2010, the U.S. Tax Court ruled in PPL's favor in a pending dispute with the IRS concluding that the 1997 U.K. Windfall Profits Tax (WPT) imposed on all U.K. privatized utilities, including PPL's U.K. subsidiary, is a creditable tax for U.S. Federal income tax purposes. As a result, PPL recorded an income tax benefit in 2010. In January 2011, the IRS appealed the U.S. Tax Court's decision to the U.S. Court of Appeals for the Third Circuit (Third Circuit). In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision and holding that the WPT is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a \$39 million expense in 2011. See Note 5 to the Financial Statements for information on 2012 activities related to this case, including the U.S. Supreme Court's decision to grant PPL's petition for a writ of certiorari to review the Third Circuit's opinion.
- (j) In November 2012, Ofgem issued additional consultation on the final DPCR4 line loss close-out that published values for each DNO and further indicated the preferred methodology that would replace the methodology under WPD's licenses. Based on applying the preferred methodology for DPCR4, WPD Midlands reduced its line loss liability by \$86 million, pre-tax. Ofgem also indicated that the line loss incentive implemented at the last rate review will be withdrawn and no incentive will apply for the DPCR5 period. As a result, WPD Midlands reduced their line loss accrual by \$11 million, pre-tax. This represents WPD Midlands' portion of the adjustment as the original liability was primarily established through purchase accounting.

### 2013 Outlook

Excluding special items, PPL projects higher segment earnings in 2013 compared with 2012, primarily driven by higher electricity delivery revenue and lower income taxes, partially offset by higher operation and maintenance, higher depreciation and higher interest expense.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7 and Notes 6 and 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.

### Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electric delivery operations of PPL Electric.

Net Income Attributable to PPL Shareowners includes the following results:

	2012	2011	% Change	2011	2010	% Change
Operating revenues						
External	\$ 1,760	\$ 1,881	(6)	\$ 1,881	\$ 2,448	(23)
Intersegment	3	11	(73)	11	7	57
Total operating revenues	1,763	1,892	(7)	1,892	2,455	(23)
Energy purchases						
External	550	738	(25)	738	1,075	(31)
Intersegment	78	26	200	26	320	(92)
Other operation and maintenance	576	530	9	530	502	6
Amortization of recoverable transition costs			n/a			n/a
Depreciation	160	146	10	146	136	7
Taxes, other than income	105	104	1	104	138	(25)
Total operating expenses	1,469	1,544	(5)	1,544	2,171	(29)
Other Income (Expense) - net	9	7	29	7	7	-
Interest Expense	99	98	1	98	99	(1)
Income Taxes	68	68	-	68	57	19
Net Income	136	189	(28)	189	135	40
Net Income Attributable to Noncontrolling Interests (Note 3)	4	16	(75)	16	20	(20)
Net Income Attributable to PPL Shareowners	\$ 132	\$ 173	(24)	\$ 173	\$ 115	50

The changes in the components of the Pennsylvania Regulated segment's results between these periods were due to the following factors, which reflect reclassifications for items included in Pennsylvania Gross Delivery Margins.

	2012 vs. 2011	2011 vs. 2010
Pennsylvania Gross Delivery Margins	\$ 19	\$ 66
Other operation and maintenance	(50)	4
Depreciation	(14)	(10)
Taxes, other than income	(9)	4
Other	1	1
Income Taxes		(11)
Noncontrolling Interests	12	4
Total	\$ (41)	\$ 58

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Pennsylvania Gross Delivery Margins.
- Higher other operation and maintenance for 2012 compared with 2011, primarily due to \$17 million in higher payroll-related costs due to less project costs being capitalized in 2012, higher support group costs of \$11 million and \$10 million for increased vegetation management.
- Higher depreciation for 2012 compared with 2011 and 2011 compared with 2010 primarily due to PP&E additions.
- Higher taxes, other than income for 2012 primarily due to a \$10 million tax provision related to gross receipts tax.
- Income taxes were flat in 2012 compared with 2011 primarily due to the \$22 million impact of lower 2012 pre-tax income primarily offset by \$9 million of depreciation not normalized and \$9 million of income tax return adjustments, largely related to changes in flow-through regulated tax depreciation.

Income taxes were higher in 2011 compared with 2010, due to the \$26 million impact of higher 2011 pre-tax income, partially offset by a \$14 million tax benefit related to changes in flow-through regulated tax depreciation.

- Lower noncontrolling interests in 2012 compared with 2011 due to PPL Electric's redemption of preference securities in June 2012.

### 2013 Outlook

PPL projects higher segment earnings in 2013 compared with 2012, due to higher distribution revenues from a distribution base rate increase effective January 1, 2013, and higher transmission margins, partially offset by higher depreciation.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7 and Notes 6 and 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.

## Supply Segment

The Supply segment primarily consists of the energy marketing and trading activities, as well as the competitive generation and development operations of PPL Energy Supply. In 2011 and 2010, PPL Energy Supply subsidiaries completed the sale of several businesses, which have been classified as Discontinued Operations. See Note 9 to the Financial Statements for additional information.

Net Income Attributable to PPL Shareowners includes the following results:

	2012	2011	% Change	2011	2010	% Change
Energy revenues						
External (a)	\$ 4,970	\$ 5,938	(16)	\$ 5,938	\$ 4,444	34
Intersegment	79	26	204	26	320	(92)
Energy-related businesses	461	472	(2)	472	375	26
Total operating revenues	5,510	6,436	(14)	6,436	5,139	25
Fuel (a)	965	1,080		1,080	1,096	
Energy Purchases						
External (a)	1,810	2,277	(21)	2,277	1,344	69
Intersegment	2	4	(50)	4	3	33
Other operation and maintenance	1,032	882	17	882	934	(6)
Depreciation	315	262	20	262	254	3
Taxes, other than income	68	72	(6)	72	46	57
Energy-related businesses	450	467	(4)	467	366	28
Total operating expenses	4,642	5,044	(8)	5,044	4,043	25
Other Income (Expense) - net	18	43	(58)	43	(9)	(578)
Other-Than-Temporary Impairments	2	6	(67)	6	3	100
Interest Expense	222	192	16	192	224	(14)
Income Taxes	247	463	(47)	463	228	103
Income (Loss) from Discontinued Operations		3	(100)	3	(19)	(116)
Net Income	415	777	(47)	777	613	27
Net Income Attributable to Noncontrolling Interests	1	1		1	1	
Net Income Attributable to PPL Shareowners	\$ 414	\$ 776	(47)	\$ 776	\$ 612	27

(a) Includes the impact from energy-related economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 19 to the Financial Statements for additional information.

The changes in the components of the Supply segment's results between these periods were due to the following factors, which reflect reclassifications for items included in Unregulated Gross Energy Margins and certain items that management considers special. See additional detail of these special items in the table below.

	2012 vs. 2011	2011 vs. 2010
Unregulated Gross Energy Margins	\$ (197)	\$ (405)
Other operation and maintenance	(91)	(63)
Depreciation	(53)	(8)
Taxes, other than income	8	(10)
Other Income (Expense) - net	(26)	22
Interest Expense	(20)	(12)
Other	5	(4)
Income Taxes	136	107
Discontinued operations, after-tax - excluding certain revenues and expenses included in margins		17
Special items, after-tax	(124)	520
Total	\$ (362)	\$ 164

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Unregulated Gross Energy Margins.
- Higher other operation and maintenance in 2012 compared with 2011 due to higher costs at PPL Susquehanna of \$27 million including refueling outage costs, payroll-related costs and project costs, \$18 million due to the Ironwood Acquisition, \$13 million due to eastern fossil and hydroelectric unit outages, \$11 million of higher pension expense and \$10 million of higher charges from support groups.

Higher other operation and maintenance in 2011 compared with 2010 primarily due to higher costs at PPL Susquehanna of \$27 million largely due to unplanned outages, the refueling outage and payroll-related costs, \$23 million higher costs at eastern fossil and hydroelectric units largely due to outages, and \$12 million higher net costs at western fossil and hydroelectric units, largely resulting from insurance recoveries received in 2010.

- Higher depreciation in 2012 compared with 2011 primarily due to a \$24 million impact from PP&E additions and \$17 million due to the Ironwood Acquisition.

- Lower taxes other than income in 2012 compared with 2011 primarily due to lower capital stock tax.

Higher taxes other than income in 2011 compared with 2010 primarily due to higher capital stock tax.

- Lower other income (expense) - net in 2012 compared with 2011 and higher other income (expense) - net in 2011 compared with 2010 primarily due to a \$22 million gain on the July 2011 redemption of Senior Secured Bonds.
- Higher interest expense in 2012 compared with 2011 primarily due to hedging activity, which increased interest expense by \$30 million and \$12 million related to the debt assumed as a result of the Ironwood Acquisition, partially offset by \$11 million of lower interest on short-term borrowings and \$4 million of higher capitalized interest.

Higher interest expense in 2011 compared with 2010 of \$13 million primarily due to hedging activity and \$8 million due to short-term borrowings, partially offset by \$15 million of higher capitalized interest.

- Lower income taxes in 2012 compared with 2011 due to lower 2012 pre-tax income, which reduced income taxes by \$151 million and \$23 million related to lower adjustments to valuation allowances on Pennsylvania net operating losses, partially offset by \$21 million related to the impact of prior period tax return adjustments.

Lower income taxes in 2011 compared with 2010 due to lower 2011 pre-tax income, which reduced taxes by \$204 million and a \$26 million reduction in deferred tax liabilities related to an updated blended state tax rate resulting from a change in state tax apportionment. These decreases were partially offset by \$101 million related to adjustments to valuation allowances on Pennsylvania net operating losses, \$16 million in favorable adjustments to uncertain tax benefits recorded in 2010 and an \$11 million decrease in the domestic manufacturing deduction resulting from revised bonus depreciation estimates.

The following after-tax gains (losses), which management considers special items, also impacted the Supply segment's results.

	Income Statement Line Item	2012	2011	2010
Adjusted energy-related economic activity, net, net of tax of (\$26), (\$52), \$85	(a)	\$ 38	\$ 72	\$ (121)
Sales of assets:				
Maine hydroelectric generation business, net of tax of \$0, \$0, (\$9) (b)	Disc. Operations			15
Sundance Indemnification, net of tax of \$0, \$0, \$0	Other Income-net			1
Impairments:				
Emission allowances, net of tax of \$0, \$1, \$6 (c)	Other O&M		(1)	(10)
Renewable energy credits, net of tax of \$0, \$2, \$0	Other O&M		(3)	
Adjustments - nuclear decommissioning trust investments, net of tax of (\$2), \$0, \$0	Other Income-net	2		
Other asset impairments, net of tax of \$0, \$0, \$0	Other O&M	(1)		
LKE acquisition-related adjustments:				
Monetization of certain full-requirement sales contracts, net of tax of \$0, \$0, \$89	(d)			(125)
Sale of certain non-core generation facilities, net of tax of \$0, \$0, \$37 (e)	Disc. Operations		(2)	(64)
Discontinued cash flow hedges and ineffectiveness, net of tax of \$0, \$0, \$15 (f)	Other Income-net			(28)
Reduction of credit facility, net of tax of \$0, \$0, \$4 (g)	Interest Expense			(6)
Other:				
Montana hydroelectric litigation, net of tax of \$0, (\$30), \$22	(h)		45	(34)
Litigation settlement - spent nuclear fuel storage, net of tax of \$0, (\$24), \$0 (i)	Fuel		33	
Health care reform - tax impact (j)	Income Taxes			(8)
Montana basin seepage litigation, net of tax of \$0, \$0, (\$1)	Other O&M			2
Counterparty bankruptcy, net of tax of \$5, \$5, \$0 (k)	Other O&M	(6)	(6)	
Wholesale supply cost reimbursement, net of tax of \$0, (\$3), \$0	(l)	1	4	
Ash basin leak remediation adjustment, net of tax of (\$1), \$0, \$0	Other O&M	1		
Coal contract modification payments, net of tax of \$12, \$0, \$0 (m)	Fuel	(17)		
Total		<u>\$ 18</u>	<u>\$ 142</u>	<u>\$ (378)</u>

- (a) See "Reconciliation of Economic Activity" below.
- (b) Gains recorded on the completion of the sale of the Maine hydroelectric generation business. See Note 9 to the Financial Statements for additional information.
- (c) Primarily represents impairment charges of sulfur dioxide emission allowances.
- (d) In July 2010, in order to raise additional cash for the LKE acquisition, certain full-requirement sales contracts were monetized that resulted in cash proceeds of \$249 million. See "Monetization of Certain Full-Requirement Sales Contracts" in Note 19 to the Financial Statements for additional information. \$343 million of pre-tax gains were recorded to "Wholesale energy marketing" and \$557 million of pre-tax losses were recorded to "Energy purchases" on the Statement of Income.

- (e) Consists primarily of the initial impairment charge recorded when the business was classified as held for sale. See Note 9 to the Financial Statements for additional information.
- (f) As a result of the expected net proceeds from the anticipated sale of certain non-core generation facilities, coupled with the monetization of certain full-requirement sales contracts, debt that had been planned to be issued by PPL Energy Supply in 2010 was no longer needed. As a result, hedge accounting associated with interest rate swaps entered into by PPL in anticipation of a debt issuance by PPL Energy Supply was discontinued.
- (g) In October 2010, PPL Energy Supply made borrowings under its Syndicated Credit Facility in order to enable a subsidiary to make loans to certain affiliates to provide interim financing of amounts required by PPL to partially fund PPL's acquisition of LKE. Subsequent to the repayment of such borrowing, the capacity was reduced, and as a result, PPL Energy Supply wrote off deferred fees in 2010.
- (h) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. In 2010, PPL Montana recorded a pre-tax charge of \$56 million, representing estimated rental compensation for years prior to 2010, including interest. Of this total charge \$47 million, pre-tax, was recorded to "Other operation and maintenance" and \$9 million, pre-tax, was recorded to "Interest Expense" on the Statement of Income. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition. In February 2012, the U.S. Supreme Court overturned the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. Prior to the U.S. Supreme Court decision, \$4 million, pre-tax, of interest expense on the rental compensation covered by the court decision was accrued in 2011. As a result of the U.S. Supreme Court decision, PPL Montana reversed its total pre-tax loss accrual of \$89 million, which had been recorded prior to the U.S. Supreme Court decision, of which \$79 million pre-tax is considered a special item because it represented \$65 million of rent for periods prior to 2011 and \$14 million of interest accrued on the portion covered by the prior court decision. These amounts were credited to "Other operation and maintenance" and "Interest Expense" on the Statement of Income. See Note 15 to the Financial Statements for additional information.
- (i) In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna plant. PPL Susquehanna recorded credits to fuel expense to recognize recovery, under the settlement agreement, of certain costs to store spent nuclear fuel at the Susquehanna plant. This special item represents amounts recorded in 2011 to cover the costs incurred from 1998 through December 2010.
- (j) Represents income tax expense recorded as a result of the provisions within Health Care Reform which eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage.
- (k) In October 2011, a wholesale customer, SMGT, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy code. In 2012, PPL EnergyPlus recorded an additional allowance for unpaid amounts under the long-term power contract. In March 2012, the U.S. Bankruptcy Court for the District of Montana approved the request to terminate the contract, effective April 1, 2012.
- (l) In January 2012, PPL received \$7 million pre-tax, related to electricity delivered to a wholesale customer in 2008 and 2009, recorded in "Wholesale energy marketing-Realized." The additional revenue results from several transmission projects approved at PJM for recovery that were not initially anticipated at the time of the electricity auctions and therefore were not included in the auction pricing. A FERC order was issued in 2011 approving the disbursement of these supply costs by the wholesale customer to the suppliers, therefore, PPL accrued its share of this additional revenue in 2011.
- (m) As a result of lower electricity and natural gas prices, coal-fired generation output decreased during 2012. Contract modification payments were incurred to reduce 2012 and 2013 contracted coal deliveries.

#### Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) from the table within "Commodity Price Risk (Non-trading) - Economic Activity" in Note 19 to the Financial Statements to the special item identified as "Adjusted energy-related economic activity, net."

	2012	2011	2010
Operating Revenues			
Unregulated retail electric and gas	\$ (17)	\$ 31	\$ 1
Wholesale energy marketing	(311)	1,407	(805)
Operating Expenses			
Fuel	(14)	6	29
Energy Purchases	442	(1,123)	286
Energy-related economic activity (a)	100	321	(489)
Option premiums (b)	(1)	19	32
Adjusted energy-related economic activity	99	340	(457)
Less: Unrealized economic activity associated with the monetization of certain full-requirement sales contracts in 2010 (c)			(251)
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010	35	216	
Adjusted energy-related economic activity, net, pre-tax	<u>\$ 64</u>	<u>\$ 124</u>	<u>\$ (206)</u>
Adjusted energy-related economic activity, net, after-tax	<u>\$ 38</u>	<u>\$ 72</u>	<u>\$ (121)</u>

- (a) See Note 19 to the Financial Statements for additional information.
- (b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. Option premiums are recorded in "Wholesale energy marketing - Realized" and "Energy purchases - Realized" on the Statements of Income.
- (c) See "Components of Monetization of Certain Full-Requirement Sales Contracts" below.

#### Components of Monetization of Certain Full-Requirement Sales Contracts

The following table provides the components of the "Monetization of Certain Full-Requirement Sales Contracts" special item.

	2010
Full-requirement sales contracts monetized (a)	\$ (68)
Economic activity related to the full-requirement sales contracts monetized	(146)
Monetization of certain full-requirement sales contracts, pre-tax (b)	<u>\$ (214)</u>
Monetization of certain full-requirement sales contracts, after-tax	<u>\$ (125)</u>

- (a) See "Commodity Price Risk (Non-trading) - Monetization of Certain Full-Requirement Sales Contracts" in Note 19 to the Financial Statements for additional information.
- (b) Includes unrealized losses of \$251 million, which are reflected in "Wholesale energy marketing - Unrealized economic activity" and "Energy purchases - Unrealized economic activity" on the Statement of Income. Also includes net realized gains of \$37 million, which are reflected in "Wholesale energy marketing - Realized" and "Energy purchases - Realized" on the Statement of Income.

### 2013 Outlook

Excluding special items, PPL projects lower segment earnings in 2013 compared with 2012, primarily driven by lower energy prices, higher fuel costs, higher operation and maintenance, higher depreciation and higher financing costs, which are partially offset by higher capacity prices and higher nuclear generation output despite scheduled outages for both Susquehanna units to implement a long-term solution to turbine blade issues.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item I. Business," "Item 1A. Risk Factors," the rest of this Item 7 and Note 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.

### Statement of Income Analysis –

#### Margins

#### Non-GAAP Financial Measures

The following discussion includes financial information prepared in accordance with GAAP, as well as three non-GAAP financial measures: "Kentucky Gross Margins," "Pennsylvania Gross Delivery Margins" and "Unregulated Gross Energy Margins." These measures are 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 analyze and to report on the results of their operations. PPL believes that these measures provide additional criteria to make investment decisions. These performance measures are used, in conjunction with other information, internally by senior management and the Board of Directors to manage the Kentucky Regulated, Pennsylvania Regulated and Supply segment operations, analyze each respective segment's actual results compared with budget and, in certain cases, to measure certain corporate financial goals used in determining variable compensation.

PPL's three non-GAAP financial measures include:

- "Kentucky Gross Margins" is a single financial performance measure of the Kentucky Regulated segment's electricity generation, transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, fuel and energy purchases are deducted from revenues. In addition, utility revenues and expenses associated with approved cost recovery mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments primarily associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" and "Depreciation." As a result, this measure represents the net revenues from the Kentucky Regulated segment's operations.
- "Pennsylvania Gross Delivery Margins" is a single financial performance measure of the Pennsylvania Regulated segment's electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," which is primarily Act 129 costs, and "Taxes, other than income," which is primarily gross receipts tax. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)" in the table below. As a result, this measure represents the net revenues from the Pennsylvania Regulated segment's electric delivery operations.

- "Unregulated Gross Energy Margins" is a single financial performance measure of the Supply segment's competitive energy non-trading and trading activities. In calculating this measure, the Supply segment's energy revenues, which include operating revenues associated with certain Supply segment businesses that are classified as discontinued operations, are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges, gross receipts tax, which is recorded in "Taxes, other than income," and operating expenses associated with certain Supply segment businesses that are classified as discontinued operations. This performance measure is relevant to PPL due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant fluctuations in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Wholesale energy marketing" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are recorded in "PLR intersegment utility revenue (expense)" in the table below. PPL excludes from "Unregulated Gross Energy Margins" the Supply segment's adjusted energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of PPL's competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in adjusted energy-related economic activity is the ineffective portion of qualifying cash flow hedges, the monetization of certain full-requirement sales contracts and premium amortization associated with options. This economic activity is deferred, with the exception of the full-requirement sales contracts that were monetized, and included in Unregulated Gross Energy Margins over the delivery period that was hedged or upon realization.

#### Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to PPL's three non-GAAP financial measures.

	2012					2011				
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>										
Utility	\$ 2,759	\$ 1,760		\$ 2,289 (d)	\$ 6,808	\$ 2,791	\$ 1,881		\$ 1,620 (d)	\$ 6,292
PLR intersegment utility revenue (expense) (e)		(78)	\$ 78				(26)	\$ 26		
Unregulated retail electric and gas			865	(21) (g)	844			696	30 (g)	726
Wholesale energy marketing										
Realized			4,412	21 (f)	4,433			3,745	62 (f)	3,807
Unrealized economic activity				(311) (g)	(311)				1,407 (g)	1,407
Net energy trading margins			4		4			(2)		(2)
Energy-related businesses				508	508				507	507
Total Operating Revenues	2,759	1,682	5,359	2,486	12,286	2,791	1,855	4,465	3,626	12,737
<b>Operating Expenses</b>										
Fuel	872		931	34 (h)	1,837	866		1,151	(71) (h)	1,946
Energy purchases										
Realized	195	550	2,204	48 (f)	2,997	238	738	912	242 (f)	2,130
Unrealized economic activity				(442) (g)	(442)				1,123 (g)	1,123
Other operation and maintenance	101	104	19	2,611	2,835	90	108	16	2,453	2,667
Depreciation	51			1,049	1,100	49			911	960
Taxes, other than income		91	34	241	366		99	30	197	326
Energy-related businesses				484	484				484	484
Intercompany eliminations		(3)	3				(11)	3	8	
Total Operating Expenses	1,219	742	3,191	4,025	9,177	1,243	934	2,112	5,347	9,636
Discontinued operations								12	(12) (i)	
Total	\$ 1,540	\$ 940	\$ 2,168	\$ (1,539)	\$ 3,109	\$ 1,548	\$ 921	\$ 2,365	\$ (1,733)	\$ 3,101

	2010				
	Kentucky Gross Margins (e)	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>					
Utility		\$ 2,448		\$ 1,220 (d)	\$ 3,668
PLR intersegment utility revenue (expense) (e)		(320)	\$ 320		
Unregulated retail electric and gas			414	1	415
Wholesale energy marketing					
Realized			4,511	321 (f)	4,832
Unrealized economic activity				(805) (g)	(805)
Net energy trading margins			2		2
Energy-related businesses				409	409
<b>Total Operating Revenues</b>		<u>2,128</u>	<u>5,247</u>	<u>1,146</u>	<u>8,521</u>
<b>Operating Expenses</b>					
Fuel			1,132	103 (h)	1,235
Energy purchases					
Realized		1,075	1,389	309 (f)	2,773
Unrealized economic activity				(286) (g)	(286)
Other operation and maintenance		76	23	1,657	1,756
Amortization of recoverable transition costs					
Depreciation				556	556
Taxes, other than income		129	14	95	238
Energy-related businesses				383	383
Intercompany eliminations		(7)	3	4	
<b>Total Operating Expenses</b>		<u>1,273</u>	<u>2,561</u>	<u>2,821</u>	<u>6,655</u>
Discontinued operations			84	(84) (i)	
<b>Total</b>		<u>\$ 855</u>	<u>\$ 2,770</u>	<u>\$ (1,759)</u>	<u>\$ 1,866</u>

- (a) Represents amounts excluded from Margins.  
(b) As reported on the Statements of Income.  
(c) LKE was acquired on November 1, 2010. Kentucky Gross Margins were not used to measure the financial performance of the Kentucky Regulated segment in 2010.  
(d) Primarily represents WPD's utility revenue. 2010 also includes LKE's utility revenues for the two-month period subsequent to the November 1, 2010 acquisition.  
(e) Primarily related to PLR supply sold by PPL EnergyPlus to PPL Electric.  
(f) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements. For 2012, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" include a net pre-tax loss of \$35 million related to the monetization of certain full-requirement sales contracts. 2011 includes a net pre-tax loss of \$216 million related to the monetization of certain full-requirement sales contracts and a net pre-tax gain of \$19 million related to the amortization of option premiums. 2010 includes a net pre-tax gain of \$37 million related to the monetization of certain full-requirement sales contracts and a net pre-tax gain of \$32 million related to the amortization of option premiums.  
(g) Represents energy-related economic activity, which is subject to fluctuations in value due to market price volatility, as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements.  
(h) Includes economic activity related to fuel as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements. 2012 includes a net pre-tax loss of \$29 million related to coal contract modification payments. 2011 includes pre-tax credits of \$57 million for the spent nuclear fuel litigation settlement.  
(i) Represents the net of certain revenues and expenses associated with certain businesses that are classified as discontinued operations. These revenues and expenses are not reflected in "Operating Income" on the Statements of Income.

#### Changes in Non-GAAP Financial Measures

The following table shows PPL's three non-GAAP financial measures, as well as the change between periods. The factors that gave rise to the changes are described below the table.



	2012	2011	Change	2011	2010	Change
Kentucky Gross Margins (a)	\$ 1,540	\$ 1,548	\$ (8)	\$ 1,548		\$ 1,548
PA Gross Delivery Margins by Component						
Distribution	\$ 730	\$ 741	\$ (11)	\$ 741	\$ 679	\$ 62
Transmission	210	180	30	180	176	4
Total	\$ 940	\$ 921	\$ 19	\$ 921	\$ 855	\$ 66
Unregulated Gross Energy Margins by Region						
Non-trading						
Eastern U.S.	\$ 1,865	\$ 2,018	\$ (153)	\$ 2,018	\$ 2,429	\$ (411)
Western U.S.	299	349	(50)	349	339	10
Net energy trading	4	(2)	6	(2)	2	(4)
Total	\$ 2,168	\$ 2,365	\$ (197)	\$ 2,365	\$ 2,770	\$ (405)

(a) LKE was acquired on November 1, 2010. Kentucky Gross Margins were not used to measure the financial performance of the Kentucky Regulated segment in 2010.

### *Kentucky Gross Margins*

Margins decreased in 2012 compared with 2011, primarily due to \$6 million of lower wholesale margins, resulting from lower market prices. Retail margins were \$2 million lower, as volumes were impacted by unseasonably mild weather during the first four months of 2012. Total heating degree days decreased 11% compared to 2011, partially offset by a 6% increase in cooling degree days.

PPL acquired LKE on November 1, 2010. Margins for 2011 are included in PPL's results without comparable amounts for 2010.

### *Pennsylvania Gross Delivery Margins*

#### Distribution

Margins decreased in 2012 compared with 2011, primarily due to a \$14 million unfavorable effect of mild weather early in 2012 and lower revenue applicable to certain energy-related costs of \$3 million due to fewer PLR customers in 2012, partially offset by a \$7 million charge recorded in 2011 to reduce a portion of the transmission service charge regulatory asset associated with a 2005 undercollection that was not included in any subsequent rate reconciliations filed with the PUC.

Margins increased in 2011 compared with 2010, largely due to the PPL Electric distribution rate case which increased rates by approximately 1.6% effective January 1, 2011, resulting in improved residential distribution margins of \$68 million. Additionally, residential volume variances increased margins by an additional \$4 million in 2011, compared with 2010, offset by unfavorable weather of \$3 million for residential customers in 2011 compared with 2010. Lastly, lower demand charges and increased efficiency as a result of Act 129 programs resulted in a \$5 million decrease in margins for commercial and industrial customers.

#### Transmission

Margins increased in 2012 compared with 2011, primarily due to increased investment in plant and the recovery of additional costs through the FERC formula-based rates.

### *Unregulated Gross Energy Margins*

#### Eastern U.S.

The changes in Eastern U.S. non-trading margins were:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Baseload energy prices	\$ (121)	\$ (109)
Baseload capacity prices	(37)	(90)
Intermediate and peaking capacity prices	(17)	(58)
Full-requirement sales contracts (a)	(15)	70
Impact of non-core generation facilities sold in the first quarter of 2011	(12)	(48)
Higher nuclear fuel prices	(12)	(10)
Net economic availability of coal and hydroelectric units (b)	(10)	(72)
Higher coal prices	(2)	(40)
Nuclear generation volume (c)		(29)
Intermediate and peaking Spark Spreads	11	24
Retail electric	15	(7)
Ironwood Acquisition, which eliminated tolling expense (d)	41	
Monetization of certain deals that rebalanced the business and portfolio		(41)
Other	6	(1)
	<u>\$ (153)</u>	<u>\$ (411)</u>

- (a) Higher margins in 2011 compared with 2010 were driven by the monetization of loss contracts in 2010 and lower customer migration to alternative suppliers in 2011.
- (b) Volumes were lower in 2011 compared with 2010 as a result of unplanned outages and the sale of our interest in Safe Harbor Water Power Corporation.
- (c) Volumes were flat in 2012 compared to 2011 due to an uprate in the third quarter of 2011 offset by higher plant outage costs in 2012. Volumes were lower in 2011 compared with 2010 primarily as a result of the dual-unit turbine blade replacement outages beginning in May 2011.
- (d) See Note 10 to the Financial Statements for additional information.

### Western U.S.

Non-trading margins were lower in 2012 compared with 2011 due to \$34 million of lower wholesale volumes, including \$31 million related to the bankruptcy of SMGT, \$9 million of higher average fuel prices and \$9 million of lower wholesale prices.

Non-trading margins were higher in 2011 compared with 2010 due to higher net wholesale prices of \$58 million, partially offset by lower wholesale volumes of \$45 million, primarily due to economic reductions in the coal unit output.

### Utility Revenues

The increase (decrease) in utility revenues was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Domestic:		
PPL Electric (a)	\$ (121)	\$ (567)
LKE (b)	(34)	2,300
Total Domestic	<u>(155)</u>	<u>1,733</u>
U.K.:		
PPL WW		
Price (c)	78	76
Volume (d)	(13)	(15)
Recovery of allowed revenues (e)	(6)	7
Foreign currency exchange rates	(11)	25
Other	(10)	8
Total PPL WW	<u>38</u>	<u>101</u>
WPD Midlands (f)	633	790
Total U.K.	<u>671</u>	<u>891</u>
Total	<u>\$ 516</u>	<u>\$ 2,624</u>

- (a) See "Pennsylvania Gross Delivery Margins" for further information.
- (b) See "Kentucky Gross Margins" for further information.
- (c) The increase in 2012 compared with 2011 was due to price increases effective April 1, 2012 and April 1, 2011. The increase in 2011 compared with 2010 was due to price increases effective April 1, 2011 and April 1, 2010.
- (d) The decreases in both periods were primarily due to the downturn in the economy and the unfavorable effect of weather.
- (e) The decrease in 2012 compared with 2011 was primarily due to a 2012 charge to income for the over-recovery of revenues from customers. The increase in 2011 compared with 2010 was primarily due to a revised estimate of network electricity line losses.
- (f) Amounts in each period were not comparable as 2011 includes eight months of WPD Midlands' results. The increase in 2012 compared with 2011 was primarily due to four additional months of utility revenue in 2012 of \$446 million. The comparable eight month period was \$125 million higher in 2012 compared to 2011 due to a price increase effective April 1, 2012.

## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	2012 vs. 2011	2011 vs. 2010
Domestic:		
LKE (a)		\$ 612
LKE coal plant maintenance (b)	\$ 19	
Act 129 costs incurred (c)	(6)	26
Vegetation management (d)	11	(8)
Montana hydroelectric litigation (e)	75	(121)
PPL Susquehanna nuclear plant costs (f)	27	27
Costs at Western fossil and hydroelectric plants (g)	(1)	12
Costs at Eastern fossil and hydroelectric plants (h)	13	23
Ironwood acquisition (i)	18	
Payroll-related costs (j)	26	11
PUC-reportable storm costs, net of insurance recoveries	14	(10)
Uncollectible accounts (k)	(4)	21
Pension expense	19	(5)
Stock based compensation	17	7
Other	2	(12)
U.K. Regulated Segment:		
PPL WW (l)	23	15
WPD Midlands (m)	(85)	313
	<u>\$ 168</u>	<u>\$ 911</u>

- (a) 2011 compared with 2010 is not comparable as 2010 includes two months of LKE's results.
- (b) 2012 compared with 2011 was higher primarily due to \$11 million of expense related to an increased scope of scheduled outages.
- (c) Relates to costs associated with PPL Electric's PUC-approved energy efficiency and conservation plan. These costs are recovered in customer rates. There were initially 15 Act 129 programs which began in 2010 and continued to ramp up in 2011. Some of the energy efficiency programs were reduced or closed in 2012 resulting in lower operation and maintenance expense.
- (d) PPL Electric incurred more expense in 2010 and 2012 compared to 2011 due to increased vegetation management activities related to transmission lines to comply with federal reliability requirements as well as increased vegetation management for the distribution system in 2012 in an effort to maintain and increase system reliability.
- (e) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded a charge of \$56 million, representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. The portion of the total charge recorded to "Other operation and maintenance" on the Statement of Income totaled \$49 million. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition. In February 2012, the U.S. Supreme Court overturned the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's decision. As a result in 2011, PPL Montana reversed its total loss accrual of \$89 million, which had been recorded prior to the U.S. Supreme Court decision, of which \$75 million was credited to "Other operation and maintenance" on the Statement of Income.
- (f) 2012 compared with 2011 was higher primarily due to \$11 million of higher payroll-related costs, \$7 million of higher project costs and \$7 million of higher costs from the refueling outage. 2011 compared with 2010 was higher primarily due to \$11 million of higher payroll-related costs, \$10 million of higher outage costs and \$8 million of higher costs from the refueling outage.
- (g) 2011 compared with 2010 was higher primarily due to \$11 million of lower insurance proceeds.
- (h) 2012 compared with 2011 was higher primarily due to plant outage costs of \$13 million. 2011 compared with 2010 was higher primarily due to plant outage costs of \$13 million.
- (i) There are no comparable amounts in 2011 as the Ironwood Acquisition occurred in April 2012.
- (j) 2012 compared with 2011 was higher primarily due to higher payroll costs of \$17 million in 2012 for PPL Electric due to less project costs being capitalized.
- (k) 2011 compared with 2010 was higher primarily due to SMGT filing for protection under Chapter 11 of the U.S. Bankruptcy Code, \$11 million of damages billed to SMGT were fully reserved.
- (l) Both periods were higher due to higher pension costs resulting from increased amortization of actuarial losses.
- (m) Amounts in each period were not comparable as 2011 includes eight months of WPD Midlands' results. The increase in 2012 compared with 2011 was partially due to four additional months of expense in 2012 of \$86 million. The comparable eight month period was \$171 million lower in 2012 compared to 2011 due to \$86 million of lower severance compensation, early retirement deficiency costs and outplacement services for employees separating from the WPD Midlands companies as a result of a reorganization to transition the WPD Midlands companies to the same operating structure as WPD (South West) and WPD (South Wales), \$34 million of lower other acquisition related costs, and \$26 million of lower pension expense.

## Depreciation

The increase (decrease) in depreciation was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Additions to PP&E	\$ 65	\$ 20
LKE (a) (b)		285
WPD Midlands (c)	55	95
Ironwood Acquisition (Note 10)	17	
Other	3	4
Total	<u>\$ 140</u>	<u>\$ 404</u>

- (a) For 2011 compared with 2010, includes \$32 million of depreciation expense related to TC2, which began to dispatch in January 2011.
- (b) 2011 compared with 2010 is not comparable as 2010 includes two months of LKE's results.
- (c) Amounts in each period were not comparable as 2011 includes eight months of WPD Midlands' results. The increase in 2012 compared with 2011 is primarily due to four additional months of expense in 2012 of \$49 million.

### Taxes, Other Than Income

The increase (decrease) in taxes, other than income was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
State gross receipts tax (a)	\$ (4)	\$ (5)
Domestic property tax expense (b)	14	(10)
Domestic sales and use tax		(2)
State capital stock tax (c)	(11)	11
LKE (d)		35
WPD Midlands (e)	33	60
Other	8	(1)
Total	<u>\$ 40</u>	<u>\$ 88</u>

- (a) The decrease in 2012 compared with 2011 was primarily due to a decrease in taxable electricity revenue. The decrease in 2011 compared with 2010 was primarily due to a decrease in electricity revenue as customers chose alternative suppliers in 2010. This tax is included in "Unregulated Gross Energy Margins" and "Pennsylvania Gross Delivery Margins" above.
- (b) The increase in 2012 compared with 2011 is primarily due to the fully amortized PURTA refund that was refunded to the customers in 2011 pursuant to PUC regulations. The decrease in 2011 compared with 2010 was primarily due to the amortization of the PURTA refund. This tax is included in "Pennsylvania Gross Delivery Margins" above.
- (c) The decrease in 2012 compared to 2011 was due to changes in the statutory rate from the prior year. The increase in 2011 compared with 2010 was due in part to the expiration of the Keystone Opportunity Zone credit in 2010 and an agreed to change in a capital stock filing position with the state.
- (d) 2011 compared with 2010 was not comparable as 2010 includes two months of LKE's results.
- (e) Amounts in each period were not comparable as 2011 includes eight months of WPD Midlands' results. The increase in 2012 compared with 2011 is primarily due to four additional months of expense in 2012 of \$30 million.

### Other Income (Expense) - net

The increase (decrease) in other income (expense) - net was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Change in the fair value of economic foreign currency exchange contracts (Note 19)	\$ (62)	\$ 7
Net hedge gains associated with the 2011 Bridge Facility (a)	(55)	55
Foreign currency loss on 2011 Bridge Facility (b)	57	(57)
Gain on redemption of debt (c)	(22)	22
Cash flow hedges (d)		29
WPD Midlands acquisition-related adjustments in 2011 (Note 10)	55	(55)
LKE acquisition-related adjustments in 2010 (Note 10)		31
Losses from equity method investments	(9)	(1)
Other	(7)	4
Total	<u>\$ (43)</u>	<u>\$ 35</u>

- (a) Represents a gain on foreign currency contracts in 2011 that hedged the repayment of the 2011 Bridge Facility borrowing.
- (b) Represents a foreign currency loss in 2011 related to the repayment of the 2011 Bridge Facility borrowing.
- (c) In July 2011, as a result of PPL Electric's redemption of 7.125% Senior Secured Bonds due 2013, PPL recorded a gain on the accelerated amortization of the fair value adjustment to the debt recorded in connection with previously settled fair value hedges.
- (d) Represents losses reclassified from AOCI into earnings in 2010 associated with discontinued hedges at PPL for debt that had been planned to be issued by PPL Energy Supply. As a result of the expected net proceeds from the sale of certain non-core generation facilities, coupled with the monetization of full-requirement sales contracts, the debt issuance was no longer needed.

### Other-Than-Temporary Impairments

Primarily due to a \$25 million pre-tax impairment of the EEI investment, other-than-temporary impairments increased by \$21 million in 2012 compared with 2011. See Notes 1 and 18 to the Financial Statements for additional information.

## Interest Expense

The increase (decrease) in interest expense was due to:

	2012 vs. 2011	2011 vs. 2010
2011 Bridge Facility costs related to the acquisition of WPD Midlands (Notes 7 and 10)	\$ (44)	\$ 44
2010 Bridge Facility costs related to the acquisition of LKE (Notes 7 and 10)		(80)
2010 Equity Units (a)	(2)	28
2011 Equity Units (b)	12	34
Short-term debt interest expense (c)	(12)	11
Interest expense on the March 2010 WPD (South Wales) and WPD (South West) debt issuance		11
Inflation adjustment on U.K. Index-linked Senior Unsecured Notes LKE (d)	(12)	5
WPD Midlands (e)	80	126
Ironwood Acquisition (Note 10)	12	154
Hedging activities and ineffectiveness	29	11
Capitalized interest (f)	(6)	(17)
Montana hydroelectric litigation (g)	10	(20)
Other	(4)	(2)
Total	<u>\$ 63</u>	<u>\$ 305</u>

- (a) Interest related to the issuance in June 2010 to support the LKE acquisition.
- (b) Interest related to the issuance in April 2011 to support the WPD Midlands acquisition.
- (c) 2012 compared with 2011 was lower primarily due to lower interest rates on 2012 short-term borrowings coupled with lower fees on credit facilities. 2011 compared with 2010 was higher primarily due to increased borrowings in 2011 and an increase in commitment fees on credit facilities.
- (d) 2011 compared with 2010 is not comparable as 2010 includes two months of LKE's results.
- (e) Amounts in each period are not comparable as 2011 includes eight months of WPD Midlands' results. The increase in 2012 compared with 2011 is primarily due to four additional months of expense in 2012 of \$74 million.
- (f) Includes AFUDC.
- (g) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In 2011 and 2010, PPL Montana, recorded \$4 million and \$10 million of interest expense on the rental compensation covered by the court decision. In February 2012, the U.S. Supreme Court overturned the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. As a result, in the fourth quarter of 2011 PPL Montana reversed its total loss accrual of \$89 million, which had been recorded prior to the U.S. Supreme Court decision, of which \$14 million was credited to "Interest Expense" on the Statement of Income.

## Income Taxes

The increase (decrease) in income taxes was due to:

	2012 vs. 2011	2011 vs. 2010
Higher (lower) pre-tax book income	\$ (296)	\$ 168
State valuation allowance adjustments (a)	(23)	101
State deferred tax rate change (b)	7	(26)
Domestic manufacturing deduction (c)		11
Federal and state tax reserve adjustments (d)	(40)	99
Federal and state tax return adjustments (e)	33	(14)
U.S. income tax on foreign earnings net of foreign tax credit (f)	57	(59)
U.K. Finance Act adjustments (g)	2	(16)
Foreign valuation allowance adjustments (h)	(147)	(68)
Foreign tax reserve adjustments (h)	134	(141)
U.K. capital loss benefit (h)		261
Foreign tax return adjustments	(6)	
Health Care Reform		(8)
LKE (i)		125
Depreciation not normalized (a)	9	(14)
WPD Midlands (j)	146	(2)
Net operating loss carryforward adjustments (k)	(9)	
Other	(13)	11
Total	<u>\$ (146)</u>	<u>\$ 428</u>

- (a) During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. The guidance allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. Due to the decrease in projected taxable income related to bonus depreciation and a decrease in projected future taxable income, PPL recorded a \$43 million state deferred income tax expense related to deferred tax valuation allowances during 2011.

Additionally, the 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation. The federal provision for 100% bonus depreciation generally applies to property placed into service before January 1, 2012. The placed-in-service deadline is extended to January 1, 2013 for property that has a cost in excess of \$1 million, has a production period longer than one year and has a tax life of at least ten years. PPL's tax deduction for 100% bonus regulated tax depreciation was significantly lower in 2012 than in 2011.

Pennsylvania H.B. 1531, enacted in October 2009, increased the net operating loss limitation to 20% of taxable income for tax years beginning in 2010. Based on the projected revenue increase related to the expiration of the generation rate caps in 2010, PPL recorded a \$72 million state deferred income tax benefit related to the reversal of deferred tax valuation allowances related to the future projections of taxable income over the remaining carryforward period of the net operating losses during 2010.

- (b) Changes in state apportionment resulted in reductions to the future estimated state tax rate at December 31, 2012 and 2011. PPL recorded a \$19 million deferred tax benefit in 2012 and a \$26 million deferred tax benefit in 2011 related to its state deferred tax liabilities.
- (c) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation eliminated the tax benefit related to the domestic manufacturing deduction in 2012 and 2011.
- (d) In 1997, the U.K. imposed a Windfall Profits Tax (WPT) on privatized utilities, including WPD. PPL filed its federal income tax returns for years subsequent to its 1997 and 1998 claims for refund on the basis that the U.K. WPT was creditable. In September 2010, the U.S. Tax Court (Tax Court) ruled in PPL's favor in a dispute with the IRS, concluding that the U.K. WPT is a creditable tax for U.S. tax purposes. As a result and with the finalization of other issues, PPL recorded a \$42 million tax benefit in 2010. In January 2011, the IRS appealed the Tax Court's decision to the U.S. Court of Appeals for the Third Circuit (Third Circuit). In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision, holding that the U.K. WPT is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a \$39 million expense in 2011. In February 2012, PPL filed a petition for rehearing of the Third Circuit's opinion. In March 2012, the Third Circuit denied PPL's petition. In June 2012, the U.S. Court of Appeals for the Fifth Circuit issued a contrary opinion in an identical case involving another company. In July 2012, PPL filed a petition for a writ of certiorari seeking U.S. Supreme Court review of the Third Circuit's opinion. The Supreme Court granted PPL's petition on October 29, 2012, and oral argument was held on February 20, 2013. PPL expects the case to be decided before the end of the Supreme Court's current term in June 2013 and cannot predict the outcome of this matter.

In 2010, the Tax Court ruled in PPL's favor in a dispute with the IRS, concluding that street lighting assets are depreciable for tax purposes over seven years. As a result, PPL recorded a \$7 million tax benefit to federal and state income tax reserves and related deferred income taxes during 2010.

- (e) During 2012, PPL recorded \$16 million in federal and state income tax expense related to the filing of the 2011 federal and state income tax returns. Of this amount, \$5 million relates to the reversal of prior years' state income tax benefits related to regulated depreciation. PPL changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year. In August 2011, the IRS issued guidance regarding the use and evaluation of statistical samples and sampling estimates for network assets. The IRS guidance provided a safe harbor method of determining whether the repair expenditures for electric transmission and distribution property can be currently deducted for tax purposes. PPL adopted the safe harbor method with the filing of its 2011 federal income tax return.

During 2011, PPL recorded \$17 million in federal and state tax benefits related to the filing of the 2010 federal and state income tax returns. Of this amount, \$7 million in tax benefits related to an additional domestic manufacturing deduction resulting from revised bonus depreciation amounts and \$3 million in tax benefits related to the flow-through impact of Pennsylvania regulated state tax depreciation.

- (f) During 2012, PPL recorded a \$23 million adjustment to federal income tax expense related to the recalculation of 2010 U.K. earnings and profits.

During 2011, PPL recorded a \$28 million federal income tax benefit related to U.K. pension contributions.

During 2010, PPL recorded additional U.S. income tax expense primarily resulting from increased taxable dividends.

- (g) The U.K.'s Finance Act of 2012, enacted in July 2012, reduced the U.K. statutory income tax rate from 25% to 24% retroactive to April 1, 2012 and from 24% to 23% effective April 1, 2013. As a result, PPL reduced its net deferred tax liabilities and recognized a \$75 million deferred tax benefit in 2012 related to both rate decreases. WPD Midlands' portion of the deferred tax benefit is \$43 million.

The U.K.'s Finance Act of 2011, enacted in July 2011, reduced the U.K. statutory income tax rate from 27% to 26% retroactive to April 1, 2011 and from 26% to 25% effective April 1, 2012. As a result, PPL reduced its net deferred tax liabilities and recognized a \$69 million deferred tax benefit in 2011 related to both rate decreases. WPD Midlands' portion of the deferred tax benefit is \$35 million.

The U.K.'s Finance Act of 2010, enacted in July 2010, reduced the U.K. statutory income tax rate from 28% to 27% effective April 1, 2011. As a result, PPL reduced its net deferred tax liabilities and recognized an \$18 million deferred tax benefit in 2010.

- (h) During 2012, PPL recorded a \$5 million tax benefit following resolution of a U.K. tax issue related to interest expense.

During 2011, WPD reached an agreement with the HMRC related to the amount of the capital losses that resulted from prior years' restructuring in the U.K. and recorded a \$147 million foreign tax benefit for the reversal of tax reserves related to the capital losses. Additionally, WPD recorded a \$147 million valuation allowance for the amount of capital losses that, more likely than not, will not be utilized.

During 2010, PPL recorded a \$261 million foreign tax benefit in conjunction with losses resulting from restructuring in the U.K. A portion of these losses offset tax on a deferred gain from a prior year sale of WPD's supply business. WPD recorded a \$215 million valuation allowance for the amount of capital losses that, more likely than not, will not be utilized.

- (i) 2011 compared with 2010 was not comparable as 2010 includes two months of LKE's results.
- (j) Amounts in each period were not comparable as 2011 includes eight months of WPD Midlands' results. The increase in 2012 compared with 2011 was primarily due to higher pre-tax book income.
- (k) During 2012, PPL recorded adjustments to deferred taxes related to net operating loss carryforwards of LKE based on income tax return adjustments.

See Note 5 to the Financial Statements for additional information on income taxes.

## Discontinued Operations

Income (Loss) from Discontinued Operations (net of income taxes) decreased by \$8 million in 2012 compared with 2011 primarily due to an adjustment recorded in 2012 to a liability for indemnifications related to the termination of the WKE lease in 2009.

Income (Loss) from Discontinued Operations (net of income taxes) increased by \$19 million in 2011 compared with 2010 primarily due to after-tax impairment charges recorded in 2010 totaling \$62 million related to assets associated with certain non-core generation facilities sold in 2011 that were written down to their estimated fair value (less cost to sell). The impacts of these charges were offset by the net results of certain other discontinued operations.

See Note 9 to the Financial Statements for additional information.

#### Noncontrolling Interests

"Net Income Attributable to Noncontrolling Interests" decreased by \$12 million in 2012 compared with 2011. The decrease is primarily due to PPL Electric's June 2012 redemption of all 2.5 million shares of its preference stock.

### Financial Condition

#### Liquidity and Capital Resources

PPL expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents, credit facilities and commercial paper issuances. Additionally, subject to market conditions, PPL currently plans to access capital markets in 2013.

PPL'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:

- changes in electricity, fuel and other commodity prices;
- operational and credit risks associated with selling and marketing products in the wholesale power markets;
- potential ineffectiveness of the trading, marketing and risk management policy and programs used to mitigate PPL's risk exposure to adverse changes in electricity and fuel prices, interest rates, foreign currency exchange rates and counterparty credit;
- unusual or extreme weather that may damage PPL's transmission and distribution facilities or affect energy sales to customers;
- reliance on transmission and distribution facilities that PPL does not own or control to deliver its electricity and natural gas;
- 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;
- the ability to recover and the timeliness and adequacy of recovery of costs associated with regulated utility businesses;
- costs of compliance with existing and new environmental laws and with new security and safety requirements for nuclear facilities;
- any adverse outcome of legal proceedings and investigations with respect to PPL'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 PPL's or its rated subsidiaries' credit ratings that could adversely affect their ability to access capital and increase the cost of credit facilities and any new debt.

See "Item 1A. Risk Factors" for further discussion of risks and uncertainties that could affect PPL's cash flows.

At December 31, PPL had the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 901	\$ 1,202	\$ 925
Short-term investments (a)		16	163
	<u>\$ 901</u>	<u>\$ 1,218</u>	<u>\$ 1,088</u>
Short-term debt	<u>\$ 652</u>	<u>\$ 578</u>	<u>\$ 694</u>

- (a) 2010 amount represents tax-exempt bonds issued by Louisville/Jefferson County, Kentucky on behalf of LG&E that were subsequently purchased by LG&E. Such bonds were remarketed to unaffiliated investors in January 2011. See Note 23 to the Financial Statements for further discussion.

At December 31, 2012, \$225 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL may be subject to additional U.S. taxes, net of allowable foreign tax credits. Historically, dividends paid by foreign subsidiaries have been limited to distributions of the current year's earnings. See Note 5 to the Financial Statements for additional information on undistributed earnings of WPD.

The changes in PPL's cash and cash equivalents position for the years ended December 31 resulted from:

	2012	2011	2010
Net cash provided by (used in) operating activities	\$ 2,764	\$ 2,507	\$ 2,033
Net cash provided by (used in) investing activities	(3,123)	(7,952)	(8,229)
Net cash provided by (used in) financing activities	48	5,767	6,307
Effect of exchange rates on cash and cash equivalents	10	(45)	13
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (301)</u>	<u>\$ 277</u>	<u>\$ 124</u>

#### Operating Activities

Net cash provided by operating activities increased by 10%, or \$257 million, in 2012 compared with 2011. The increase was the net effect of:

- an increase of \$339 million in net income, when adjusted for non-cash components; and
- a decrease of \$60 million in defined benefit plan funding; partially offset by
- changes in working capital of \$178 million, primarily driven by changes in prepayments and net regulatory assets/liabilities offset by the changes in counterparty collateral.

Included in the above amounts is the impact of having an additional four months of WPD Midlands operations in 2012. WPD Midlands' cash from operating activities increased by \$190 million in 2012 compared with 2011.

Net cash provided by operating activities increased by 23%, or \$474 million, in 2011 compared with 2010. The increase was the net effect of:

- operating cash provided by LKE, \$743 million, and WPD Midlands, \$234 million;
- cash from components of working capital, \$435 million, primarily related to changes in prepaid income and gross receipts taxes; partially offset by
- reduction in cash from counter party collateral, \$172 million;
- lower gross energy margins, \$240 million after-tax;
- proceeds from monetizing certain full-requirement sales contracts in 2010, \$249 million;
- higher interest payments of \$44 million; and
- increases in other operating outflows of \$233 million (including \$90 million of higher operation and maintenance expenses and defined benefits funding).

A significant portion of PPL's Supply segment operating cash flows is derived from its competitive baseload generation business activities. PPL employs a formal hedging program for its baseload generation fleet, the primary objective of which is to provide a reasonable level of near-term cash flow and earnings certainty while preserving upside potential of power price increases over the medium term. See Note 19 to the Financial Statements for further discussion. Despite PPL's hedging practices, future cash flows from operating activities from its Supply segment are influenced by commodity prices and, therefore, will fluctuate from period to period.

PPL's contracts for the sale and purchase of electricity and fuel often require cash collateral or other credit enhancements, or reductions or terminations of a portion of the entire contract through cash settlement, in the event of a downgrade of PPL's or its subsidiaries' credit ratings or adverse changes in market prices. For example, in addition to limiting its trading ability, if PPL's or its subsidiaries' ratings were lowered to below "investment grade" and there was a 10% adverse movement in energy prices, PPL estimates that, based on its December 31, 2012 positions, it would have been required to post additional collateral of approximately \$438 million with respect to electricity and fuel contracts. PPL has in place risk management programs that are designed to monitor and manage its exposure to volatility of cash flows related to changes in energy and fuel prices, interest rates, foreign currency exchange rates, counterparty credit quality and the operating performance of its generating units.



## Investing Activities

The primary use of cash in investing activities in 2012 was for capital expenditures. In 2011, the primary uses of cash in investing activities were for the acquisition of WPD Midlands and capital expenditures. In 2010, the primary uses of cash in investing activities were for the acquisition of LKE and capital expenditures. See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2013 through 2017.

Net cash used in investing activities was \$3.1 billion in 2012 compared with \$7.9 billion in 2011. Excluding the impact of cash used for the 2011 acquisition of WPD Midlands, net cash used in investing activities increased by \$934 million in 2012 compared with 2011. This increase reflects \$618 million of higher capital expenditures, \$381 million less in asset sale proceeds (2011 sale of certain non-core generation facilities) and a \$143 million reduction in proceeds from the sale of certain investments (other than securities in the nuclear plant decommissioning trust funds) partially offset by a \$239 million net change in restricted cash and cash equivalents. See Note 9 to the Financial Statements for additional information on the sale of certain non-core generation facilities and Note 10 to the Financial Statements for additional information regarding the WPD Midlands acquisition.

Net cash used in investing activities was \$7.9 billion in 2011 compared with \$8.2 billion in 2010. The 2011 amount includes the use of \$5.8 billion of cash for the acquisition of WPD Midlands, while 2010 includes \$6.8 billion for the acquisition of LKE. See Note 10 to the Financial Statements for additional information regarding the acquisitions. Excluding the impact of the acquisitions, net cash used in investing activities increased by \$772 million in 2011 compared with 2010. This increase reflects \$890 million of higher capital expenditures and a \$228 million net change in restricted cash, partially offset by \$219 million of additional proceeds from the sale of certain businesses or facilities and \$163 million of proceeds from the sale of investments, other than securities in the nuclear plant decommissioning trust funds. PPL received proceeds of \$381 million in 2011 from the sale of certain non-core generation facilities compared with proceeds of \$162 million in 2010 from the sale of the Long Island generation business and certain Maine hydroelectric generation facilities. See Note 9 to the Financial Statements for additional information on the sale of these businesses or facilities.

## Financing Activities

Net cash provided by financing activities was \$48 million in 2012 compared with \$5.8 billion in 2011. The decrease of \$5.7 billion was primarily the result of lower net long-term debt issuances of \$3.4 billion and less proceeds from the issuance of common stock of \$2.2 billion. Both of these decreases were primarily related to the 2011 acquisition of WPD Midlands. The decrease also included \$250 million paid to redeem a subsidiary's preference stock and \$87 million of higher common stock dividends. These decreases were partially offset by a \$199 million net change in short-term debt.

Net cash provided by financing activities was \$5.8 billion in 2011 compared with \$6.3 billion in 2010, primarily as a result of issuance of long-term debt and equity related to the acquisition of WPD Midlands in 2011 and the acquisition of LKE in 2010. The decrease of \$540 million was primarily the result of lower net long-term debt issuances of \$87 million, lower proceeds from the issuance of common stock of \$144 million, \$180 million of higher common stock dividends and a \$195 million decrease in net, short-term debt.

See "Forecasted Sources of Cash" for a discussion of PPL's plans to issue debt and equity securities, as well as a discussion of credit facility capacity available to PPL. Also see "Forecasted Uses of Cash" for a discussion of plans to pay dividends on common securities in the future, as well as maturities of long-term debt.

## Long-term Debt and Equity Securities

The long-term debt and equity securities activity for the year ended December 31, 2012 was:

	Debt		Equity
	Issuances (a)	Retirements	Issuances (Redemptions)
PPL Capital Funding Senior Notes (b)	\$ 798	\$ (99)	
PPL Electric First Mortgage Bonds	249		
WPD (East Midlands) Senior Notes	176		
PPL Electric preference stock (c)			\$ (250)
Total Cash Flow Impact	\$ 1,223	\$ (99)	\$ (250)

	Debt		Equity
	Issuances (a)	Retirements	Issuances (Redemptions)
Assumed through consolidation - Ironwood Acquisition (d)	\$ 258		
Non-cash Exchanges:			
LKE Senior Notes (e)	\$ 250	\$ (250)	
Net Increase (decrease)	<u>\$ 1,382</u>		<u>\$ (250)</u>

- (a) Issuances are net of pricing discounts, where applicable and exclude the impact of debt issuance costs.
- (b) Senior unsecured notes of \$99 million were redeemed at par prior to their 2047 maturity date.
- (c) In June 2012, PPL Electric redeemed all 2.5 million shares of its 6.25% Series Preference Stock, par value \$100 per share, which was included in "Noncontrolling Interests" on the 2011 Balance Sheet.
- (d) Includes \$24 million of fair value adjustments resulting from the purchase price allocation. See Note 10 to the Financial Statements for additional information on the acquisition.
- (e) In June 2012, LKE completed an exchange of all its outstanding 4.375% Senior Notes due 2021 issued in September 2011 in a transaction not registered under the Securities Act of 1933, for similar securities that were issued in a transaction registered with the SEC.

In addition to the above, in April 2012, PPL made a registered underwritten public offering of 9.9 million shares of its common stock. In conjunction with that offering, the underwriters exercised an option to purchase 591 thousand additional shares of PPL common stock solely to cover over-allotments.

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 9.9 million shares of PPL common stock. Settlement of these initial forward sale agreements will occur no later than April 2013. As a result of the underwriters' exercise of the overallotment option, PPL entered into additional forward sale agreements covering the additional 591 thousand shares of PPL common stock. Settlement of the subsequent forward sale agreements will occur no later than July 2013. Upon any physical settlement of any forward sale agreement, PPL will issue and deliver to the forward counterparties shares of its common stock in exchange for cash proceeds per share equal to the forward sale price. The forward sale price will be calculated based on an initial forward price of \$27.02 per share reduced during the period the contracts are outstanding as specified in the forward sale agreements. PPL may, in certain circumstances, elect cash settlement or net share settlement for all or a portion of its rights or obligations under the forward sale agreements.

PPL will not receive any proceeds or issue any shares of common stock until settlement of the forward sale agreements. PPL intends to use any net proceeds that it receives upon settlement to repay short-term debt obligations and for other general corporate purposes.

The forward sale agreements are classified as equity transactions. As a result, no amounts will be recorded in the consolidated financial statements until the settlement of the forward sale agreements. Prior to those settlements, the only impact to the financial statements will be the inclusion of incremental shares within the calculation of diluted EPS using the treasury stock method.

See Note 7 to the Financial Statements for additional information about long-term debt and equity securities.

#### Forecasted Sources of Cash

PPL expects to continue to have sufficient sources of liquidity available in the near term, including cash flows from operations, various credit facilities, commercial paper issuances and operating leases. Additionally, subject to market conditions, PPL currently plans to access capital markets in 2013.

#### *Credit Facilities*

At December 31, 2012, PPL's total committed borrowing capacity under credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued and Commercial Paper Backstop	Unused Capacity
PPL Energy Supply Credit Facilities (a)	\$ 3,200		\$ 631	\$ 2,569
PPL Electric Credit Facilities (a) (b)	400		1	399
LG&E Credit Facility (a)	500		55	445
KU Credit Facilities (a)	598		268	330
Total Domestic Credit Facilities (c) (f)	<u>\$ 4,698</u>		<u>\$ 955</u>	<u>\$ 3,743</u>
PPL WW Credit Facility (d) (e)	£ 150	£ 106	n/a	£ 44
WPD (South West) Credit Facility (e)	245		n/a	245
WPD (East Midlands) Credit Facility (e) (g)	300			300
WPD (West Midlands) Credit Facility (e) (g)	300			300
Total WPD Credit Facilities (h) (f)	<u>£ 995</u>	<u>£ 106</u>		<u>£ 889</u>

- (a) The syndicated credit facilities, as well as KU's letter of credit facility, each contain a financial covenant requiring debt to total capitalization not to exceed 65% for PPL Energy Supply and 70% for PPL Electric, LG&E and KU, as calculated in accordance with the facility, and other customary covenants. See Note 7 to the Financial Statements for additional information regarding these credit facilities.
- (b) Includes a \$100 million credit facility related to an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of \$100 million from a commercial paper conduit sponsored by a financial institution. At December 31, 2012, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under the facility was \$100 million.
- (c) The commitments under PPL's domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 9% of the total committed capacity.
- (d) In December 2012, the PPL WW credit facility was subsequently replaced with a credit facility expiring in December 2016 and the capacity was increased to £210 million.
- (e) The facilities contain financial covenants that require the company to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.
- (f) Each company pays customary fees under its respective syndicated credit facility, as does KU under its letter of credit facility, and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.
- (g) Under the facilities, WPD (East Midlands) and WPD (West Midlands) each have the ability to request the lenders to issue up to £80 million of letters of credit in lieu of borrowing.
- (h) The total amount borrowed at December 31, 2012 was a USD-denominated borrowing of \$171 million, which equated to £106 million at the time of borrowing and bore interest at 0.8452%. At December 31, 2012, the unused capacity of WPD's committed credit facilities was approximately \$1.4 billion.

The commitments under WPD's credit facilities are provided by a diverse bank group with no one bank providing more than 16% of the total committed capacity.

In addition to the financial covenants noted in the table above, the credit agreements governing the above credit facilities contain various other covenants. Failure to comply with the covenants after applicable grace periods could result in acceleration of repayment of borrowings and/or termination of the agreements. PPL monitors compliance with the covenants on a regular basis. At December 31, 2012, PPL was in compliance with these covenants. At this time, PPL believes that these covenants and other borrowing conditions will not limit access to these funding sources.

See Note 7 to the Financial Statements for further discussion of PPL's credit facilities.

### Commercial Paper

PPL Energy Supply maintains a \$750 million commercial paper program to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At December 31, 2012, PPL Energy Supply had \$356 million of commercial paper outstanding at a weighted-average interest rate of 0.50%.

PPL Electric maintains a \$300 million commercial paper program to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are currently supported by PPL Electric's Syndicated Credit Facility. PPL Electric had no commercial paper outstanding at December 31, 2012.

In February 2012, LG&E and KU each established a commercial paper program for up to \$250 million to provide additional financing sources to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by LG&E's and KU's Syndicated Credit Facilities. At December 31, 2012, LG&E and KU had \$55 million and \$70 million of commercial paper outstanding at a weighted average interest rate, for each, of 0.42%.

### Operating Leases

PPL and its subsidiaries also have available funding sources that are provided through operating leases. PPL's subsidiaries lease office space, land, buildings and certain equipment. These leasing structures provide PPL additional operating and financing flexibility. The operating leases contain covenants that are typical for these agreements, such as maintaining insurance, maintaining corporate existence and timely payment of rent and other fees.

PPL, through its subsidiary PPL Montana, leases a 50% interest in Colstrip Units 1 and 2 and a 30% interest in Unit 3, under four 36-year, non-cancelable operating leases. These operating leases are not recorded on PPL's Balance Sheets. The leases place certain restrictions on PPL Montana's ability to incur additional debt, sell assets and declare dividends. See Note 7 to the Financial Statements for a discussion of other dividend restrictions related to PPL subsidiaries.

See Note 11 to the Financial Statements for further discussion of the operating leases.

### Long-term Debt and Equity Securities

PPL and its subsidiaries currently plan to incur, subject to market conditions, approximately \$2.0 billion of long-term indebtedness in 2013, the proceeds of which will be used to fund capital expenditures and for other general corporate purposes. In addition during 2013, two events will occur related to the components of the 2010 Equity Units. PPL will receive proceeds of \$1.150 billion through the issuance of PPL common stock to settle the 2010 Purchase Contracts; and PPL Capital Funding expects to remarket the 4.625% Junior Subordinated Notes due 2018. See Note 7 to the Financial Statements for additional information.

In addition, PPL currently plans to issue new shares of common stock in 2013 in an aggregate amount up to \$350 million under its forward contracts (see Note 7 to the Financial Statements for more information), DRIP and various employee stock-based compensation and other plans.

### Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, PPL currently expects to incur future cash outflows for capital expenditures, various contractual obligations, payment of dividends on its common stock and possibly the purchase or redemption of a portion of debt securities.

### Capital Expenditures

The table below shows PPL's current capital expenditure projections for the years 2013 through 2017.

	Projected				
	2013	2014	2015	2016	2017
Construction expenditures (a) (b)					
Generating facilities	\$ 814	\$ 500	\$ 514	\$ 717	\$ 831
Distribution facilities	1,780	1,654	1,712	1,711	1,763
Transmission facilities	723	599	457	413	390
Environmental	750	812	536	312	128
Other	139	126	117	105	99
Total Construction Expenditures	4,206	3,691	3,336	3,258	3,211
Nuclear fuel	152	145	153	158	162
Total Capital Expenditures	\$ 4,358	\$ 3,836	\$ 3,489	\$ 3,416	\$ 3,373

(a) Construction expenditures include capitalized interest and AFUDC, which are expected to total approximately \$160 million for the years 2013 through 2017.

(b) Includes expenditures for certain intangible assets.

PPL's capital expenditure projections for the years 2013 through 2017 total approximately \$18.5 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. For the years presented, this table includes projected costs related to the planned 793 MW of incremental capacity increases for both PPL Energy Supply and LKE, PPL Electric's asset optimization program to replace aging transmission and distribution assets and the PJM-approved regional transmission line expansion project. This table also includes LKE's environmental projects related to existing and proposed EPA compliance standards (actual costs may be significantly lower or higher depending on the final requirements; environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism). See Notes 6 and 8 to the Financial Statements for information on LG&E's and KU's ECR plans and the PJM-approved regional transmission line expansion project and the other significant development projects.

PPL plans to fund its capital expenditures in 2013 with cash from operations and proceeds from the issuance of common stock and debt securities.

### Contractual Obligations

PPL has assumed various financial obligations and commitments in the ordinary course of conducting its business. At December 31, 2012, the estimated contractual cash obligations of PPL were:

	Total	2013	2014 - 2015	2016 - 2017	After 2017
Long-term Debt (a)	\$ 19,435	\$ 751	\$ 1,645	\$ 946	\$ 16,093
Interest on Long-term Debt (b)	14,276	932	1,704	1,530	10,110
Operating Leases (c)	507	109	191	58	149
Purchase Obligations (d)	8,770	2,642	2,847	1,604	1,677
Other Long-term Liabilities Reflected on the Balance Sheet under GAAP (e) (f)	607	560	47		
<b>Total Contractual Cash Obligations</b>	<b>\$ 43,595</b>	<b>\$ 4,994</b>	<b>\$ 6,434</b>	<b>\$ 4,138</b>	<b>\$ 28,029</b>

- (a) Reflects principal maturities only based on stated maturity dates, except for PPL Energy Supply's 5.70% REset Put Securities (REPS). See Note 7 to the Financial Statements for a discussion of the remarketing feature related to the REPS, as well as discussion of variable-rate remarketable bonds issued on behalf of PPL Energy Supply, LG&E and KU. PPL does not have any significant capital lease obligations.
- (b) Assumes interest payments through stated maturity, except for the REPS, for which interest is reflected to the put date. The payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated and payments denominated in British pounds sterling have been translated to U.S. dollars at a current foreign currency exchange rate.
- (c) See Note 11 to the Financial Statements for additional information.
- (d) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes PPL's purchase obligations of electricity, coal, nuclear fuel and limestone as well as certain construction expenditures, which are also included in the Capital Expenditures table presented above. Financial swaps and open purchase orders that are provided on demand with no firm commitment are excluded from the amounts presented.
- (e) The amounts include WPD's contractual deficit pension funding requirements arising from actuarial valuations performed in March 2010 and June 2011. The U.K. electricity regulator currently allows a recovery of a substantial portion of the contributions relating to the plan deficit; however, WPD cannot be certain that this will continue beyond the current review period, which extends to March 31, 2015. The amounts also include contributions made or committed to be made for 2013 for PPL's and LKE's U.S. pension plans. See Note 13 to the Financial Statements for a discussion of expected contributions.

Also included in the amounts are contract adjustment payments related to the Purchase Contract component of the Equity Units. See Note 7 to the Financial Statements for additional information on the Equity Units.

- (f) At December 31, 2012, total unrecognized tax benefits of \$92 million were excluded from this table as PPL cannot reasonably estimate the amount and period of future payments. See Note 5 to the Financial Statements for additional information.

### Dividends

PPL views dividends as an integral component of shareholder return and expects to continue to pay dividends in amounts that are within the context of maintaining a capitalization structure that supports investment grade credit ratings. In 2012, PPL's Board of Directors declared an increase to its quarterly dividend on its common stock to 36.0 cents per share (equivalent to \$1.44 per share per annum). In February 2013, PPL's Board of Directors declared an increase to its quarterly dividend on its common stock to 36.75 cents per share (equivalent to \$1.47 per share per annum). Future dividends will be declared at the discretion of the Board of Directors and will depend upon future earnings, cash flows, financial and legal requirements and other relevant factors at the time. As discussed in Note 7 to the Financial Statements, subject to certain exceptions, PPL may not declare or pay any cash dividend on its common stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067, its 4.625% Junior Subordinated Notes due 2018, or its 4.32% Junior Subordinated Notes due 2019 or until deferred contract adjustment payments on PPL's Purchase Contracts have been paid. No such deferrals have occurred or are currently anticipated.

See Note 7 to the Financial Statements for other restrictions related to distributions on capital interests for PPL subsidiaries.

#### *Purchase or Redemption of Debt Securities*

PPL will continue to evaluate its outstanding debt securities and may decide to purchase or redeem these securities depending upon prevailing market conditions and available cash.

#### Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt of PPL and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL and its subsidiaries are based on information provided by PPL and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of PPL and its subsidiaries affect its liquidity, access to capital markets and cost of borrowing under its credit facilities.

The following table sets forth PPL's and its subsidiaries' security credit ratings as of December 31, 2012.

Issuer	Senior Unsecured			Senior Secured			Commercial Paper		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Fitch
PPL Energy Supply	Baa2	BBB	BBB				P-2	A-2	F-2
PPL Capital Funding	Baa3	BBB-	BBB						
PPL Electric				A3	A-	A-	P-2	A-2	F-2
PPL Ironwood				B2	B				
LKE	Baa2	BBB-	BBB+						
LG&E			A	A2	A-	A+	P-2	A-2	F-2
KU			A	A2	A-	A+	P-2	A-2	F-2
PPL WEM	Baa3	BBB-							
WPD (East Midlands)	Baa1	BBB							
WPD (West Midlands)	Baa1	BBB							
PPL WW	Baa3	BBB-	BBB						
WPD (South Wales)	Baa1	BBB	A-						
WPD (South West)	Baa1	BBB	A-				P-2		

A downgrade in PPL's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. PPL and its subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

In addition to the credit ratings noted above, the rating agencies took the following actions related to PPL and its subsidiaries in 2012.

In January 2012, S&P affirmed its rating and revised its outlook, from positive to stable, for PPL Montana's Pass Through Certificates due 2020.

In February 2012, Fitch assigned ratings to the two newly established commercial paper programs for LG&E and KU.

In March 2012, Moody's affirmed the following ratings:

- the long-term ratings of the First Mortgage Bonds for LG&E and KU;
- the issuer ratings for LG&E and KU; and

- the bank loan ratings for LG&E and KU.

Also in March 2012, Moody's and S&P each assigned short-term ratings to the two newly established commercial paper programs for LG&E and KU.

In March and May 2012, Moody's, S&P and Fitch affirmed the long-term ratings for LG&E's 2003 Series A and 2007 Series B pollution control bonds.

Following the announcement of the then-pending acquisition of AES Ironwood, L.L.C. in February 2012, the rating agencies took the following actions:

- In March 2012, Moody's placed AES Ironwood, L.L.C.'s senior secured bonds under review for possible ratings upgrade.
- In April 2012, S&P affirmed the rating of AES Ironwood, L.L.C.'s senior secured bonds.

In May 2012, Fitch downgraded its rating, from BBB to BBB- and revised its outlook, from negative to stable, for PPL Montana's Pass Through Certificates due 2020.

In June 2012, Fitch assigned a rating and outlook to PPL Capital Funding's \$400 million of 4.20% Senior Notes.

In August 2012, Fitch assigned a rating and outlook to PPL Electric's \$250 million First Mortgage Bonds.

In August 2012, S&P and Moody's assigned a rating to PPL Electric's \$250 million First Mortgage Bonds.

In October 2012, Moody's, S&P and Fitch assigned a rating to PPL Capital Funding's \$400 million of 3.50% Senior Notes.

In November 2012, Fitch affirmed the long-term issuer default rating and senior unsecured rating of PPL WW, WPD (South Wales) and WPD (South West).

In November 2012, S&P revised its outlook, from stable to negative, for PPL Montana's Pass Through Certificates due 2020.

In November 2012, Moody's and S&P affirmed the long-term ratings for LG&E's 2007 Series A pollution control bonds.

In December 2012, Fitch affirmed the issuer default ratings, individual security ratings and outlooks for PPL, PPL Capital Funding, PPL Electric, LKE, LG&E and KU.

In December 2012, Fitch affirmed the issuer default rating, individual security rating and revised the outlook, from stable to negative, for PPL Energy Supply.

In February 2013, Moody's upgraded its rating, from Ba1 to B2, and revised the outlook from under review to stable for PPL Ironwood.

#### Ratings Triggers

As discussed in Note 7 to the Financial Statements, certain of WPD's senior unsecured notes may be put by the holders back to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's, S&P, or Fitch) or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or a material adverse change to, the distribution licenses under which WPD (East Midlands), WPD (South West), WPD (South Wales) and WPD (West Midlands) operate and would be a trigger event in that company. These notes totaled £3.3 billion (approximately \$5.3 billion) nominal value at December 31, 2012.

PPL and PPL Energy Supply have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements, and interest rate and foreign currency instruments, which contain provisions that require PPL and PPL Energy Supply to post additional collateral, or permit the counterparty to terminate the contract, if PPL's or PPL Energy Supply's credit rating were to fall below investment grade. See Note 19 to the 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, 2012. At December 31, 2012, if PPL's and its subsidiaries' credit ratings had been below investment grade, PPL would have been required to prepay or post an additional \$501 million of collateral to counterparties for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate and foreign currency contracts.

## Guarantees for Subsidiaries

PPL guarantees certain consolidated affiliate financing arrangements that enable certain transactions. Some of the guarantees contain financial and other covenants that, if not met, would limit or restrict the consolidated affiliates' access to funds under these financing arrangements, require early maturity of such arrangements or limit the consolidated affiliates' ability to enter into certain transactions. At this time, PPL believes that these covenants will not limit access to relevant funding sources. See Note 15 to the Financial Statements for additional information about guarantees.

## **Off-Balance Sheet Arrangements**

PPL has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

## **Risk Management - Energy Marketing & Trading and Other**

### Market Risk

See Notes 1, 18, and 19 to the Financial Statements for information about PPL's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

### *Commodity Price Risk (Non-trading)*

PPL segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL's competitive generation assets and full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. The net fair value of economic positions at December 31, 2012 and 2011 was a net asset/(liability) of \$346 million and \$(63) million. See Note 19 to the Financial Statements for additional information.

To hedge the impact of market price volatility on PPL's energy-related assets, liabilities and other contractual arrangements, PPL both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL's non-trading commodity derivative contracts range in maturity through 2019.

The following table sets forth the changes in the net fair value of non-trading commodity derivative contracts at December 31, 2012. See Notes 18 and 19 to the Financial Statements for additional information.

	Gains (Losses)	
	2012	2011
Fair value of contracts outstanding at the beginning of the period	\$ 1,082	\$ 947
Contracts realized or otherwise settled during the period	(1,005)	(517)
Fair value of new contracts entered into during the period (a)	7	13
Other changes in fair value	389	639
Fair value of contracts outstanding at the end of the period	<u>\$ 473</u>	<u>\$ 1,082</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of non-trading commodity derivative contracts at December 31, 2012 based on the level of observability of the information used to determine the fair value.



	Net Asset (Liability)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity In Excess of 5 Years	Total Fair Value
<b>Source of Fair Value</b>					
Prices based on significant observable inputs (Level 2)	\$ 452	\$ 15	\$ (20)	\$ 5	\$ 452
Prices based on significant unobservable inputs (Level 3)	8	10	3		21
Fair value of contracts outstanding at the end of the period	<u>\$ 460</u>	<u>\$ 25</u>	<u>\$ (17)</u>	<u>\$ 5</u>	<u>\$ 473</u>

PPL sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their counterparties) with which it has energy contracts and other factors could affect PPL's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future. In connection with its bankruptcy proceedings, a significant counterparty, SMGT, had been purchasing lower volumes of electricity than prescribed in the contract and effective April 1, 2012 the contract was terminated. PPL cannot predict the prices or other terms on which it will be able to market to third parties the power that SMGT will not purchase from PPL EnergyPlus due to the termination of this contract. See Note 15 to the Financial Statements for additional information.

#### Commodity Price Risk (Trading)

PPL's trading commodity derivative contracts range in maturity through 2017. The following table sets forth changes in the net fair value of trading commodity derivative contracts at December 31, 2012. See Notes 18 and 19 to the Financial Statements for additional information.

	Gains (Losses)	
	2012	2011
Fair value of contracts outstanding at the beginning of the period	\$ (4)	\$ 4
Contracts realized or otherwise settled during the period	20	(14)
Fair value of new contracts entered into during the period (a)	17	10
Other changes in fair value	(4)	(4)
Fair value of contracts outstanding at the end of the period	<u>\$ 29</u>	<u>\$ (4)</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of trading commodity derivative contracts at December 31, 2012 based on the level of observability of the information used to determine the fair value.

	Net Asset (Liability)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity In Excess of 5 Years	Total Fair Value
<b>Source of Fair Value</b>					
Prices based on significant observable inputs (Level 2)	\$ 18	\$ 10			\$ 28
Prices based on significant unobservable inputs (Level 3)	1				1
Fair value of contracts outstanding at the end of the period	<u>\$ 19</u>	<u>\$ 10</u>			<u>\$ 29</u>

#### VaR Models

A VaR model is utilized to measure commodity price risk in domestic gross energy margins for its non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's disciplined hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the period was as follows.

	Trading VaR		Non-Trading VaR	
	2012	2011	2012	2011
95% Confidence Level, Five-Day Holding Period				
Period End	\$ 2	\$ 1	\$ 12	\$ 6
Average for the Period	3	3	10	5
High	8	6	12	7
Low	1	1	7	4

The trading portfolio includes all proprietary trading positions, regardless of the delivery period. All positions not considered proprietary trading are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at December 31, 2012.

#### Interest Rate Risk

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. PPL utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio, adjust the duration of its debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL's debt portfolio due to changes in the absolute level of interest rates.

At December 31, 2012 and 2011, PPL's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL is also exposed to changes in the fair value of its domestic and international debt portfolios. PPL estimated that a 10% decrease in interest rates at December 31, 2012 would increase the fair value of its debt portfolio by \$611 million, compared with \$635 million at December 31, 2011.

PPL had the following interest rate hedges outstanding at December 31.

	2012			2011		
	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)
Cash flow hedges						
Interest rate swaps (c)	\$ 1,165	\$ (7)	\$ (34)	\$ 150	\$ (3)	\$ (3)
Cross-currency swaps (d)	1,262	10	(179)	1,262	22	(187)
Fair value hedges						
Interest rate swaps				99	4	
Economic hedges						
Interest rate swaps (e)	179	(58)	(3)	179	(60)	(4)

(a) Includes accrued interest, if applicable.

(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.

(c) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any changes in the fair value of such cash flow hedges are recorded in equity or as regulatory assets or liabilities, if recoverable through regulated rates. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at December 31, 2012 mature through 2043.

(d) PPL utilizes cross-currency swaps to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes. While PPL is exposed to changes in the fair value of these instruments, any change in the fair value of these instruments is recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in both interest rates and foreign currency exchange rates. The positions outstanding at December 31, 2012 mature through 2028.

(e) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at December 31, 2012 mature through 2033.

### Foreign Currency Risk

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. In addition, PPL's domestic operations may make purchases of equipment in currencies other than U.S. dollars. See Note 1 to the Financial Statements for additional information regarding foreign currency translation.

PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

PPL had the following foreign currency hedges outstanding at December 31:

	2012			2011		
	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)
Net investment hedges (b)	£ 162	\$ (2)	\$ (26)	£ 92	\$ 7	\$ (13)
Economic hedges (c)	1,265	(42)	(192)	288	11	(37)

- (a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.  
 (b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP. The positions outstanding at December 31, 2012 mature through 2013. Excludes the amount of an intercompany loan classified as a net investment hedge. See Note 19 to the Financial Statements for additional information.  
 (c) To economically hedge the translation of expected income denominated in GBP to U.S. dollars, PPL enters into a combination of average rate forwards and average rate options to sell GBP. The forwards and options outstanding at December 31, 2012 mature through 2015.

### NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the PPL Susquehanna nuclear plant (Susquehanna). At December 31, 2012, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on PPL's Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At December 31, 2012, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$49 million reduction in the fair value of the trust assets, compared with \$43 million at December 31, 2011. See Notes 18 and 23 to the Financial Statements for additional information regarding the NDT funds.

### Defined Benefit Plans - Securities Price Risk

See "Application of Critical Accounting Policies - Defined Benefits" for additional information regarding the effect of securities price risk on plan assets.

### Credit Risk

Credit risk is the risk that PPL would incur a loss as a result of nonperformance by counterparties of their contractual obligations. PPL maintains credit policies and procedures with respect to counterparty credit (including requirements that counterparties maintain specified credit ratings) and requires other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, PPL has concentrations of suppliers and customers among electric utilities, financial institutions and other energy marketing and trading companies. These concentrations may impact PPL's overall exposure to credit risk, positively or negatively, as counterparties may be similarly affected by changes in economic, regulatory or other conditions.

PPL includes the effect of credit risk on its fair value measurements to reflect the probability that a counterparty will default when contracts are out of the money (from the counterparty's standpoint). In this case, PPL would have to sell into a lower-priced market or purchase in a higher-priced market. When necessary, PPL records an allowance for doubtful accounts to reflect the probability that a counterparty will not pay for deliveries PPL has made but not yet billed, which are reflected in "Unbilled revenues" on the Balance Sheets. PPL also has established a reserve with respect to certain receivables from SMGT, which is reflected in accounts receivable on the Balance Sheets. See Note 15 to the Financial Statements for additional information.

In 2009, the PUC approved PPL Electric's PLR procurement plan for the period January 2011 through May 2013. To date, PPL Electric has conducted all of its planned competitive solicitations.

Under the standard Supply Master Agreement (the Agreement) for the competitive solicitation process, PPL Electric requires all suppliers to post collateral if their credit exposure exceeds an established credit limit. In the event a supplier defaults on its obligation, PPL Electric would be required to seek replacement power in the market. All incremental costs incurred by PPL Electric would be recoverable from customers in future rates. At December 31, 2012, most of the successful bidders under all of the solicitations had an investment grade credit rating from S&P, and were not required to post collateral under the Agreement. A small portion of bidders were required to post collateral, which totaled less than \$1 million, under the Agreement. There is no instance under the Agreement in which PPL Electric is required to post collateral to its suppliers.

See "Overview" in this Item 7 and Notes 15, 16, 18 and 19 to the Financial Statements for additional information on the competitive solicitations, the Agreement, credit concentration and credit risk.

#### **Foreign Currency Translation**

The value of the British pound sterling fluctuates in relation to the U.S. dollar. In 2012, changes in this exchange rate resulted in a foreign currency translation gain of \$99 million, which primarily reflected a \$181 million increase to PP&E offset by an increase of \$82 million to net liabilities. In 2011, changes in this exchange rate resulted in a foreign currency translation loss of \$51 million, which primarily reflected a \$69 million reduction to PP&E offset by a reduction of \$18 million to net liabilities. In 2010, changes in this exchange rate resulted in a foreign currency translation loss of \$63 million, which primarily reflected a \$180 million reduction to PP&E offset by a reduction of \$117 million to net liabilities. The impact of foreign currency translation is recorded in AOCI.

#### **Related Party Transactions**

PPL is not aware of any material ownership interests or operating responsibility by senior management of PPL, PPL Energy Supply, PPL Electric, LKE, LG&E or KU in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL. See Note 16 to the Financial Statements for additional information on related party transactions.

#### **Acquisitions, Development and Divestitures**

PPL from time to time evaluates opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options.

In April 2012, an indirect wholly owned subsidiary of PPL Energy Supply completed the Ironwood Acquisition. In April 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of WPD Midlands. In November 2010, PPL completed its acquisition of LKE. See Note 10 to the Financial Statements for additional information.

See Notes 8, 9 and 10 to the Financial Statements for additional information on the more significant activities.

#### **Environmental Matters**

Extensive federal, state and local environmental laws and regulations are applicable to PPL's air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the cost 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 by the relevant agencies. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for PPL's services.

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to PPL's generation assets, electricity transmission and distribution systems, as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where PPL has hydro generating facilities or where river water is used to cool its fossil and nuclear powered generators. PPL cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

The below provides a discussion of the more significant environmental matters.

#### Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating CCRs (as either hazardous or non-hazardous) under existing solid waste regulations. A final rulemaking is currently expected before the end of 2015. However, the timing of the final regulations could be accelerated by certain litigation that could require the EPA to issue its regulations sooner. Regulations could impact handling, disposal and/or beneficial use of CCRs. The economic impact could be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous, in accordance with the proposed rule.

#### Effluent Limitation Guidelines

The EPA is to issue guidelines for technology-based limits in discharge permits for scrubber wastewater and is expected to require dry ash handling. The EPA agreed, in recent settlement negotiations with environmentalists, to propose revisions to its effluent limitation guidelines (ELGs) by April 2013, with a final rule in late 2014. Limits could be so stringent that plants may consider extensive new or modified wastewater treatment facilities and possibly zero liquid discharge operations, the cost of which could be significant. Impacts should be better understood after the proposed rule is issued.

#### 316(b) Cooling Water Intake Structure Rule

In April 2011, the EPA published a draft regulation under Section 316(b) of the Clean Water Act, which regulates cooling water intakes for power plants. The draft rule has two provisions: one requires installation of Best Technology Available (BTA) to reduce mortality of aquatic organisms that are pulled into the plant cooling water system (entrainment), and the second imposes standards for reduction of mortality of aquatic organisms trapped on water intake screens (impingement). A final rule is expected in June 2013. The proposed regulation would apply to nearly all PPL-owned steam electric plants in Pennsylvania, Kentucky, and Montana, potentially even including those equipped with closed-cycle cooling systems. PPL's compliance costs could be significant, especially if the final rule requires closed-cycle systems at plants that do not currently have them or conversions of once-through systems to closed-cycle.

#### GHG Regulations

In 2013, the EPA is expected to finalize limits on GHG emissions from new power plants and to begin working on a proposal for such emissions from existing power plants. The EPA's proposal on GHG emissions from new power plants would effectively preclude construction of any coal-fired plants and could even be difficult for new gas-fired plants to meet. With respect to existing power plants, the impact could be very significant, depending on the structure and stringency of the final rule. PPL, along with others in the industry, filed comments on the EPA's proposal related to GHG emissions from new plants. With respect to GHG limits for existing plants, PPL will advocate for reasonable, flexible requirements.

#### MATS

The EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule is being challenged by industry groups and states. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes new coal plants. PPL is generally well-positioned to comply with MATS, primarily due to recent investments in environmental controls and approved Environmental Cost Recovery (ECR) plans to install additional controls at some of our Kentucky plants. PPL is evaluating chemical additive systems for mercury control at Brunner Island, and modifications to existing controls at Colstrip for improved particulate matter reductions. In September 2012, PPL announced its intention to place its Corette plant in long-term reserve status beginning in April 2015 due to expected market conditions and costs to comply with MATS.

### CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrous oxide and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, CSAPR targeted sources in the eastern United States. In December 2011, the U.S. Court of Appeals for the District of Columbia Circuit (the Court) stayed implementation of CSAPR, leaving CAIR in place. Subsequently, in August 2012, the Court vacated and remanded CSAPR back to the EPA for further rulemaking, again leaving CAIR in place, pending further EPA action. PPL plants in Pennsylvania and Kentucky will continue to comply with CAIR through optimization of existing controls, balanced with emission allowance purchases. The Court's August decision leaves plants in CSAPR-affected states potentially exposed to more stringent emission reductions due to regional haze implementation (it was previously determined that CSAPR or CAIR participation satisfies regional haze requirements), and/or petitions to the EPA by downwind states under Section 126 of the Clean Air Act requesting the EPA to require plants that allegedly contribute to downwind non-attainment to take action to reduce emissions.

### Regional Haze - Montana

The EPA signed its final Federal Implementation Plan (FIP) of the Regional Haze Rules for Montana in September 2012, with tighter emissions limits for Colstrip Units 1 & 2 based on the installation of new controls (no limits or additional controls were specified for Colstrip Units 3 & 4), and tighter emission limits for Corette (which are not based on additional controls). The cost of the potential additional controls for Colstrip Units 1 & 2, if required, could be significant. PPL expects to meet the tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" discussion above).

See "Item 1. Business - Environmental Matters" and Note 15 to the Financial Statements for further discussion of environmental matters.

### **Competition**

See "Competition" under each of PPL's reportable segments in "Item 1. Business - Segment Information" and "Item 1A. Risk Factors" for a discussion of competitive factors affecting PPL.

### New Accounting Guidance

See Notes 1 and 24 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

### Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). Senior management has reviewed these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them, with PPL's Audit Committee.

### **Price Risk Management**

See "Price Risk Management" in Note 1 to the Financial Statements, as well as "Risk Management - Energy Marketing & Trading and Other" above.

### **Defined Benefits**

Certain PPL subsidiaries sponsor various qualified funded and non-qualified unfunded defined benefit pension plans. Certain PPL subsidiaries also sponsor both funded and unfunded other postretirement benefit plans. These plans are applicable to the majority of the employees of PPL. PPL and certain of its subsidiaries record an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to OCI or regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

PPL and its subsidiaries make certain assumptions regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in OCI or regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. These amounts in AOCI or regulatory assets and liabilities are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- **Discount Rate** - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.
- **Expected Return on Plan Assets** - Management projects the long-term rates of return on plan assets based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. These projected returns reduce the net benefit costs PPL records currently.
- **Rate of Compensation Increase** - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.
- **Health Care Cost Trend Rate** - Management projects the expected increases in the cost of health care.

In selecting a discount rate for its U.S. defined benefit plans, PPL starts with a cash flow analysis of the expected benefit payment stream for its plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields were eliminated to develop an appropriate subset of bonds. Individual bonds were then selected based on the timing of each plan's cash flows and parameters were established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed. At December 31, 2012, PPL decreased the discount rate for its U.S. pension plans from 5.06% to 4.22% and decreased the discount rate for its other postretirement benefit plans from 4.80% to 4.00%.

In selecting a discount rate for its U.K. defined benefit plans, PPL starts with a cash flow analysis of the expected benefit payment stream for its plans. These plan-specific cash flows were matched against a spot-rate yield curve to determine the assumed discount rate, which used an iBoxx British pounds sterling denominated corporate bond index as its base. An individual bond matching approach is not used for U.K. pension plans because the universe of bonds in the U.K. is not deep enough to adequately support such an approach. At December 31, 2012, the discount rate for the U.K. pension plans was decreased from 5.24% to 4.27% as a result of this assessment.

The expected long-term rates of return for PPL's U.S. defined benefit pension and other postretirement benefit plans have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. PPL management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption.

At December 31, 2012, PPL's expected return on plan assets decreased from 7.07% to 7.02% for its U.S. pension plans and increased from 5.93% to 5.97% for its other postretirement benefit plans. The expected long-term rates of return for PPL's U.K. pension plans have been developed by PPL management with assistance from an independent actuary using a best-estimate of expected returns, volatilities and correlations for each asset class. For the U.K. plans, PPL's expected return on plan assets decreased from 7.17% to 7.16% at December 31, 2012.

In selecting a rate of compensation increase, PPL considers past experience in light of movements in inflation rates. At December 31, 2012, PPL's rate of compensation increase decreased from 4.02% to 3.98% for its U.S. pension plans and 4.00% to 3.97% for its other postretirement benefit plans. For the U.K. plans, PPL's rate of compensation increase remained at 4.00% at December 31, 2012.

In selecting health care cost trend rates, PPL considers past performance and forecasts of health care costs. At December 31, 2012, PPL's health care cost trend rates were 8.00% for 2013, gradually declining to 5.50% for 2019.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and OCI or regulatory assets and liabilities for LG&E, KU and PPL Electric. While the charts below reflect either an increase or decrease in each assumption, the inverse of this change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and OCI or regulatory assets and liabilities for LG&E, KU and PPL Electric by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

At December 31, 2012, the defined benefit plans were recorded as follows.

Pension liabilities	(2,084)
Other postretirement benefit liabilities	(301)

The following chart reflects the sensitivities in the December 31, 2012 Balance Sheet associated with a change in certain assumptions based on PPL's primary defined benefit plans.

Actuarial assumption	Increase (Decrease)			
	Change in assumption	Impact on defined benefit liabilities	Impact on OCI	Impact on regulatory assets
Discount Rate	(0.25)%	\$ 473	\$ (389)	\$ 84
Rate of Compensation Increase	0.25%	66	(54)	12
Health Care Cost Trend Rate (a)	1.00%	7	(1)	6

(a) Only impacts other postretirement benefits.

In 2012, PPL recognized net periodic defined benefit costs charged to operating expense of \$166 million. This amount represents a \$12 million increase from 2011, excluding \$50 million of separation costs recorded in 2011. The increase was primarily attributable to increased amortization of losses and a non-qualified plan settlement charge recorded in 2012.

The following chart reflects the sensitivities in the 2012 Statement of Income (excluding income tax effects) associated with a change in certain assumptions based on PPL's primary defined benefit plans.

Actuarial assumption	Change in assumption	Impact on defined benefit costs
Discount Rate	(0.25)%	\$ 24
Expected Return on Plan Assets	(0.25)%	26
Rate of Compensation Increase	0.25%	10
Health Care Cost Trend Rate (a)	1.00%	1

(a) Only impacts other postretirement benefits.

### Asset Impairment (Excluding Investments)

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying amount may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

- 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; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.



For a long-lived asset classified as held and used, an 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 amount 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. Alternate courses of action are considered to recover the carrying amount of a long-lived asset, and estimated cash flows from the "most likely" alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in significantly different results than those identified and recorded in the financial statements.

In September 2012, PPL Energy Supply announced its intention, beginning in April 2015, to place the Corette coal-fired plant in Montana in long-term reserve status, suspending the plant's operation, due to expected market conditions and the costs to comply with MATS requirements. The Corette plant asset group's carrying amount at December 31, 2012 was approximately \$68 million. An impairment analysis was performed for this asset group in the third and fourth quarters of 2012 and it was determined to not be impaired. It is reasonably possible that an impairment could occur in future periods, as higher priced sales contracts settle, adversely impacting projected cash flows.

For a long-lived asset classified as held for sale, an impairment exists when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If the asset (disposal group) is impaired, an impairment loss is recorded to adjust the carrying amount to its fair value less cost to sell. A gain is recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative impairment previously recognized.

For determining fair value, quoted market prices in active markets are the best evidence. However, when market prices are unavailable, the Registrant considers all valuation techniques appropriate under the circumstances and for which market participant inputs can be obtained. Generally discounted cash flows are used to estimate fair value, which incorporates market participant inputs when available. Discounted cash flows are calculated by estimating future cash flow streams and applying appropriate discount rates to determine the present value of the cash flow streams.

Goodwill is tested for impairment at the reporting unit level. PPL's reporting units have been determined to be at the operating segment level. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit may be greater than the unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

Beginning in 2012, PPL may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if PPL concludes it is more likely than not the fair value of a reporting unit is less than the carrying amount based on the step zero assessment.

When the two-step quantitative impairment test is elected or required as a result of the step zero assessment, in step one, PPL identifies a potential impairment by comparing the estimated fair value of a reporting unit with its carrying amount, including goodwill, on the measurement date. If the estimated fair value of a reporting unit 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 of the quantitative test requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value of a reporting unit is allocated to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination and the estimated fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the estimated fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of the reporting unit's 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.

PPL elected to perform the two-step quantitative impairment test of goodwill for all of its reporting units in the fourth quarter of 2012 and no impairment was recognized. Management used both discounted cash flows and market multiples, which required significant assumptions, to estimate the fair value of the reporting units. For the U.K. Regulated reporting unit, management used only discounted cash flows to estimate the fair value of the reporting unit due to lack of industry comparable transactions. Applying an appropriate weighting to both the discounted cash flow and market multiple valuations (where applicable) a decrease in the forecasted cash flows of 10%, an increase in the discount rate by 25 basis points, or a 10% decrease in the multiples would not have resulted in an impairment of goodwill.

### **Loss Accruals**

Losses are accrued 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." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

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 management. Internal expertise and outside experts (such as lawyers and engineers) are used, as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

No new significant loss accruals were recorded in 2012.

Certain other events have been identified 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.

When an estimated loss is accrued, the triggering events for subsequently reducing the loss accrual are identified, where applicable. The triggering events generally occur when the contingency has been resolved and the actual loss is paid or written off, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the reduction 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 and actual payments are made, a better estimate of the loss is determined or the loss is no longer considered probable.

Loss accruals are reviewed 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.

See Note 6 and 15 to the Financial Statements for disclosure of loss contingencies accrued and other potential loss contingencies that have not met the criteria for accrual. Note 6 to the Financial Statements includes a discussion of the Ofgem Review of Line Loss Calculation, including the \$90 million reduction in the WPD liability.

### **Asset Retirement Obligations**

PPL 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. A conditional ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. 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 statement of income, for changes in the obligation due to the passage of time.

In the case of LG&E and KU, since costs of removal are collected in rates, the depreciation and accretion expense related to an ARO are offset with a regulatory credit on the income statement, such that there is no earnings impact. The regulatory asset created by the regulatory credit is relieved when the ARO has been settled.

See Note 21 to the Financial Statements for further discussion of AROs.

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 the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is amortized over the remaining life of the associated long-lived asset.

At December 31, 2012, AROs totaling \$552 million were recorded on the Balance Sheet, of which \$16 million is included in "Other current liabilities." Of the total amount, \$316 million, or 57%, relates to the nuclear decommissioning ARO. The most significant assumptions surrounding AROs are the forecasted retirement costs, the discount rates and the inflation rates. A variance in any of these inputs could have a significant impact on the ARO liabilities.

The following table reflects the sensitivities related to the nuclear decommissioning ARO liability associated with a change in these assumptions as of December 31, 2012. There is no significant change to the annual depreciation expense of the ARO asset or the annual accretion expense of the ARO liability as a result of changing the assumptions. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption.

	<u>Change in Assumption</u>	<u>Impact on ARO Liability</u>
Retirement Cost	10%	\$ 32
Discount Rate	(0.25)%	28
Inflation Rate	0.25%	32

### Income Taxes

Significant management judgment is required in developing the 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. Tax positions are evaluated 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%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known at the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. 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 in the future.

At December 31, 2012, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase by as much as \$10 million or decrease by up to \$90 million. This change could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the creditability of foreign taxes, the timing and utilization of foreign tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. 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 limitation.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified 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 revaluated 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 to account for an uncertain tax position. Management also considers the uncertainty posed by political risk and the effect of this uncertainty on the various factors that management takes into account in evaluating the need for valuation allowances. The amount of deferred tax assets ultimately realized may differ materially from the estimates utilized in the computation of valuation allowances and may materially impact the financial statements in the future. See Note 5 to the Financial Statements for income tax disclosures.

### **Regulatory Assets and Liabilities**

PPL Electric, LG&E and KU, are subject to cost-based rate regulation. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities, and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, then asset write-offs would be required to be recognized in operating income. Additionally, the regulatory agencies can provide flexibility in the manner and timing of depreciation of PP&E and amortization of regulatory assets.

At December 31, 2012, PPL had regulatory assets of \$1.5 billion and regulatory liabilities of \$1.1 billion. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

See Note 6 to the Financial Statements for additional information on regulatory assets and liabilities.

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. WPD's electricity distribution revenues are set every five years through price controls that are not directly based on cost recovery; therefore, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities.

### **Other Information**

PPL's Audit Committee has approved the independent auditor to provide audit and audit-related services, tax services and other services permitted by Sarbanes-Oxley and SEC rules. The audit and audit-related services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews.

## PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information provided in this Item 7 should be read in conjunction with PPL Energy Supply's Consolidated Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of PPL Energy Supply and its business strategy, a summary of Net Income Attributable to PPL Energy Supply Member and a discussion of certain events related to PPL Energy Supply's results of operations and financial condition.
- "Results of Operations" provides a summary of PPL Energy Supply's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal items on PPL Energy Supply's Statements of Income, comparing 2012 with 2011 and 2011 with 2010.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL Energy Supply's liquidity position and credit profile. This section also includes a discussion of forecasted sources and uses of cash and rating agency actions.
- "Financial Condition - Risk Management - Energy Marketing & Trading and Other" provides an explanation of PPL Energy Supply's risk management programs relating to market and credit risk.
- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of PPL Energy Supply and that require its management to make significant estimates, assumptions and other judgments of matters inherently uncertain.

#### Overview

##### **Introduction**

PPL Energy Supply is an energy company with headquarters in Allentown, Pennsylvania. Through its subsidiaries, PPL Energy Supply is primarily engaged in the generation and marketing of electricity in two key markets - the northeastern and northwestern U.S.

##### **Business Strategy**

PPL Energy Supply's overall strategy is to achieve disciplined optimization of energy supply margins while mitigating volatility in both cash flows and earnings. More specifically, PPL Energy Supply's strategy is to optimize the value from its competitive generation and marketing portfolios. PPL Energy Supply endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk.

To manage financing costs and access to credit markets, a key objective of PPL Energy Supply's business strategy is to maintain a strong credit profile and strong liquidity position. In addition, PPL Energy Supply has financial and operational risk management programs that, among other things, are designed to monitor and manage its exposure to earnings and cash flow volatility related to changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of its generating units.

##### **Financial and Operational Developments**

###### Net Income Attributable to PPL Energy Supply Member

Net Income Attributable to PPL Energy Supply Member for 2012, 2011 and 2010 was \$474 million, \$768 million and \$861 million. Earnings in 2012 decreased 38% from 2011 and earnings in 2011 decreased 11% from 2010.

See "Results of Operations" below for further discussion and analysis of the consolidated results of operations.

## Economic and Market Conditions

Unregulated Gross Energy Margins associated with PPL Energy Supply's competitive generation and marketing business are impacted by changes in market prices and demand for electricity and natural gas, power plant availability, competition in the markets for retail customers, fuel costs and availability, fuel transportation costs and other costs. Current depressed wholesale market prices for electricity and natural gas have resulted from general weak economic conditions and other factors, including the impact of expanded domestic shale gas development and production. As a result of these factors, PPL Energy Supply has experienced a shift in the dispatching of its competitive generation from coal-fired to combined-cycle gas-fired generation as illustrated in the following table:

	Average Utilization Factors (a)	
	2012	2009 - 2011
Pennsylvania coal plants	69%	87%
Montana coal plants	67%	89%
Combined-cycle gas plants	98%	72%

(a) All periods reflect the years ended December 31.

This reduction in coal-fired generation output had resulted in a surplus of coal inventory at certain of PPL Energy Supply's Pennsylvania coal plants. To mitigate the risk of exceeding available coal storage, PPL Energy Supply incurred pre-tax charges of \$29 million in 2012 to reduce its 2012 and 2013 contracted coal deliveries. PPL Energy Supply will continue to manage its coal inventory to mitigate the financial impact and physical implications of an oversupply; however, no additional coal contract modifications are expected at this time.

In addition, current economic and commodity market conditions indicated a lower value of unhedged future energy margins (primarily in 2014 and forward years) compared to the energy margins in 2012. As has been PPL Energy Supply's practice in periods of changing business conditions, PPL Energy Supply continues to review its future business and operational plans, including capital and operation and maintenance expenditures, as well as its hedging strategies, to help counter the financial effects of low commodity prices.

PPL Energy Supply's businesses are subject to extensive federal, state and local environmental laws, rules and regulations. PPL Energy Supply's competitive generation assets are well positioned to meet these requirements. See Note 15 to the Financial Statements for additional information on these requirements. As a result of these requirements, PPL Energy Supply announced in September 2012 its intention, beginning in April 2015, to place its Corette plant in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with MATS. The Corette plant asset group's carrying amount at December 31, 2012 was approximately \$68 million. Although the Corette plant asset group was not determined to be impaired at December 31, 2012, it is reasonably possible that an impairment could occur in future periods, as higher priced sales contracts settle, adversely impacting projected cash flows.

In light of these economic and market conditions, as well as current and projected environmental regulatory requirements, PPL Energy Supply considered whether certain of its other generating assets were impaired, and determined that no impairment charges were required at December 31, 2012. PPL Energy Supply is unable to predict whether future environmental requirements or market conditions will result in impairment charges for other generating assets or other retirements.

PPL Energy Supply and its subsidiaries may also be impacted in future periods by the uncertainty in the worldwide financial and credit markets. In addition, PPL Energy Supply may be impacted by reductions in the credit ratings of financial institutions and evolving regulations in the financial sector. Collectively, these factors could reduce availability or restrict PPL Energy Supply and its subsidiaries' ability to maintain sufficient levels of liquidity, reduce capital market activities, change collateral posting requirements and increase the associated costs to PPL Energy Supply and its subsidiaries.

PPL Energy Supply cannot predict the future impact that these economic and market conditions and regulatory requirements may have on its financial condition or results of operations.

## Susquehanna Turbine Blade Inspection

During 2012, PPL Energy Supply performed inspections of the Unit 1 and Unit 2 turbine blades at the PPL Susquehanna nuclear power plant to further address the issue of turbine blade cracking that was first identified in 2011. The after-tax earnings impact of these 2012 inspections, including reduced energy-sales margins and repair expenses, was approximately \$53 million. The after-tax earnings impact of turbine blade related outages in 2011 was approximately \$63 million.

### Ironwood Acquisition

In April 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the acquisition of the equity interests in the owner and operator of the Ironwood Facility. The Ironwood Facility began operation in 2001 and, since 2008, PPL EnergyPlus has supplied natural gas for the facility and received the facility's full electricity output and capacity value pursuant to a tolling agreement that expires in 2021. The acquisition provides PPL Energy Supply, through its subsidiaries, operational control of additional combined-cycle gas generation in PJM. See Note 10 to the Financial Statements for additional information.

### Bankruptcy of SMGT

In October 2011, SMGT, a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus expiring in June 2019 (SMGT Contract), filed for protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Montana. At the time of the bankruptcy filing, SMGT was PPL EnergyPlus' largest unsecured credit exposure. This contract was accounted for as NPNS by PPL EnergyPlus.

The SMGT Contract provided for fixed volume purchases on a monthly basis at established prices. Pursuant to a court order and subsequent stipulations entered into between the SMGT bankruptcy trustee and PPL EnergyPlus, since the date of its Chapter 11 filing through January 2012, SMGT continued to purchase electricity from PPL EnergyPlus at the price specified in the SMGT Contract, and made timely payments for such purchases, but at lower volumes than as prescribed in the SMGT Contract. In January 2012, the trustee notified PPL EnergyPlus that SMGT would not purchase electricity under the SMGT Contract for the month of February. In March 2012, the U.S. Bankruptcy Court for the District of Montana issued an order approving the request of the SMGT bankruptcy trustee and PPL EnergyPlus to terminate the SMGT Contract. As a result, the SMGT Contract was terminated effective April 1, 2012, allowing PPL EnergyPlus to resell the electricity previously contracted to SMGT under the SMGT Contract to other customers.

PPL EnergyPlus' receivable under the SMGT Contract totaled approximately \$21 million at December 31, 2012, which has been fully reserved.

In July 2012, PPL EnergyPlus filed its proof of claim in the SMGT bankruptcy proceeding. The total claim is approximately \$375 million, including the above receivable, predominantly an unsecured claim representing the value for energy sales that will not occur as a result of the termination of the SMGT Contract. No assurance can be given as to the collectability of the claim, thus no amounts have been recorded in the 2012 financial statements.

PPL Energy Supply cannot predict any amounts that it may recover in connection with the SMGT bankruptcy or the prices and other terms on which it will be able to market to third parties the power that SMGT will not purchase from PPL EnergyPlus due to the termination of the SMGT Contract.

### Results of Operations

The following discussion provides a summary of PPL Energy Supply's earnings and a description of factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant year-to-year changes in Unregulated Gross Energy Margins by region and principal line items on PPL Energy Supply's Statements of Income.

#### **Earnings**

Net Income Attributable to PPL Energy Supply Member was:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net Income Attributable to PPL Energy Supply Member	\$ 474	\$ 768	\$ 861

The changes in the components of Net Income Attributable to PPL Energy Supply Member between these periods were due to the following factors, which reflect reclassifications for items included in the Unregulated Gross Energy Margins and certain items that management considers special. See additional detail of these special items in the tables below.

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Unregulated Gross Energy Margins	\$ (197)	\$ (405)
Other operation and maintenance	(53)	(65)
Depreciation	(41)	(8)
Taxes, other than income	6	(9)
Other Income (Expense) - net	(5)	
Interest Expense	16	4
Other	(1)	
Income Taxes	102	146
Discontinued operations - Domestic, after-tax - excluding certain revenues and expenses included in margins	3	16
Discontinued operations - International, after-tax		(261)
Special items, after-tax	(124)	489
Total	<u>\$ (294)</u>	<u>\$ (93)</u>

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Unregulated Gross Energy Margins.
- Higher other operation and maintenance in 2012 compared with 2011 due to higher costs at PPL Susquehanna of \$27 million including refueling outage costs, payroll-related costs and project costs, \$18 million due to the Ironwood Acquisition, \$13 million due to outages at eastern fossil and hydroelectric units and \$10 million of charges from support groups partially offset by \$34 million of trademark royalties with an affiliate in 2011 for which the agreement was terminated December 31, 2011.

Higher other operation and maintenance in 2011 compared with 2010, primarily due to higher costs at PPL Susquehanna of \$30 million largely due to unplanned outages, the refueling outage and payroll-related costs, higher costs at eastern fossil and hydroelectric units of \$20 million, largely due to outages, and higher costs at western fossil and hydroelectric units of \$15 million, largely resulting from insurance recoveries received in 2010.

- Higher depreciation in 2012 compared with 2011 primarily due to a \$16 million impact from PP&E additions and \$17 million due to the Ironwood Acquisition.
  - Lower interest expense in 2012 compared with 2011 of \$14 million due to the impact of redeeming debt not replaced and redeeming debt replaced at a lower interest rate, \$10 million due to lower interest on short-term borrowings and \$7 million due to 2011 including the acceleration of deferred financing fees related to the July 2011 redemption, partially offset by a \$12 million increase related to the debt assumed as a result of the Ironwood Acquisition.
  - Lower income taxes in 2012 compared with 2011 due to lower 2012 pre-tax income, which reduced income taxes by \$110 million and \$20 million related to lower adjustments to valuation allowances on Pennsylvania net operating losses, partially offset by \$26 million related to the impact of prior period tax return adjustments.
- Lower income taxes in 2011 compared with 2010, due to lower 2011 pre-tax income, which reduced income taxes by \$196 million and a \$26 million reduction in deferred tax liabilities related to an updated blended state tax rate as a result of a change in state apportionment. These decreases were partially offset by \$74 million related to adjustments to valuation allowances on Pennsylvania net operating losses, \$13 million in favorable adjustments to uncertain tax benefits recorded in 2010 and an \$11 million decrease in the domestic manufacturing deduction tax benefit resulting from revised bonus depreciation estimates.
- Discontinued operations - International, represents the results of PPL Global which was distributed to PPL Energy Supply's parent, PPL Energy Funding in January 2011. See Note 9 to the Financial Statements for additional information.

The following after-tax gains (losses), which management considers special items, also impacted the results.



	Income Statement			
	Line Item	2012	2011	2010
Adjusted energy-related economic activity, net, net of tax of (\$26), (\$52), \$85	(a)	\$ 38	\$ 72	\$ (121)
Sales of assets:				
Maine hydroelectric generation business, net of tax of \$0, \$0, (\$9) (b)	Disc. Operations			15
Sundance indemnification, net of tax of \$0, \$0, \$0	Other Income-net			1
Impairments:				
Emission allowances, net of tax of \$0, \$1, \$6 (c)	Other O&M		(1)	(10)
Renewable energy credits, net of tax of \$0, \$2, \$0	Other O&M		(3)	
Adjustments - nuclear decommissioning trust investments, net of tax of (\$2), \$0, \$0	Other Income-net	2		
Other asset impairments, net of tax of \$0, \$0, \$0	Other O&M	(1)		
LKE acquisition-related adjustments:				
Monetization of certain full-requirement sales contracts, net of tax of \$0, \$0, \$89	(d)			(125)
Sale of certain non-core generation facilities, net of tax of \$0, \$0, \$37 (e)	Disc. Operations		(2)	(64)
Reduction of credit facility, net of tax of \$0, \$0, \$4 (f)	Interest Expense			(6)
Other:				
Montana hydroelectric litigation, net of tax of \$0, (\$30), \$22	(g)		45	(34)
Litigation settlement - spent nuclear fuel storage, net of tax of \$0, (\$24), \$0 (h)	Fuel		33	
Health care reform - tax impact (i)	Income Taxes			(5)
Montana basin seepage litigation, net of tax of \$0, \$0, (\$1)	Other O&M			2
Counterparty bankruptcy, net of tax of \$5, \$5, \$0 (j)	Other O&M	(6)	(6)	
Wholesale supply cost reimbursement, net of tax of \$0, (\$3), \$0	(k)	1	4	
Ash basin leak remediation adjustment, net of tax of (\$1), \$0, \$0	Other O&M	1		
Coal contract modification payments, net of tax of \$12, \$0, \$0 (l)	Fuel	(17)		
Total		\$ 18	\$ 142	\$ (347)

- (a) See "Reconciliation of Economic Activity" below.
- (b) Gains recorded on completion of the sale of the Maine hydroelectric generation business. See Note 9 to the Financial Statements for additional information.
- (c) Primarily represents impairment charges of sulfur dioxide emission allowances.
- (d) In July 2010, in order to raise additional cash for the LKE acquisition, certain full-requirement sales contracts were monetized that resulted in cash proceeds of \$249 million. See "Monetization of Certain Full-Requirement Sales Contracts" in Note 19 to the Financial Statements for additional information. \$343 million of pre-tax gains were recorded to "Wholesale energy marketing" and \$557 million of pre-tax losses were recorded to "Energy purchases" on the Statement of Income.
- (e) Consists primarily of the initial impairment charge recorded when the business was classified as held for sale. See Note 9 to the Financial Statements for additional information.
- (f) In October 2010, PPL Energy Supply made borrowings under its Syndicated Credit Facility in order to enable a subsidiary to make loans to certain affiliates to provide interim financing of amounts required by PPL to partially fund PPL's acquisition of LKE. Subsequent to the repayment of such borrowing, the capacity was reduced, and as a result, PPL Energy Supply wrote off deferred fees in 2010.
- (g) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. In 2010, PPL Montana recorded a pre-tax charge of \$56 million, representing estimated rental compensation for years prior to 2010, including interest. Of this total charge \$47 million, pre-tax, was recorded to "Other operation and maintenance" and \$9 million, pre-tax, was recorded to "Interest Expense" on the Statement of Income. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition. In February 2012, the U.S. Supreme Court overturned the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. Prior to the U.S. Supreme Court decision, \$4 million, pre-tax, of interest expense on the rental compensation covered by the court decision was accrued in 2011. As a result of the U.S. Supreme Court decision, PPL Montana reversed its total pre-tax loss accrual of \$89 million, which had been recorded prior to the U.S. Supreme Court decision, of which \$79 million pre-tax is considered a special item because it represented \$65 million of rent for periods prior to 2011 and \$14 million of interest accrued on the portion covered by the prior court decision. These amounts were credited to "Other operation and maintenance" and "Interest Expense" on the Statement of Income. See Note 15 to the Financial Statements for additional information.
- (h) In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna plant. PPL Susquehanna recorded credits to fuel expense to recognize recovery, under the settlement agreement, of certain costs to store spent nuclear fuel at the Susquehanna plant. This special item represents amounts recorded in 2011 to cover the costs incurred from 1998 through December 2010.
- (i) Represents income tax expense recorded as a result of the provisions within Health Care Reform which eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage.
- (j) In October 2011, a wholesale customer, SMGT, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy code. In 2012, PPL EnergyPlus recorded an additional allowance for unpaid amounts under the long-term power contract. In March 2012, the U.S. Bankruptcy Court for the District of Montana approved the request to terminate the contract, effective April 1, 2012.
- (k) In January 2012, PPL received \$7 million pre-tax, related to electricity delivered to a wholesale customer in 2008 and 2009, recorded in "Wholesale energy marketing-Realized." The additional revenue results from several transmission projects approved at PJM for recovery that were not initially anticipated at the time of the electricity auctions and therefore were not included in the auction pricing. A FERC order was issued in 2011 approving the disbursement of these supply costs by the wholesale customer to the suppliers, therefore, PPL Energy Supply accrued its share of this additional revenue in 2011.
- (l) As a result of lower electricity and natural gas prices, coal-fired generation output decreased during 2012. Contract modification payments were incurred to reduce 2012 and 2013 contracted coal deliveries.

## Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) from the table within "Commodity Price Risk (Non-trading) - Economic Activity" in Note 19 to the Financial Statements to the special item identified as "Adjusted energy-related economic activity, net."

	2012	2011	2010
Operating Revenues			
Unregulated retail electric and gas	\$ (17)	\$ 31	\$ 1
Wholesale energy marketing	(311)	1,407	(805)
Operating Expenses			
Fuel	(14)	6	29
Energy Purchases	442	(1,123)	286
Energy-related economic activity (a)	100	321	(489)
Option premiums (b)	(1)	19	32
Adjusted energy-related economic activity	99	340	(457)
Less: Unrealized economic activity associated with the monetization of certain full-requirement sales contracts in 2010 (c)			(251)
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010	35	216	
Adjusted energy-related economic activity, net, pre-tax	<u>\$ 64</u>	<u>\$ 124</u>	<u>\$ (206)</u>
Adjusted energy-related economic activity, net, after-tax	<u>\$ 38</u>	<u>\$ 72</u>	<u>\$ (121)</u>

(a) See Note 19 to the Financial Statements for additional information.

(b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. Option premiums are recorded in "Wholesale energy marketing - Realized" and "Energy purchases - Realized" on the Statements of Income.

(c) See "Components of Monetization of Certain Full-Requirement Sales Contracts" below.

### Components of Monetization of Certain Full-Requirement Sales Contracts

The following table provides the components of the "Monetization of Certain Full-Requirement Sales Contracts" special item.

	2010
Full-requirement sales contracts monetized (a)	\$ (68)
Economic activity related to the full-requirement sales contracts monetized	(146)
Monetization of certain full-requirement sales contracts, pre-tax (b)	<u>\$ (214)</u>
Monetization of certain full-requirement sales contracts, after-tax	<u>\$ (125)</u>

(a) See "Commodity Price Risk (Non-trading) - Monetization of Certain Full-Requirement Sales Contracts" in Note 19 to the Financial Statements for additional information.

(b) Includes unrealized losses of \$251 million, which are reflected in "Wholesale energy marketing - Unrealized economic activity" and "Energy purchases - Unrealized economic activity" on the Statement of Income. Also includes net realized gains of \$37 million, which are reflected in "Wholesale energy marketing - Realized" and "Energy purchases - Realized" on the Statement of Income.

### 2013 Outlook

Excluding special items, PPL Energy Supply projects lower earnings in 2013 compared with 2012, primarily driven by lower energy prices, higher fuel costs, higher operation and maintenance, higher depreciation and higher financing costs, which are partially offset by higher capacity prices and higher nuclear generation output despite scheduled outages for both Susquehanna units to implement a long-term solution to turbine blade issues.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item IA. Risk Factors," the rest of this Item 7 and Note 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.

## Statement of Income Analysis –

### Unregulated Gross Energy Margins

#### Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Unregulated Gross Energy Margins." "Unregulated Gross Energy Margins" is a single financial performance measure of PPL Energy Supply's competitive energy non-trading and trading activities. In calculating this measure, PPL Energy Supply's energy revenues, which include operating revenues associated with certain PPL Energy Supply businesses that are classified as discontinued operations, are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges, gross receipts tax, which is recorded in "Taxes, other than income," and operating expenses associated with certain PPL Energy Supply businesses that are classified as discontinued operations. This performance measure is relevant to PPL Energy Supply due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant fluctuations in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Wholesale energy marketing" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are recorded in "Wholesale energy marketing to affiliate" revenue. PPL Energy Supply excludes from "Unregulated Gross Energy Margins" adjusted energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of PPL Energy Supply's competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in adjusted energy-related economic activity is the ineffective portion of qualifying cash flow hedges, the monetization of certain full-requirement sales contracts and premium amortization associated with options. This economic activity is deferred, with the exception of the full-requirement sales contracts that were monetized, and included in "Unregulated Gross Energy Margins" over the delivery period that was hedged or upon realization. This measure 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 analyze and to report on the results of their operations. PPL Energy Supply believes that "Unregulated Gross Energy Margins" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management to manage PPL Energy Supply's operations, analyze actual results compared with budget and measure certain corporate financial goals used in determining variable compensation.

#### Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Unregulated Gross Energy Margins" as defined by PPL Energy Supply for the period ended December 31.

	2012			2011		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>						
Wholesale energy marketing						
Realized	\$ 4,412	\$ 21 (c)	\$ 4,433	\$ 3,745	\$ 62 (c)	\$ 3,807
Unrealized economic activity		(311) (d)	(311)		1,407 (d)	1,407
Wholesale energy marketing to affiliate	78		78	26		26
Unregulated retail electric and gas	865	(17) (d)	848	696	31 (d)	727
Net energy trading margins	4		4	(2)		(2)
Energy-related businesses		448	448		464	464
Total Operating Revenues	<u>5,359</u>	<u>141</u>	<u>5,500</u>	<u>4,465</u>	<u>1,964</u>	<u>6,429</u>

	2012			2011		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
<b>Operating Expenses</b>						
Fuel	931	34 (e)	965	1,151	(71) (e)	1,080
Energy purchases						
Realized	2,204	56 (c)	2,260	912	248 (c)	1,160
Unrealized economic activity		(442) (d)	(442)		1,123 (d)	1,123
Energy purchases from affiliate	3		3	3		3
Other operation and maintenance	19	1,022	1,041	16	913	929
Depreciation		285	285		244	244
Taxes, other than income	34	35	69	30	41	71
Energy-related businesses		432	432		458	458
Total Operating Expenses	3,191	1,422	4,613	2,112	2,956	5,068
Discontinued Operations				12	(12) (f)	
<b>Total</b>	<b>\$ 2,168</b>	<b>\$ (1,281)</b>	<b>\$ 887</b>	<b>\$ 2,365</b>	<b>\$ (1,004)</b>	<b>\$ 1,361</b>

	2010		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>			
Wholesale energy marketing			
Realized	\$ 4,511	\$ 321 (c)	\$ 4,832
Unrealized economic activity		(805) (d)	(805)
Wholesale energy marketing to affiliate	320		320
Unregulated retail electric and gas	414	1 (d)	415
Net energy trading margins	2		2
Energy-related businesses		364	364
Total Operating Revenues	5,247	(119)	5,128
<b>Operating Expenses</b>			
Fuel	1,132	(36) (e)	1,096
Energy purchases			
Realized	1,389	247 (c)	1,636
Unrealized economic activity		(286) (d)	(286)
Energy purchases from affiliate	3		3
Other operation and maintenance	23	956	979
Depreciation		236	236
Taxes, other than income	14	32	46
Energy-related businesses		357	357
Total Operating Expenses	2,561	1,506	4,067
Discontinued Operations	84	(84) (f)	
<b>Total</b>	<b>\$ 2,770</b>	<b>\$ (1,709)</b>	<b>\$ 1,061</b>

- (a) Represents amounts excluded from Margins.  
(b) As reported on the Statements of Income.  
(c) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements. For 2012, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" include a net pre-tax loss of \$35 million related to the monetization of certain full-requirement sales contracts. 2011 includes a net pre-tax loss of \$216 million related to the monetization of certain full-requirement sales contracts and a net pre-tax gain of \$19 million related to the amortization of option premiums. 2010 includes a net pre-tax gain of \$37 million related to the monetization of certain full-requirement sales contracts and a net pre-tax gain of \$32 million related to the amortization of option premiums.  
(d) Represents energy-related economic activity, which is subject to fluctuations in value due to market price volatility, as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements.  
(e) Includes economic activity related to fuel as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements. 2012 includes pre-tax loss of \$29 million related to coal contract modification payments. 2011 includes pre-tax credits of \$57 million for the spent nuclear fuel litigation settlement.  
(f) Represents the net of certain revenues and expenses associated with certain businesses that are classified as discontinued operations. These revenues and expenses are not reflected in "Operating Income" on the Statements of Income.

#### Changes in Non-GAAP Financial Measures

Unregulated Gross Energy Margins are generated through PPL Energy Supply's competitive non-trading and trading activities. PPL Energy Supply's trading energy business is managed on a geographic basis that is aligned with its generation fleet. The following table shows PPL Energy Supply's net financial measure, Unregulated Gross Energy Margins, for the periods ended December 31, as well as the change between periods. The factors that led to the changes are described below the table.

	2012	2011	Change	2011	2010	Change
Non-trading						
Eastern U.S.	\$ 1,865	\$ 2,018	\$ (153)	\$ 2,018	\$ 2,429	\$ (411)
Western U.S.	299	349	(50)	349	339	10
Net energy trading	4	(2)	6	(2)	2	(4)
Total	\$ 2,168	\$ 2,365	\$ (197)	\$ 2,365	\$ 2,770	\$ (405)

### Unregulated Gross Energy Margins

#### Eastern U.S.

The changes in Eastern U.S. non-trading margins were:

	2012 vs. 2011	2011 vs. 2010
Baseload energy prices	\$ (121)	\$ (109)
Baseload capacity prices	(37)	(90)
Intermediate and peaking capacity prices	(17)	(58)
Full-requirement sales contracts (a)	(15)	70
Impact of non-core generation facilities sold in the first quarter of 2011	(12)	(48)
Higher nuclear fuel prices	(12)	(10)
Net economic availability of coal and hydroelectric units (b)	(10)	(72)
Higher coal prices	(2)	(40)
Nuclear generation volume (c)		(29)
Intermediate and peaking Spark Spreads	11	24
Retail electric	15	(7)
Ironwood Acquisition, which eliminated tolling expense (d)	41	
Monetization of certain deals that rebalanced the business and portfolio		(41)
Other	6	(1)
	\$ (153)	\$ (411)

(a) Higher margins in 2011 compared with 2010 were driven by the monetization of loss contracts in 2010 and lower customer migration to alternative suppliers in 2011.

(b) Volumes were lower in 2011 compared with 2010 as a result of unplanned outages and the sale of our interest in Safe Harbor Water Power Corporation.

(c) Volumes were flat in 2012 compared to 2011 due to an uprate in the third quarter of 2011 offset by higher plant outage costs in 2012. Volumes were lower in 2011 compared with 2010 primarily as a result of the dual-unit turbine blade replacement outages beginning in May 2011.

(d) See Note 10 to the Financial Statements for additional information.

#### Western U.S.

Non-trading margins were lower in 2012 compared with 2011 due to \$34 million of lower wholesale volumes, including \$31 million related to the bankruptcy of SMGT, \$9 million of higher average fuel prices and \$9 million of lower wholesale prices.

Non-trading margins were higher in 2011 compared with 2010 due to higher net wholesale prices of \$58 million, partially offset by lower wholesale volumes of \$45 million, primarily due to economic reductions in the coal unit output.

#### Energy-Related Businesses

The \$10 million increase in contributions from energy-related businesses in 2012 compared with 2011 primarily relates to the mechanical services businesses, due to improved margins on construction and energy service projects in 2012 and a decrease in affiliate trademark expenses.

#### Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	2012 vs. 2011	2011 vs. 2010
Montana hydroelectric litigation (a)	\$ 75	\$ (121)
PPL Susquehanna nuclear plant costs (b)	27	30
Uncollectible accounts (c)	(5)	15
Costs at Western fossil and hydroelectric plants (d)	(1)	15
Costs at Eastern fossil and hydroelectric plants (e)	13	20
Impacts from emission allowances (f)		(15)
Ironwood Acquisition (g)	18	
Trademark royalties (h)	(34)	
Pension expense	11	1
Other	8	5
Total	<u>\$ 112</u>	<u>\$ (50)</u>

- (a) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded a charge of \$56 million, representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. The portion of the total charge recorded to "Other operation and maintenance" on the Statement of Income totaled \$49 million. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition. In February 2012, the U.S. Supreme Court overturned the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. As a result, in 2011 PPL Montana reversed its total loss accrual of \$89 million, which had been recorded prior to the U.S. Supreme Court decision, of which \$75 million was credited to "Other operation and maintenance" on the Statement of Income.
- (b) 2012 compared with 2011 was higher primarily due to \$11 million of higher payroll-related costs, \$7 million of higher project costs and \$7 million of higher costs from the refueling outage. 2011 compared with 2010 was higher primarily due to \$11 million of higher payroll-related costs, \$10 million of higher outage costs and \$8 million of higher costs from the refueling outage.
- (c) 2011 compared with 2010 was higher primarily due to SMGT filing for protection under Chapter 11 of the U.S. Bankruptcy Code, \$11 million of damages billed to SMGT were fully reserved.
- (d) 2011 compared with 2010 was higher primarily due to \$11 million of lower insurance proceeds.
- (e) 2012 compared with 2011 was higher primarily due to net plant outage costs of \$13 million. 2011 compared with 2010 was higher primarily due to plant outage costs of \$13 million.
- (f) 2011 compared with 2010 was lower due to lower impairment charges of sulfur dioxide emission allowances.
- (g) There are no comparable amounts in the 2011 periods as the Ironwood Acquisition occurred in April 2012.
- (h) In 2011 and 2010, PPL Energy Supply was charged trademark royalties by an affiliate. The agreement was terminated in December 2011.

#### Depreciation

Depreciation increased by \$41 million in 2012 compared with 2011, primarily due to \$16 million attributable to PP&E additions and \$17 million attributable to the Ironwood Acquisition in April 2012. Depreciation increased by \$8 million in 2011 compared with 2010, primarily due to PP&E additions.

#### Taxes, Other Than Income

Taxes, other than income decreased by \$2 million in 2012 compared with 2011, primarily due to a \$7 million decrease in state capital stock tax offset by a \$4 million increase in state gross receipts tax.

Taxes, other than income increased by \$25 million in 2011 compared with 2010, primarily due to \$16 million of higher Pennsylvania gross receipts tax expense as a result of an increase in retail electricity sales by PPL EnergyPlus. This tax is included in "Unregulated Gross Energy Margins." The increase also includes \$8 million of higher Pennsylvania capital stock tax due in part to the expiration of the Keystone Opportunity Zone credit in 2010 and an agreed to change in a capital stock tax filing position with the state.

#### Other Income (Expense) - net

See Note 17 to the Financial Statements for details.

#### Interest Income from Affiliates

Interest income from affiliates decreased by \$6 million in 2012 compared with 2011, primarily due to lower average loan balances with PPL Energy Funding.

#### Interest Expense

The increase (decrease) in interest expense was due to:

	2012 vs. 2011	2011 vs. 2010
Long-term debt interest expense (a)	\$ (11)	
Short-term debt interest expense (b)	(10)	\$ 7
Ironwood Acquisition (Note 10)	12	
Capitalized interest		(16)
Net amortization of debt discounts, premiums and issuance costs (c)	(9)	(3)
Montana hydroelectric litigation (d)	10	(20)
Other	2	(2)
Total	<u>\$ (6)</u>	<u>\$ (34)</u>

- (a) The decrease was primarily due to the redemption of \$250 million of 7.0% Senior Notes due 2046 in July 2011 along with the repayment of \$500 million of 6.4% Senior Notes due 2011 and subsequent issuance of \$500 million of 4.6% Senior Notes due 2021, both in the fourth quarter of 2011.
- (b) 2012 compared with 2011 was lower primarily due to lower interest rates on 2012 short-term borrowings coupled with lower fees on credit facilities. 2011 compared with 2010 was higher primarily due to increased borrowings in 2011 and an increase in commitment fees on credit facilities.
- (c) The periods include the impact of accelerating the amortization of deferred financing fees of \$7 million in 2011, due to the July 2011 redemption, as noted above, of its 7.00% Senior Notes due 2046. 2011 compared with 2010 was slightly offset by the impact of accelerating the amortization of deferred financing fees of \$10 million in 2010, due to the September 2010 expiration and subsequent replacement of its \$3.2 billion 5-year Syndicated Credit Facility.
- (d) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In 2011 and 2010, PPL Montana recorded \$4 million and \$10 million of interest expense on the rental compensation covered by the court decision. In February 2012, the U.S. Supreme Court overturned the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. As a result, in the fourth quarter of 2011 PPL Montana reversed its total loss accrual of \$89 million, which had been recorded prior to the U.S. Supreme Court decision, of which \$14 million was credited to "Interest Expense" on the Statement of Income.

## Income Taxes

The increase (decrease) in income taxes was due to:

	2012 vs. 2011	2011 vs. 2010
Higher (lower) pre-tax book income	\$ (191)	\$ 134
State valuation allowance adjustments (a)	(20)	74
State deferred tax rate change (b)	7	(26)
Domestic manufacturing deduction (c) (d)		11
Federal and state tax reserve adjustments	(4)	13
Federal and state tax return adjustments (d)	26	(16)
Health Care Reform (e)		(5)
Other		(1)
	<u>\$ (182)</u>	<u>\$ 184</u>

- (a) During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. The guidance allows 100% bonus for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. Due to the decrease in projected taxable income related to bonus depreciation and a decrease in projected future taxable income, PPL Energy Supply recorded \$22 million in state deferred income tax expense related to deferred tax valuation allowances during 2011.

Pennsylvania H.B. 1531, enacted in October 2009, increased the net operating loss limitation to 20% of taxable income for tax years beginning in 2010. Based on the projected revenue increase related to the expiration of the generation rate caps, PPL Energy Supply recorded a \$52 million state deferred income tax benefit related to the reversal of deferred tax valuation allowances over the remaining carryforward period of the net operating losses during 2010.

- (b) Changes in state apportionment resulted in reductions to the future estimated state tax rate at December 31, 2012 and 2011. PPL Energy Supply recorded a \$19 million deferred tax benefit in 2012 and a \$26 million deferred tax benefit in 2011 related to its state deferred tax liabilities.
- (c) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation deduction eliminated the tax benefits related to domestic manufacturing deductions in 2012 and 2011.
- (d) During 2011, PPL recorded \$22 million in federal and state tax benefits related to the filing of the 2010 federal and state income tax returns. Of that amount, \$7 million in tax benefits related to an additional domestic manufacturing deduction resulting from revised bonus depreciation amounts.
- (e) 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 prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL Energy Supply recorded deferred income tax expense during 2010.

See Note 5 to the Financial Statements for additional information on income taxes.

## Discontinued Operations

Income (Loss) from Discontinued Operations (net of income taxes) decreased by \$240 million in 2011 compared with 2010. The decrease in 2011 compared with 2010 was primarily due to the presentation of PPL Global as Discontinued Operations as a result of the January 2011 distribution by PPL Energy Supply of its membership interest in PPL Global to its parent, PPL Energy Funding. In 2011, the results of PPL Global are no longer consolidated within PPL Energy Supply. See Note 9 to the Financial Statements for additional information.

## Financial Condition

### Liquidity and Capital Resources

PPL Energy Supply expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents, credit facilities and commercial paper issuances. In 2013, PPL Energy Supply anticipates receiving capital contributions from its member, as well.

PPL Energy Supply'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:

- changes in electricity, fuel and other commodity prices;
- operational and credit risks associated with selling and marketing products in the wholesale power markets;
- potential ineffectiveness of the trading, marketing and risk management policy and programs used to mitigate PPL Energy Supply's risk exposure to adverse changes in electricity and fuel prices, interest rates and counterparty credit;
- reliance on transmission and distribution facilities that PPL Energy Supply does not own or control to deliver its electricity and natural gas;
- 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;
- costs of compliance with existing and new environmental laws and with new security and safety requirements for nuclear facilities;
- any adverse outcome of legal proceedings and investigations with respect to PPL Energy Supply'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 PPL Energy Supply's or its rated subsidiaries' credit ratings that could adversely affect their ability to access capital and increase the cost of credit facilities and any new debt.

See "Item 1A. Risk Factors" for further discussion of risks and uncertainties that could affect PPL Energy Supply's cash flows.

At December 31, PPL Energy Supply had the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 413	\$ 379	\$ 661
Short-term debt	<u>\$ 356</u>	<u>\$ 400</u>	<u>\$ 531</u>

The changes in PPL Energy Supply's cash and cash equivalents position resulted from:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net cash provided by (used in) operating activities	\$ 784	\$ 776	\$ 1,840
Net cash provided by (used in) investing activities	(469)	(668)	(825)
Net cash provided by (used in) financing activities	(281)	(390)	(612)
Effect of exchange rates on cash and cash equivalents			13
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 34</u>	<u>\$ (282)</u>	<u>\$ 416</u>



### Operating Activities

Net cash provided by operating activities increased by 1%, or \$8 million, in 2012 compared with 2011. This was primarily due to a \$92 million decrease in net cash used in other operating activities (includes a \$77 million reduction in defined benefit plan funding) and a \$23 million decrease in net cash used in working capital (including a change of \$156 million from counterparty collateral, offset by a \$92 million change in accounts receivable). These impacts were offset by a \$107 million decrease in net income, when adjusted for non-cash components.

Net cash provided by operating activities decreased by 58%, or \$1.1 billion, in 2011 compared with 2010. This was primarily due to lower gross energy margins of \$240 million, after-tax, proceeds from monetizing certain full-requirements sales contracts in 2010 of \$249 million, a reduction in cash from counter party collateral of \$172 million, increases in other operating outflows of \$200 million (including higher operation and maintenance expenses and defined benefits funding of \$123 million) and the loss of operating cash from PPL Global (\$203 million for 2010). In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 9 to the Financial Statements for additional information on the distribution.

A significant portion of PPL Energy Supply's operating cash flows is derived from its baseload generation business activities. PPL Energy Supply employs a formal hedging program for its competitive baseload generation fleet, the primary objective of which is to provide a reasonable level of near-term cash flow and earnings certainty while preserving upside potential of power price increases over the medium term. See Note 19 to the Financial Statements for further discussion. Despite PPL Energy Supply's hedging practices, future cash flows from operating activities are influenced by commodity prices and therefore, will fluctuate from period to period.

PPL Energy Supply's contracts for the sale and purchase of electricity and fuel often require cash collateral or other credit enhancements, or reductions or terminations of a portion of the entire contract through cash settlement, in the event of a downgrade of PPL Energy Supply's or its subsidiary's credit ratings or adverse changes in market prices. For example, in addition to limiting its trading ability, if PPL Energy Supply's or its subsidiary's ratings were lowered to below "investment grade" and there was a 10% adverse movement in energy prices, PPL Energy Supply estimates that, based on its December 31, 2012 positions, it would have had to post additional collateral of approximately \$368 million with respect to electricity and fuel contracts. PPL Energy Supply has in place risk management programs that are designed to monitor and manage its exposure to volatility of cash flows related to changes in energy and fuel prices, interest rates, foreign currency exchange rates, counterparty credit quality and the operating performance of its generating units.

### 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 2013 through 2017.

Net cash used in investing activities decreased \$199 million in 2012 compared with 2011, primarily as a result of a \$396 million change in notes receivable from affiliates and a \$232 million change in restricted cash and cash equivalents, partially offset by \$381 million less in asset sale proceeds (2011 sale of non-core generation facilities) and \$84 million used to fund the 2012 Ironwood Acquisition (see Note 10 to the Financial Statements for additional information on this acquisition).

Net cash used in investing activities decreased \$157 million in 2011 compared with 2010, primarily as a result of a decrease of \$348 million in capital expenditures and a \$219 million increase in the proceeds received from the sale of businesses, which are discussed in Note 9 to the Financial Statements. The decrease in cash used in investing activities from the above items was partially offset by an increase of \$198 million related to notes receivable from affiliates and \$212 million from changes in restricted cash and cash equivalents.

In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to its parent, PPL Energy Funding. See Note 9 to the Financial Statements for additional information. Excluding PPL Global, PPL Energy Supply's net cash used in investing activities was \$544 million for 2010.

## Financing Activities

Net cash used in financing activities was \$281 million in 2012 compared with \$390 million in 2011 and \$612 million in 2010. The decrease from 2011 to 2012 primarily reflects the 2011 distribution of cash included in the net assets of PPL Global to PPL Energy Funding and a decrease in net retirement of long-term debt, partially offset by higher net distributions to Member. The decrease from 2010 to 2011 primarily reflects lower net distributions to Member, partially offset by lower net issuances of long-term debt and the distribution of cash included in the net assets of PPL Global to PPL Energy Funding.

In 2012, cash used in financing activities primarily consisted of \$787 million in distributions to Member and a \$44 million net decrease in short-term debt, partially offset by \$563 million in contributions from Member.

In 2011, cash used in financing activities primarily consisted of a \$325 million distribution of cash included in the net assets of PPL Global to PPL Energy Funding, \$316 million in distributions to Member, and net debt retirements of \$200 million, partially offset by \$461 million in contributions from Member.

In 2010, cash used in financing activities primarily consisted of \$4.7 billion in distributions to Member, partially offset by \$3.6 billion in contributions from Member and net debt issuances of \$509 million. The distributions to and contributions from Member during 2010 primarily relate to the funds received by PPL in June 2010 from the issuance of common stock and 2010 Equity Units. These funds were invested by a subsidiary of PPL Energy Supply until they were returned to its Member in October 2010 to be available to partially fund PPL's acquisition of LKE and pay certain acquisition-related fees and expenses.

See "Forecasted Sources of Cash" for a discussion of PPL Energy Supply's plans to issue debt securities, as well as a discussion of credit facility capacity available to PPL Energy Supply. Also see "Forecasted Uses of Cash" for information regarding maturities of PPL Energy Supply's long-term debt.

## Forecasted Sources of Cash

PPL Energy Supply expects to continue to have sufficient sources of liquidity available in the near term, including cash flows from operations, various credit facilities, commercial paper issuances, operating leases and contributions from member.

## Credit Facilities

At December 31, 2012, PPL Energy Supply's total committed borrowing capacity under credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backup</u>	<u>Unused Capacity</u>
Syndicated Credit Facility (a)	\$ 3,000		\$ 499	\$ 2,501
Letter of Credit Facility	200	n/a	132	68
Total PPL Energy Supply Credit Facilities (b)	<u>\$ 3,200</u>		<u>\$ 631</u>	<u>\$ 2,569</u>

- (a) This facility contains a financial covenant requiring PPL Energy Supply's debt to total capitalization not to exceed 65%, as calculated in accordance with the facility, and other customary covenants.
- (b) The commitments under PPL Energy Supply's credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 11% of the total committed capacity.

In addition to the financial covenants noted above, the credit agreements governing the above credit facilities contain various other covenants. Failure to comply with the covenants after applicable grace periods could result in acceleration of repayment of borrowings and/or termination of the agreements. PPL Energy Supply monitors compliance with the covenants on a regular basis. At December 31, 2012, PPL Energy Supply was in compliance with these covenants. At this time, PPL Energy Supply believes that these covenants and other borrowing conditions will not limit access to these funding sources.

See Note 7 to the Financial Statements for further discussion of PPL Energy Supply's credit facilities.

## Commercial Paper

PPL Energy Supply maintains a \$750 million commercial paper program to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At December 31, 2012, PPL Energy Supply had \$356 million of commercial paper outstanding at a weighted-average interest rate of approximately 0.50%.

## Operating Leases

PPL Energy Supply and its subsidiaries also have available funding sources that are provided through operating leases. PPL Energy Supply's subsidiaries lease office space, land, buildings and certain equipment. These leasing structures provide PPL Energy Supply additional operating and financing flexibility. The operating leases contain covenants that are typical for these agreements, such as maintaining insurance, maintaining corporate existence and timely payment of rent and other fees.

PPL Energy Supply, through its subsidiary PPL Montana, leases a 50% interest in Colstrip Units 1 and 2 and a 30% interest in Unit 3, under four 36-year, non-cancelable operating leases. These operating leases are not recorded on PPL Energy Supply's Balance Sheets. The leases place certain restrictions on PPL Montana's ability to incur additional debt, sell assets and declare dividends.

See Note 11 to the Financial Statements for further discussion of the operating leases.

## Contributions from Member

From time to time, PPL Energy Supply's Member, PPL Energy Funding, makes capital contributions to PPL Energy Supply. PPL Energy Supply uses these contributions to fund capital expenditures and for other general corporate purposes.

## Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, PPL Energy Supply currently expects to incur future cash outflows for capital expenditures, various contractual obligations, distributions to its Member and possibly the purchase or redemption of a portion of its debt securities.

## Capital Expenditures

The table below shows PPL Energy Supply's current capital expenditure projections for the years 2013 through 2017.

	Projected				
	2013	2014	2015	2016	2017
Construction expenditures (a) (b)					
Generating facilities	\$ 387	\$ 248	\$ 247	\$ 241	\$ 292
Environmental	94	89	22	20	21
Other	26	34	15	15	15
Total Construction Expenditures	507	371	284	276	328
Nuclear fuel	152	145	153	158	162
Total Capital Expenditures	<u>\$ 659</u>	<u>\$ 516</u>	<u>\$ 437</u>	<u>\$ 434</u>	<u>\$ 490</u>

(a) Construction expenditures include capitalized interest, which is expected to total approximately \$82 million for the years 2013 through 2017.

(b) Includes expenditures for certain intangible assets.

PPL Energy Supply's capital expenditure projections for the years 2013 through 2017 total approximately \$2.5 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes projected costs related to the planned 153 MW of incremental capacity increases. See Note 8 to the Financial Statements for information regarding the significant development projects.

PPL Energy Supply plans to fund its capital expenditures in 2013 with cash from operations and equity contributions from PPL Energy Funding.

## Contractual Obligations

PPL Energy Supply has assumed various financial obligations and commitments in the ordinary course of conducting its business. At December 31, 2012, the estimated contractual cash obligations of PPL Energy Supply were:

	Total	2013	2014 - 2015	2016 - 2017	After 2017
Long-term Debt (a)	\$ 3,249	\$ 751	\$ 635	\$ 386	\$ 1,477
Interest on Long-term Debt (b)	1,169	196	265	167	541
Operating Leases (c)	362	76	143	39	104
Purchase Obligations (d)	3,047	863	878	696	610
Other Long-term Liabilities Reflected on the Balance Sheet under GAAP (e) (f)	105	105			
Total Contractual Cash Obligations	<u>\$ 7,932</u>	<u>\$ 1,991</u>	<u>\$ 1,921</u>	<u>\$ 1,288</u>	<u>\$ 2,732</u>

- (a) Reflects principal maturities only based on stated maturity dates, except for the 5.70% REset Put Securities (REPS). See Note 7 to the Financial Statements for a discussion of the remarketing feature related to the REPS, as well as discussion of variable-rate remarketable bonds. PPL Energy Supply does not have any significant capital lease obligations.
- (b) Assumes interest payments through stated maturity, except for the REPS, for which interest is reflected to the put date. The payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated.
- (c) See Note 11 to the Financial Statements for additional information.
- (d) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes PPL Energy Supply's purchase obligations of electricity, coal, nuclear fuel and limestone as well as certain construction expenditures, which are also included in the Capital Expenditures table presented above. Financial swaps and open purchase orders that are provided on demand with no firm commitment are excluded from the amounts presented.
- (e) The amounts represent contributions made or committed to be made for 2013 for PPL's U.S. pension plans. See Note 13 to the Financial Statements for a discussion of expected contributions.
- (f) At December 31, 2012, total unrecognized tax benefits of \$30 million were excluded from this table as PPL Energy Supply cannot reasonably estimate the amount and period of future payments. See Note 5 to the Financial Statements for additional information.

#### Distributions to Member

From time to time, as determined by its Board of Managers, PPL Energy Supply makes distributions to its member.

#### Purchase or Redemption of Debt Securities

PPL Energy Supply will continue to evaluate its outstanding debt securities and may decide to purchase or redeem these securities depending upon prevailing market conditions and available cash.

#### Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of PPL Energy Supply and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL Energy Supply and its subsidiaries are based on information provided by PPL Energy Supply and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL Energy Supply or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of PPL Energy Supply and its subsidiaries affect its liquidity, access to capital markets and cost of borrowing under its credit facilities.

The following table sets forth PPL Energy Supply's and its subsidiaries' security credit ratings as of December 31, 2012.

Issuer	Senior Unsecured			Senior Secured			Commercial Paper		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Fitch
PPL Energy Supply	Baa2	BBB	BBB				P-2	A-2	F-2
PPL Ironwood				B2	B				

A downgrade in PPL Energy Supply's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. PPL Energy Supply and its subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

In addition to the credit ratings noted above, the rating agencies took the following actions related to PPL Energy Supply and its subsidiaries in 2012.

In January 2012, S&P affirmed its rating and revised its outlook, from positive to stable, for PPL Montana's Pass Through Certificates due 2020.

Following the announcement of the then-pending acquisition of AES Ironwood, L.L.C. in February 2012, the rating agencies took the following actions:

- In March 2012, Moody's placed AES Ironwood, L.L.C.'s senior secured bonds under review for possible ratings upgrade.
- In April 2012, S&P affirmed the rating of AES Ironwood, L.L.C.'s senior secured bonds.

In May 2012, Fitch downgraded its rating, from BBB to BBB- and revised its outlook, from negative to stable, for PPL Montana's Pass Through Certificates due 2020.

In November 2012, S&P revised its outlook, from stable to negative, for PPL Montana's Pass Through Certificates due 2020.

In December 2012, Fitch affirmed the issuer default rating, individual security rating and revised the outlook, from stable to negative, for PPL Energy Supply.

In February 2013, Moody's upgraded its rating, from Ba1 to B2, and revised the outlook from under review to stable for PPL Ironwood.

#### Ratings Triggers

PPL Energy Supply has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements and interest rate instruments, which contain provisions that require PPL Energy Supply to post additional collateral, or permit the counterparty to terminate the contract, if PPL Energy Supply's credit rating were to fall below investment grade. See Note 19 to the 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, 2012. At December 31, 2012, if PPL Energy Supply's credit rating had been below investment grade, PPL Energy Supply would have been required to prepay or post an additional \$385 million of collateral to counterparties for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate contracts.

#### Guarantees for Subsidiaries

PPL Energy Supply guarantees certain consolidated affiliate financing arrangements that enable certain transactions. Some of the guarantees contain financial and other covenants that, if not met, would limit or restrict the consolidated affiliates' access to funds under these financing arrangements, require early maturity of such arrangements or limit the consolidated affiliates' ability to enter into certain transactions. At this time, PPL Energy Supply believes that these covenants will not limit access to relevant funding sources. See Note 15 to the Financial Statements for additional information about guarantees.

#### **Off-Balance Sheet Arrangements**

PPL Energy Supply has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

#### **Risk Management - Energy Marketing & Trading and Other**

##### Market Risk

See Notes 1, 18, and 19 to the Financial Statements for information about PPL Energy Supply's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

#### Commodity Price Risk (Non-trading)

PPL Energy Supply segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. The net fair value of economic positions at December 31, 2012 and 2011 was a net asset/(liability) of \$346 million and \$(63) million. See Note 19 to the Financial Statements for additional information.

To hedge the impact of market price volatility on PPL Energy Supply's energy-related assets, liabilities and other contractual arrangements, PPL Energy Supply both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL Energy Supply's non-trading commodity derivative contracts range in maturity through 2019.

The following table sets forth the changes in the net fair value of non-trading commodity derivative contracts at December 31, 2012. See Notes 18 and 19 to the Financial Statements for additional information.

	Gains (Losses)	
	2012	2011
Fair value of contracts outstanding at the beginning of the period	\$ 1,082	\$ 958
Contracts realized or otherwise settled during the period	(1,005)	(523)
Fair value of new contracts entered into during the period (a)	7	13
Other changes in fair value	389	634
Fair value of contracts outstanding at the end of the period	<u>\$ 473</u>	<u>\$ 1,082</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of non-trading commodity derivative contracts at December 31, 2012, based on the level of observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Prices based on significant observable inputs (Level 2)	\$ 452	\$ 15	\$ (20)	\$ 5	\$ 452
Prices based on significant unobservable inputs (Level 3)	8	10	3		21
Fair value of contracts outstanding at the end of the period	<u>\$ 460</u>	<u>\$ 25</u>	<u>\$ (17)</u>	<u>\$ 5</u>	<u>\$ 473</u>

PPL Energy Supply sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL Energy Supply were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their counterparties) with which it has energy contracts and other factors could affect PPL Energy Supply's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL Energy Supply attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future. In connection with its bankruptcy proceedings, a significant counterparty, SMGT, had been purchasing lower volumes of electricity than prescribed in the contract and effective April 1, 2012 the contract was terminated. PPL Energy Supply cannot predict the prices or other terms on which it will be able to market to third parties the power that SMGT will not purchase from PPL EnergyPlus due to the termination of this contract. See Note 15 to the Financial Statements for additional information.

### Commodity Price Risk (Trading)

PPL Energy Supply's trading commodity derivative contracts range in maturity through 2017. The following table sets forth changes in the net fair value of trading commodity derivative contracts at December 31, 2012. See Notes 18 and 19 to the Financial Statements for additional information.

	Gains (Losses)	
	2012	2011
Fair value of contracts outstanding at the beginning of the period	\$ (4)	\$ 4
Contracts realized or otherwise settled during the period	20	(14)
Fair value of new contracts entered into during the period (a)	17	10
Other changes in fair value	(4)	(4)
Fair value of contracts outstanding at the end of the period	<u>\$ 29</u>	<u>\$ (4)</u>

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of trading commodity derivative contracts at December 31, 2012, based on the level of observability of the information used to determine the fair value.

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices based on significant observable inputs (Level 2)	\$ 18	\$ 10			\$ 28
Prices based on significant unobservable inputs (Level 3)	1				1
Fair value of contracts outstanding at the end of the period	<u>\$ 19</u>	<u>\$ 10</u>			<u>\$ 29</u>

### VaR Models

A VaR model is utilized to measure commodity price risk in domestic gross energy margins for its non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's disciplined hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the period was as follows.

95% Confidence Level, Five-Day Holding Period	Trading VaR		Non-Trading VaR	
	2012	2011	2012	2011
Period End	\$ 2	\$ 1	\$ 12	\$ 6
Average for the Period	3	3	10	5
High	8	6	12	7
Low	1	1	7	4

The trading portfolio includes all proprietary trading positions, regardless of the delivery period. All positions not considered proprietary trading are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at December 31, 2012.

### Interest Rate Risk

PPL Energy Supply and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. PPL and PPL Energy Supply utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in PPL Energy Supply's debt portfolio, adjust the duration of its debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL Energy Supply's debt portfolio due to changes in the absolute level of interest rates.

At December 31, 2012 and 2011, PPL Energy Supply's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL Energy Supply is also exposed to changes in the fair value of its debt portfolio. PPL Energy Supply estimated that a 10% decrease in interest rates at December 31, 2012 would increase the fair value of its debt portfolio by \$52 million, compared with \$53 million at December 31, 2011.

#### *NDT Funds - Securities Price Risk*

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the PPL Susquehanna nuclear plant (Susquehanna). At December 31, 2012, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on PPL Energy Supply's Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At December 31, 2012, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$49 million reduction in the fair value of the trust assets, compared with \$43 million at December 31, 2011. See Notes 18 and 23 to the Financial Statements for additional information regarding the NDT funds.

#### *Defined Benefit Plans - Securities Price Risk*

See "Application of Critical Accounting Policies - Defined Benefits" for additional information regarding the effect of securities price risk on plan assets.

#### Credit Risk

Credit risk is the risk that PPL Energy Supply would incur a loss as a result of nonperformance by counterparties of their contractual obligations. PPL Energy Supply maintains credit policies and procedures with respect to counterparty credit (including requirements that counterparties maintain specified credit ratings) and requires other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, PPL Energy Supply has concentrations of suppliers and customers among electric utilities, financial institutions and other energy marketing and trading companies. These concentrations may impact PPL Energy Supply's overall exposure to credit risk, positively or negatively, as counterparties may be similarly affected by changes in economic, regulatory or other conditions.

PPL Energy Supply includes the effect of credit risk on its fair value measurements to reflect the probability that a counterparty will default when contracts are out of the money (from the counterparty's standpoint). In this case, PPL Energy Supply would have to sell into a lower-priced market or purchase from a higher-priced market. When necessary, PPL Energy Supply records an allowance for doubtful accounts to reflect the probability that a counterparty will not pay for deliveries PPL Energy Supply has made but not yet billed, which are reflected in "Unbilled revenues" on the Balance Sheets. PPL Energy Supply also has established a reserve with respect to certain receivables from SMGT, which is reflected in accounts receivable on the Balance Sheets. See Note 15 to the Financial Statements for additional information.

See "Overview" in this Item 7 and Notes 16, 18 and 19 to the Financial Statements for additional information on credit concentration and credit risk.

#### **Related Party Transactions**

PPL Energy Supply is not aware of any material ownership interests or operating responsibility by senior management of PPL Energy Supply in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL Energy Supply. See Note 16 to the Financial Statements for additional information on related party transactions.

#### **Acquisitions, Development and Divestitures**

PPL Energy Supply from time to time evaluates opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options.

Incremental capacity increases of 153 MW are currently planned, primarily at existing PPL Energy Supply generating facilities. See "Item 2. Properties - Supply Segment" for additional information.



See Notes 8 and 9 to the Financial Statements for additional information on the more significant activities, including the 2012 Ironwood Acquisition.

## **Environmental Matters**

Extensive federal, state and local environmental laws and regulations are applicable to PPL Energy Supply's air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the cost 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 by the relevant agencies. Costs may take the form of increased capital expenditures or operating and maintenance expenses; monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost of their products or their demand for PPL Energy Supply's services.

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to PPL Energy Supply's generation assets as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where PPL Energy Supply has hydro generating facilities or where river water is used to cool its fossil and nuclear powered generators. PPL Energy Supply cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

The below provides a discussion of the more significant environmental matters.

### Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating CCRs (as either hazardous or non-hazardous) under existing solid waste regulations. A final rulemaking is currently expected before the end of 2015. However, the timing of the final regulations could be accelerated by certain litigation that could require the EPA to issue its regulations sooner. Regulations could impact handling, disposal and/or beneficial use of CCRs. The economic impact could be material if CCRs are regulated as hazardous waste, and significant if regulated as non-hazardous, in accordance with the proposed rule.

### Effluent Limitation Guidelines

The EPA is to issue guidelines for technology-based limits in discharge permits for scrubber wastewater and is expected to require dry ash handling. The EPA agreed, in recent settlement negotiations with environmentalists, to propose revisions to its effluent limitation guidelines (ELGs) by April 2013, with a final rule in late 2014. Limits could be so stringent that plants may consider extensive new or modified wastewater treatment facilities and possibly zero liquid discharge operations, the cost of which could be significant. Impacts should be better understood after the proposed rule is issued.

### 316(b) Cooling Water Intake Structures Rule

In April 2011, the EPA published a draft regulation under Section 316(b) of the Clean Water Act, which regulates cooling water intakes for power plants. The draft rule has two provisions: one requires installation of Best Technology Available (BTA) to reduce mortality of aquatic organisms that are pulled into the plants cooling water system (entrainment), and the second imposes standards for reduction of mortality of aquatic organisms trapped on water intake screens (impingement). A final rule is expected in June 2013. The proposed regulation would apply to nearly all PPL Energy Supply-owned steam electric plants in Pennsylvania and Montana, potentially even including those equipped with closed-cycle cooling systems. PPL Energy Supply's compliance costs could be significant, especially if the final rule requires closed-cycle systems at plants that do not currently have them or conversions of once-through systems to closed-cycle.

### GHG Regulations

In 2013, the EPA is expected to finalize limits on GHG emissions from new power plants and to begin working on a proposal for such emissions from existing power plants. The EPA's proposal on GHG emissions from new power plants would effectively preclude construction on any coal-fired plants and could even be difficult for new gas-fired plants to meet. With respect to existing power plants, the impact could be very significant, depending on the structure and stringency of the final rule. PPL Energy Supply, along with others in the industry, filed comments on the EPA's proposal related to GHG emissions from new plants. With respect to GHG limits for existing plants, PPL Energy Supply will advocate for reasonable, flexible requirements.

## MATS

The EPA finalized MATS requiring fossil-fuel fired plants to reduce emissions of mercury and other hazardous air pollutants by April 16, 2015. The rule is being challenged by industry groups and states. The EPA has subsequently proposed changes to the rule with respect to new sources to address the concern that the rule effectively precludes new coal plants. PPL Energy Supply is generally well-positioned to comply with MATS due to its recent investment in, and installation of, environmental controls such as wet flue gas desulfurization systems. PPL Energy Supply is evaluating chemical additive systems for mercury control at Brunner Island, and modifications to existing controls at Colstrip for improved particulate matter reductions. In September 2012, PPL Energy Supply announced its intention to place its Corette plant in long-term reserve status beginning in April 2015 due to expected market conditions and costs to comply with MATS.

## CSAPR and CAIR

In 2011, the EPA finalized its CSAPR regulating emissions of nitrous oxide and sulfur dioxide through new allowance trading programs which were to be implemented in two phases (2012 and 2014). Like its predecessor, the CAIR, CSAPR targeted sources in the eastern United States. In December 2011, the Court of Appeals for the D.C. Circuit (the Court) stayed implementation of CSAPR, leaving CAIR in place. Subsequently, in August 2012, the Court vacated and remanded CSAPR back to the EPA for further rulemaking, again leaving CAIR in place, pending further EPA action. PPL Energy Supply plants in Pennsylvania will continue to comply with CAIR through optimization of existing controls, balanced with emission allowance purchases. The Court's August decision leaves plants in CSAPR-affected states potentially exposed to more stringent emission reductions due to regional haze implementation (it was previously determined that CSAPR or CAIR participation satisfies regional haze requirements), and/or petitions to the EPA by downwind states under Section 126 of the Clean Air Act requesting the EPA to require plants that allegedly contribute to downwind non-attainment to take action to reduce emissions.

## Regional Haze - Montana

The EPA signed its final Federal Implementation Plan (FIP) of the Regional Haze Rules for Montana in September 2012, with tighter emissions limits for Colstrip Units 1 & 2 based on the installation of new controls (no limits or additional controls were specified for Colstrip Units 3 & 4), and tighter emission limits for Corette (which are not based on additional controls). The cost of the potential additional controls for Colstrip Units 1 & 2, if required, could be significant. PPL Energy Supply expects to meet the tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015 (see "MATS" discussion above).

See "Item 1. Business - Environmental Matters" and Note 15 to the Financial Statements for additional information on environmental matters.

## **Competition**

See "Item 1. Business - Segment Information - Supply Segment - Competition" and "Item 1A. Risk Factors" for a discussion of competitive factors affecting PPL Energy Supply.

## New Accounting Guidance

See Notes 1 and 24 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

## Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). Senior management has reviewed these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them, with PPL's Audit Committee.

## **Price Risk Management**

See "Price Risk Management" in Note 1 to the Financial Statements, as well as "Risk Management - Energy Marketing & Trading and Other" above.

## Defined Benefits

PPL Energy Supply subsidiaries sponsor and participate in various qualified funded and non-qualified unfunded defined benefit pension plans. A PPL Energy Supply subsidiary also sponsors an unfunded other postretirement benefit plan. PPL Energy Supply records the liability and net periodic defined benefit costs of its plans and the allocated portion of those plans sponsored by PPL Services based on participation in those plans. PPL Energy Supply subsidiaries record an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to OCI. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

PPL Services and PPL Energy Supply make certain assumptions regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in OCI. These amounts in AOCI are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- **Discount Rate** - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.
- **Expected Return on Plan Assets** - Management projects the long-term rates of return on plan assets based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. These projected returns reduce the net benefit costs PPL records currently.
- **Rate of Compensation Increase** - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.
- **Health Care Cost Trend Rate** - Management projects the expected increases in the cost of health care.

In selecting a discount rate for their U.S. defined benefit plans, PPL Services and PPL Energy Supply start with a cash flow analysis of the expected benefit payment stream for their plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields were eliminated to develop an appropriate subset of bonds. Individual bonds were then selected based on the timing of each plan's cash flows and parameters were established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed. At December 31, 2012, PPL Services decreased the discount rate for its U.S. pension plans from 5.07% to 4.22% and PPL Energy Supply decreased the discount rate for its pension plan from 5.12% to 4.25%. PPL Services decreased the discount rate for its other postretirement benefit plan from 4.81% to 4.02% and PPL Energy Supply decreased the discount rate for its other postretirement benefit plan from 4.60% to 3.77%.

The expected long-term rates of return for PPL Services and PPL Energy Supply's U.S. defined benefit pension and other postretirement benefit plans have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. PPL management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption. At December 31, 2012, PPL Services' and PPL Energy Supply's expected return on plan assets remained at 7.00% for their U.S. pension plans and increased from 5.70% to 5.75% for PPL Services' other postretirement benefit plan.

In selecting a rate of compensation increase, PPL Energy Supply considers past experience in light of movements in inflation rates. At December 31, 2012, PPL Services and PPL Energy Supply's rate of compensation increase decreased from 4.00% to 3.95% for their U.S. plans.

In selecting health care cost trend rates, PPL Services and PPL Energy Supply consider past performance and forecasts of health care costs. At December 31, 2012, PPL Services' and PPL Energy Supply's health care cost trend rates were 8.00% for 2013, gradually declining to 5.50% for 2019.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and OCI. While the charts below reflect either an increase or decrease in each assumption, the inverse of this change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and OCI by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

At December 31, 2012, the defined benefit plans were recorded as follows.

Pension liabilities	\$	(295)
Other postretirement benefit liabilities		(77)

The following chart reflects the sensitivities in the December 31, 2012 Balance Sheet associated with a change in certain assumptions based on PPL Services' and PPL Energy Supply's primary defined benefit plans.

Actuarial assumption	Change in assumption	Increase (Decrease)	
		Impact on defined benefit liabilities	Impact on OCI
Discount Rate	(0.25)%	\$ 56	\$ (56)
Rate of Compensation Increase	0.25%	9	(9)
Health Care Cost Trend Rate (a)	1.00%	1	(1)

(a) Only impacts other postretirement benefits.

In 2012, PPL Energy Supply was allocated and recognized net periodic defined benefit costs charged to operating expense of \$44 million. This amount represents a \$10 million increase from 2011.

The following chart reflects the sensitivities in the 2012 Statement of Income (excluding income tax effects) associated with a change in certain assumptions based on PPL's and PPL Energy Supply's primary defined benefit plans.

Actuarial assumption	Change in assumption	Impact on defined benefit costs
Discount Rate	(0.25)%	\$ 4
Expected Return on Plan Assets	(0.25)%	3
Rate of Compensation Increase	0.25%	2

#### Asset Impairment (Excluding Investments)

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying amount may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

- 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; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For a long-lived asset classified as held and used, an 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 amount 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. Alternate courses of action are considered to recover the carrying amount of a long-lived asset, and estimated cash flows from the "most likely" alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in significantly different results than those identified and recorded in the financial statements.

In September 2012, PPL Energy Supply announced its intention, beginning in April 2015, to place the Corette coal-fired plant in Montana in long-term reserve status, suspending the plant's operation, due to expected market conditions and the costs to comply with MATS requirements. The Corette plant asset group's carrying amount at December 31, 2012 was approximately \$68 million. An impairment analysis was performed for this asset group in the third and fourth quarters of 2012 and it was determined to not be impaired. It is reasonably possible that an impairment could occur in future periods, as higher priced sales contracts settle, adversely impacting projected cash flows.

For a long-lived asset classified as held for sale, an impairment exists when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If the asset (disposal group) is impaired, an impairment loss is recorded to adjust the carrying amount to its fair value less cost to sell. A gain is recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative impairment previously recognized.

For determining fair value, quoted market prices in active markets are the best evidence. However, when market prices are unavailable, the Registrant considers all valuation techniques appropriate under the circumstances and for which market participant inputs can be obtained. Generally discounted cash flows are used to estimate fair value, which incorporates market participant inputs when available. Discounted cash flows are calculated by estimating future cash flow streams and applying appropriate discount rates to determine the present value of the cash flow streams.

Goodwill is tested for impairment at the reporting unit level. PPL Energy Supply's reporting unit has been determined to be at the operating segment level. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit may be greater than the unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

Beginning in 2012, PPL Energy Supply may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not the fair value of the reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if PPL Energy Supply concludes it is more likely than not that the fair value of the reporting unit is less than the carrying amount based on the step zero assessment.

When the two-step quantitative impairment test is elected or required as a result of the step zero assessment, in step one, PPL Energy Supply identifies a potential impairment by comparing the estimated fair value of PPL Energy Supply (the goodwill reporting unit) with its carrying amount, 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 of the quantitative test requires a calculation of the implied fair value of goodwill, which 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 PPL Energy Supply's assets and liabilities as if PPL Energy Supply had been acquired in a business combination and the estimated fair value of PPL Energy Supply was the price paid. The excess of the estimated fair value of PPL Energy Supply over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of PPL Energy Supply's 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 PPL Energy Supply's goodwill.

PPL Energy Supply elected to perform the two-step quantitative impairment test of goodwill in the fourth quarter of 2012 and no impairment was recognized. Management used both discounted cash flows and market multiples, which required significant assumptions, to estimate the fair value of PPL Energy Supply. Applying an appropriate weighting to both the discounted cash flow and market multiple valuations, a decrease in the forecasted cash flows of 10%, an increase in the discount rate by 25 basis points, or a 10% decrease in the multiples would not have resulted in an impairment of goodwill.

### **Loss Accruals**

Losses are accrued 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." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

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 management. Internal expertise and outside experts (such as lawyers and engineers) are used, as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

No new significant loss accruals were recorded in 2012.

Certain other events have been identified 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.

When an estimated loss is accrued, the triggering events for subsequently reducing the loss accrual are identified, where applicable. The triggering events generally occur when the contingency has been resolved and the actual loss is paid or written off, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the reduction 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 and actual payments are made, a better estimate of the loss is determined or the loss is no longer considered probable.

Loss accruals are reviewed 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.

See Note 15 to the Financial Statements for disclosure of loss contingencies accrued and other potential loss contingencies that have not met the criteria for accrual.

### **Asset Retirement Obligations**

PPL Energy Supply is required to recognize a liability for legal obligations associated with the retirement of long-lived assets. The initial obligation should be measured at its estimated fair value. A conditional ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. An equivalent amount should be 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 statement of income, for changes in the obligation due to the passage of time. See Note 21 to the Financial Statements for further discussion of AROs.

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 the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is amortized over the remaining life of the associated long-lived asset.

At December 31, 2012, AROs totaling \$375 million were recorded on the Balance Sheet, of which \$10 million is included in "Other current liabilities." Of the total amount, \$316 million, or 84%, relates to the nuclear decommissioning ARO. The most significant assumptions surrounding AROs are the forecasted retirement costs, the discount rates and the inflation rates. A variance in any of these inputs could have a significant impact on the ARO liabilities.

The following table reflects the sensitivities related to the nuclear decommissioning ARO liability associated with a change in these assumptions as of December 31, 2012. There is no significant change to the annual depreciation expense of the ARO asset or the annual accretion expense of the ARO liability as a result of changing the assumptions. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption.

	Change in Assumption	Impact on ARO Liability
Retirement Cost	10%	\$ 32
Discount Rate	(0.25)%	28
Inflation Rate	0.25%	32

### Income Taxes

Significant management judgment is required in developing the 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. Tax positions are evaluated 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%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known at the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. 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 in the future.

At December 31, 2012, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase by as much as \$1 million or decrease by up to \$30 million. This change could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the timing and utilization of tax credits and the related impact on alternative minimum tax, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. 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 limitation.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified 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 to account for an uncertain tax position. Management also considers the uncertainty posed by political risk and the effect of this uncertainty on the various factors that management takes into account in evaluating the need for valuation allowances. The amount of deferred tax assets ultimately realized may differ materially from the estimates utilized in the computation of valuation allowances and may materially impact the financial statements in the future. See Note 5 to the Financial Statements for income tax disclosures.

#### Other Information

PPL's Audit Committee has approved the independent auditor to provide audit, audit-related and tax services permitted by Sarbanes-Oxley and SEC rules. The audit and audit-related services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews. See "Item 14. Principal Accounting Fees and Services" for more information.



## PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information provided in this Item 7 should be read in conjunction with PPL Electric's Consolidated Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of PPL Electric and its business strategy, a summary of Net Income Available to PPL and a discussion of certain events related to PPL Electric's results of operations and financial condition.
- "Results of Operations" provides a summary of PPL Electric's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal items on PPL Electric's Statements of Income, comparing 2012 with 2011 and 2011 with 2010.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL Electric's liquidity position and credit profile. This section also includes a discussion of forecasted sources and uses of cash and rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of PPL Electric's risk management programs relating to market and credit risk.
- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of PPL Electric and that require its management to make significant estimates, assumptions and other judgments of matters inherently uncertain.

#### Overview

##### **Introduction**

PPL Electric is an electricity transmission and distribution service provider in eastern and central Pennsylvania with headquarters in Allentown, Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that territory as a PLR under the Customer Choice Act.

##### **Business Strategy**

PPL Electric's strategy and principal challenge is to own and operate its electricity delivery business at the most efficient cost while maintaining high quality customer service and reliability. PPL Electric anticipates that it will have significant capital expenditure requirements for at least the next five years. In order to manage financing costs and access to credit markets, a key objective for PPL Electric's business is to maintain a strong credit profile and strong liquidity position.

Timely recovery of costs to maintain and enhance the reliability of PPL Electric's delivery system including the replacement of aging distribution assets is required in order to maintain strong cash flows and a strong credit profile. Traditionally, such cost recovery would be pursued through periodic base rate case proceedings with the PUC. As such costs continue to increase, more frequent rate case proceedings may be required or an alternative rate-making process would need to be implemented in order to achieve more timely recovery. See "Regulatory Matters - Pennsylvania Activities - Legislation - Regulatory Procedures and Mechanisms" in Note 6 to the Financial Statements for information on Pennsylvania's new alternative rate-making mechanism.

Transmission costs are recovered through a FERC Formula Rate mechanism which is updated annually for costs incurred and assets placed in service. Accordingly, increased costs including for the replacement of aging transmission assets and the PJM-approved Regional Transmission Line Expansion Plan are recovered on a timely basis.

## Financial and Operational Developments

### Net Income Available to PPL

Net Income Available to PPL for 2012, 2011 and 2010 was \$132 million, \$173 million and \$115 million. Earnings in 2012 decreased 24% from 2011 and earnings in 2011 increased 50% over 2010.

See "Results of Operations" below for further discussion and analysis of PPL Electric's earnings.

### Redemption of Preference Stock

In June 2012, PPL Electric redeemed all 2.5 million shares of its 6.25% Series Preference Stock, par value \$100 per share. The price paid for the redemption was the par value, without premium (\$250 million in the aggregate). At December 31, 2011, the preference stock was reflected on PPL Electric's Balance Sheet in "Preferred securities."

### Storm Costs

During 2012, PPL Electric experienced several PUC-reportable storms, including Hurricane Sandy, resulting in total restoration costs of \$81 million, of which \$61 million were initially recorded in "Other operation and maintenance" on the Statement of Income. In particular, in late October 2012, PPL Electric experienced widespread significant damage to its distribution network from Hurricane Sandy resulting in total restoration costs of \$66 million, of which \$50 million were initially recorded in "Other operation and maintenance" on the Statement of Income. Although PPL Electric had storm insurance coverage, the costs incurred from Hurricane Sandy exceeded the policy limits. Probable insurance recoveries recorded during 2012 were \$18.25 million, of which \$14 million were included in "Other operation and maintenance" on the Statements of Income. PPL Electric recorded a regulatory asset of \$28 million in December 2012 (offset to "Other operation and maintenance" on the Statement of Income). In February 2013, PPL Electric received an order from the PUC granting permission to defer qualifying storm costs in excess of insurance recoveries associated with Hurricane Sandy.

See "Regulatory Matters - Pennsylvania Activities - Storm Costs" in Note 6 to the Financial Statements for information on \$84 million of storm costs incurred in 2011.

### Rate Case Proceeding

In March 2012, PPL Electric filed a request with the PUC to increase distribution rates by approximately \$105 million, effective January 1, 2013. In its December 28, 2012 final order, the PUC approved a 10.4% return on equity and a total distribution revenue increase of about \$71 million. The approved rates became effective January 1, 2013.

Also, in its December 28, 2012 final order, the PUC directed PPL Electric to file a proposed Storm Damage Expense Rider within 90 days following the order. PPL Electric plans to file a proposed Storm Damage Expense Rider with the PUC and, as part of that filing, request recovery of the \$28 million of qualifying storm costs incurred as a result of the October 2012 landfall of Hurricane Sandy.

### Regional Transmission Line Expansion Plan

#### *Susquehanna-Roseland*

In 2007, PJM directed the construction of a new 150-mile, 500-kilovolt transmission line between the Susquehanna substation in Pennsylvania and the Roseland substation in New Jersey that it identified as essential to long-term reliability of the Mid-Atlantic electricity grid. PJM determined that the line was needed to prevent potential overloads that could occur on several existing transmission lines in the interconnected PJM system. PJM directed PPL Electric to construct the portion of the Susquehanna-Roseland line in Pennsylvania and Public Service Electric & Gas Company to construct the portion of the line in New Jersey.

On October 1, 2012, the National Park Service (NPS) issued its Record of Decision (ROD) on the proposed Susquehanna-Roseland transmission line affirming the route chosen by PPL Electric and Public Service Electric & Gas Company as the preferred alternative under the NPS's National Environmental Policy Act review. On October 15, 2012, a complaint was filed in the United States District Court for the District of Columbia by various environmental groups, including the Sierra Club, challenging the ROD and seeking to prohibit its implementation; and on December 6, 2012, the groups filed a petition for injunctive relief seeking to prohibit all construction activities until the court issues a final decision on the complaint. PPL Electric has intervened in the lawsuit. The chosen route had previously been approved by the PUC and New Jersey Board of Public Utilities.

On December 13, 2012, PPL Electric received federal construction and right of way permits to build on National Park Service lands.

Construction activities have begun on portions of the 101-mile route in Pennsylvania. The line is expected to be in service before the peak summer demand period of 2015. At December 31, 2012, PPL Electric's estimated share of the project cost was \$560 million.

PPL and PPL Electric cannot predict the ultimate outcome or timing of any legal challenges to the project or what additional actions, if any, PJM might take in the event of a further delay to its scheduled in-service date for the new line.

#### *Northeast/Pocono*

In October 2012, the FERC issued an order in response to PPL Electric's December 2011 request for ratemaking incentives for the Northeast/Pocono Reliability project (a new 58-mile 230 kV transmission line, three new substations and upgrades to adjacent facilities). The incentives were specifically tailored to address the risks and challenges PPL Electric will face in building the project. The FERC granted the incentive for inclusion of all prudently incurred construction work in progress (CWIP) costs in rate base and denied the request for a 100 basis point adder to the return on equity incentive. The order required a follow-up compliance filing from PPL Electric to ensure proper accounting treatment of AFUDC and CWIP for the project, which PPL Electric will submit to the FERC in March 2013. PPL Electric expects the project to be completed in 2017. At December 31, 2012, PPL Electric estimates the total project costs to be approximately \$200 million with approximately \$190 million qualifying for the CWIP incentive.

#### Legislation - Regulatory Procedures and Mechanisms

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms - the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it begins a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets. In August 2012, the PUC issued a final implementation order adopting procedures, guidelines and a model tariff for the implementation of Act 11. Act 11 requires utilities to file an LTIP as a prerequisite to filing for recovery through the DISC. The LTIP is mandated to be a five- to ten-year plan describing projects eligible for inclusion in the DISC. In September 2012, PPL Electric filed its LTIP describing projects eligible for inclusion in the DSIC. The PUC approved the LTIP on January 10, 2013 and PPL Electric filed a petition requesting permission to establish a DSIC on January 15, 2013, with rates proposed to be effective beginning May 1, 2013.

#### FERC Formula Rates

In March 2012, PPL Electric filed a request with the FERC seeking recovery of its regulatory asset related to the deferred state tax liability that existed at the time of the transition from the flow-through treatment of state income taxes to full normalization. This change in tax treatment occurred in 2008 as a result of prior FERC initiatives that transferred regulatory jurisdiction of certain transmission assets from the PUC to FERC. At December 31, 2012 and December 31, 2011, \$52 million and \$53 million respectively, are classified as taxes recoverable through future rates and are included on the Balance Sheets in "Other Noncurrent Assets - Regulatory assets." In May 2012, the FERC issued an order approving PPL Electric's request recover the deferred tax regulatory asset over a 34 year period beginning June 1, 2012.

#### Results of Operations

The following discussion provides a summary of PPL Electric's earnings and a description of factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant year-to-year changes in Pennsylvania Gross Delivery Margins by component and principal line items on PPL Electric's Statements of Income.

The utility business is influenced by seasonality in the weather. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. Revenue is generally higher during the first and third quarters of a year due to higher demand as a result of winter and summer periods. On the other hand, revenue tends to be lower during the second and fourth quarters due to lower demand as a result of milder weather.

## Earnings

Net Income Available to PPL was:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net Income Available to PPL	\$ 132	\$ 173	\$ 115

The changes in the components of Net Income Available to PPL between these periods were due to the following factors which reflect reclassifications for items included in gross delivery margins.

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Pennsylvania Gross Delivery Margins	\$ 19	\$ 66
Other operation and maintenance	(50)	4
Depreciation	(14)	(10)
Taxes, other than income	(9)	4
Other	1	1
Income Taxes		(11)
Distributions on Preferred Securities	12	4
Total	<u>\$ (41)</u>	<u>\$ 58</u>

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Pennsylvania Gross Delivery Margins.
- Higher other operation and maintenance for 2012 compared with 2011, primarily due to \$17 million in higher payroll-related costs due to less project costs being capitalized in 2012, higher support group costs of \$11 million and \$10 million for increased vegetation management.
- Higher depreciation for 2012 compared with 2011 and 2011 compared with 2010 primarily due to PP&E additions.
- Higher taxes, other than income for 2012 primarily due to a \$10 million tax provision related to gross receipts tax.
- Income taxes were flat in 2012 compared with 2011 primarily due to the \$22 million impact of lower 2012 pre-tax income primarily offset by \$9 million of depreciation not normalized and \$9 million of income tax return adjustments, largely related to changes in flow-through regulated tax depreciation.

Income taxes were higher in 2011 compared with 2010, due to the \$26 million impact of higher 2011 pre-tax income, partially offset by a \$14 million tax benefit related to changes in flow-through regulated tax depreciation.

- Lower distributions on preferred securities in 2012 compared to 2011 due to the preference stock redemption in June 2012.

### 2013 Outlook

PPL Electric projects higher earnings in 2013 compared with 2012, due to higher distribution revenues from a distribution base rate increase effective January 1, 2013, and higher transmission margins, partially offset by higher depreciation.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7 and Notes 6 and 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis –

Pennsylvania Gross Delivery Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Pennsylvania Gross Delivery Margins." "Pennsylvania Gross Delivery Margins" is a single financial performance measure of PPL Electric's Pennsylvania regulated electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Energy purchases from affiliate," "Other operation and maintenance," which is primarily Act 129 costs, and "Taxes, other than income" which is primarily gross receipts tax. As a result, this measure represents the net revenues from PPL Electric's Pennsylvania regulated electric delivery operations. This measure 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 analyze and to report on the results of their operations. PPL Electric believes that "Pennsylvania Gross Delivery Margins" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management to manage PPL Electric's operations and analyze actual results to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Pennsylvania Gross Delivery Margins" as defined by PPL Electric for the period ended December 31.

	2012			2011		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>						
Retail electric	\$ 1,760		\$ 1,760	\$ 1,881		\$ 1,881
Electric revenue from affiliate	3		3	11		11
Total Operating Revenues	<u>1,763</u>		<u>1,763</u>	<u>1,892</u>		<u>1,892</u>
<b>Operating Expenses</b>						
Energy purchases	550		550	738		738
Energy purchases from affiliate	78		78	26		26
Other operation and maintenance	104	\$ 472	576	108	\$ 422	530
Depreciation		160	160		146	146
Taxes, other than income	91	14	105	99	5	104
Total Operating Expenses	<u>823</u>	<u>646</u>	<u>1,469</u>	<u>971</u>	<u>573</u>	<u>1,544</u>
Total	<u>\$ 940</u>	<u>\$ (646)</u>	<u>\$ 294</u>	<u>\$ 921</u>	<u>\$ (573)</u>	<u>\$ 348</u>
	2010					
	PA Gross Delivery Margins	Other (a)	Operating Income (b)			
<b>Operating Revenues</b>						
Retail electric	\$ 2,448		\$ 2,448			
Electric revenue from affiliate	7		7			
Total Operating Revenues	<u>2,455</u>		<u>2,455</u>			
<b>Operating Expenses</b>						
Energy purchases	1,075		1,075			
Energy purchases from affiliate	320		320			
Other operation and maintenance	76	\$ 426	502			
Amortization of recoverable						
Depreciation		136	136			
Taxes, other than income	129	9	138			
Total Operating Expenses	<u>1,600</u>	<u>571</u>	<u>2,171</u>			
Total	<u>\$ 855</u>	<u>\$ (571)</u>	<u>\$ 284</u>			

- (a) Represents amounts excluded from Margins.
- (b) As reported on the Statements of Income.

## Changes in Non-GAAP Financial Measures

The following table shows PPL Electric's non-GAAP financial measure, "Pennsylvania Gross Delivery Margins" for the periods ended December 31, as well as the change between periods. The factors that gave rise to the change are described below the table.

	2012	2011	Change	2011	2010	Change
PA Gross Delivery Margins by Component						
Distribution	\$ 730	\$ 741	\$ (11)	\$ 741	\$ 679	\$ 62
Transmission	210	180	30	180	176	4
Total	\$ 940	\$ 921	\$ 19	\$ 921	\$ 855	\$ 66

### Distribution

Margins decreased in 2012 compared with 2011, primarily due to a \$14 million unfavorable effect of mild weather early in 2012 and lower revenue applicable to certain energy-related costs of \$3 million due to fewer PLR customers in 2012, partially offset by a \$7 million charge recorded in 2011 to reduce a portion of the transmission service charge regulatory asset associated with a 2005 undercollection that was not included in any subsequent rate reconciliations filed with the PUC.

Margins increased in 2011 compared with 2010, largely due to the PPL Electric distribution rate case which increased rates by approximately 1.6% effective January 1, 2011, resulting in improved residential distribution margins of \$68 million. Additionally, residential volume variances increased margins by an additional \$4 million in 2011, compared with 2010, offset by unfavorable weather of \$3 million for residential customers in 2011 compared with 2010. Lastly, lower demand charges and increased efficiency as a result of Act 129 programs resulted in a \$5 million decrease in margins for commercial and industrial customers.

### Transmission

Margins increased in 2012 compared with 2011, primarily due to increased investment in plant and the recovery of additional costs through the FERC formula-based rates.

### Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	2012 vs. 2011	2011 vs. 2010
Act 129 costs incurred (a)	\$ (6)	\$ 26
Vegetation management (b)	10	(8)
Payroll-related costs (c)	17	4
Allocation of certain corporate support group costs	11	3
PUC-reportable storm costs, net of insurance recovery	7	
Uncollectible accounts	1	7
Other	6	(4)
Total	\$ 46	\$ 28

- (a) Relates to costs associated with PPL Electric's PUC-approved energy efficiency and conservation plan. These costs are recovered in customer rates. There were initially 15 Act 129 programs which began in 2010 and continued to ramp up in 2011. Some of the energy efficiency programs were reduced or closed in 2012 resulting in lower operation and maintenance expense.
- (b) PPL Electric incurred more expense in 2010 and 2012 compared to 2011 due to increased vegetation management activities related to transmission lines to comply with federal reliability requirements as well as increased vegetation management for the distribution system in 2012 in an effort to maintain and increase system reliability.
- (c) Higher payroll costs of \$17 million in 2012 compared to 2011 due to less project costs being capitalized.

### Taxes, Other Than Income

Taxes, other than income increased by \$1 million in 2012 compared with 2011. The increase was primarily a result of the net effect of the fully amortized PURTA refund to customers of \$10 million in 2011, partially offset by a decrease in gross receipts tax of \$7 million in 2012.

Taxes, other than income decreased by \$34 million in 2011 compared with 2010. This decrease was primarily due to \$21 million of lower Pennsylvania gross receipts tax expense on lower retail electricity revenue as customers continue to select alternative suppliers in 2011. The decrease was also impacted by the amortization of a PURTA refund of \$10 million in 2011. Pennsylvania gross receipts tax and the PURTA refund are included in "Pennsylvania Gross Delivery Margins."

### Depreciation

Depreciation increased by \$14 million in 2012 compared with 2011 and by \$10 million in 2011 compared with 2010, primarily due to PP&E additions as part of ongoing investments to replace aging infrastructure.

### Financing Costs

The increase (decrease) in financing costs, which includes "Interest Expense", "Interest Expense with Affiliate" and "Distributions on Preferred Securities," was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Long-term debt interest expense	\$ 1	\$ (3)
Distributions on preferred securities (a)	(12)	(4)
Amortization of debt issuance costs (b)	1	5
Other	(1)	(3)
Total	<u>\$ (11)</u>	<u>\$ (5)</u>

(a) Decreases for both periods are due to the redemption of preference stock in 2012 and preferred stock in 2010.

(b) The increase in 2011 compared with 2010 was primarily due to amortization of loss on reacquired debt associated with the redemption of senior secured bonds in 2011.

### Income Taxes

The increase (decrease) in income taxes was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Higher (lower) pre-tax book income	\$ (22)	\$ 26
Federal and state tax reserve adjustments (a)	1	3
Federal and state tax return adjustments (b)	11	(3)
Depreciation not normalized (c)	9	(14)
Other	1	(1)
Total	<u>\$ 11</u>	<u>\$ 11</u>

(a) In July 2010, the U.S. Tax Court ruled in PPL Electric's favor in a dispute with the IRS, concluding that street lighting assets are depreciable for tax purposes over seven years. As a result, PPL Electric recorded a \$7 million tax benefit to federal and state income tax reserves and related deferred income taxes during 2010.

(b) PPL Electric changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year. In August, 2011, the IRS issued guidance regarding the use and evaluation of statistical samples and sampling estimates for network assets. The IRS guidance provided a safe harbor method of determining whether the repair expenditures for electric transmission and distribution property can be currently deducted for tax purposes. PPL Electric adopted the safe harbor method with the filing of its 2011 federal income tax return and recorded a \$5 million adjustment to federal and state income tax expense resulting from the reversal of prior years' state income tax benefits related to regulated depreciation.

During 2011, PPL Electric recorded a \$5 million federal and state income tax benefit as a result of filing its 2010 federal and state income tax returns. The tax benefit primarily related to the flow-through impact of Pennsylvania regulated 100% bonus tax depreciation.

(c) During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. The guidance allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. The 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation. The federal provision for 100% bonus depreciation generally applies to property placed in service before January 1, 2012. The placed-in-service deadline is extended to January 1, 2013 for property that has a cost in excess of \$1 million, has a production period longer than one year and has a tax life of at least ten years. The PPL Electric's tax deduction for 100% bonus depreciation was significantly lower in 2012 than in 2011.

See Note 5 to the Financial Statements for additional information on income taxes.

## Financial Condition

### Liquidity and Capital Resources

PPL Electric continues to focus on maintaining a strong credit profile and liquidity position. PPL Electric expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents, credit facilities and commercial paper issuances. Additionally, subject to market conditions, PPL Electric currently plans to issue long-term debt in 2013.

PPL Electric'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:

- unusual or extreme weather that may damage PPL Electric's transmission and distribution facilities or affect energy sales to customers;
- the ability to recover and the timeliness and adequacy of recovery of costs associated with regulated utility businesses;
- any adverse outcome of legal proceedings and investigations with respect to PPL Electric'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 PPL Electric's credit ratings that could adversely affect its ability to access capital and increase the cost of credit facilities and any new debt.

See "Item 1A. Risk Factors" for further discussion of risks and uncertainties that could affect PPL Electric's cash flows.

At December 31, PPL Electric had the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 140	\$ 320	\$ 204

The changes in PPL Electric's cash and cash equivalents position resulted from:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net cash provided by (used in) operating activities	\$ 389	\$ 420	\$ 212
Net cash provided by (used in) investing activities	(613)	(477)	(403)
Net cash provided by (used in) financing activities	44	173	(90)
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (180)</u>	<u>\$ 116</u>	<u>\$ (281)</u>

### Operating Activities

Net cash provided by operating activities decreased by 7%, or \$31 million, in 2012 compared with 2011, primarily due to changes in working capital of \$82 million partially offset by a decrease in defined benefit plan contributions of \$54 million. Changes in working capital included \$108 million from regulatory assets and liabilities, net and \$56 million from prepayments, partially offset by \$95 million from accounts payable.

Net cash provided by operating activities increased by 98%, or \$208 million, in 2011 compared with 2010, primarily due to changes in working capital of \$322 million (including lower gross receipts tax payments, a federal income tax refund and changes in over/under collections of the generation supply and transmission service charges). These changes were partially offset by an increase in defined benefit plan contributions of \$58 million and \$25 million related to storm costs incurred in 2011 and recorded as a long-term regulatory asset.

### 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 2013 through 2017.

Net cash used in investing activities was \$613 million in 2012 compared with \$477 million in 2011. The change from 2011 to 2012 primarily reflects an increase of \$143 million in capital expenditures in 2012.

Net cash used in investing activities was \$477 million in 2011 compared with \$403 million in 2010. The change from 2010 to 2011 primarily reflects an increase of \$80 million in capital expenditures in 2011.



## Financing Activities

Net cash provided by financing activities was \$44 million in 2012 compared with \$173 million in 2011. The change from 2011 to 2012 primarily reflects the \$250 million preference stock redemption in 2012, offset by a \$62 million increase in net debt issuances and a \$50 million increase in contributions from PPL.

Net cash provided by financing activities was \$173 million in 2011 compared with net cash used in financing activities of \$90 million in 2010. The change from 2010 to 2011 primarily reflects \$187 million of net debt issuances in 2011 and \$54 million of preferred stock redemptions in 2010.

PPL Electric's debt and equity financing activity in 2012 was:

	<u>Issuance</u>	<u>Retirements</u>
Preference Stock		\$ (250)
First Mortgage Bonds, net of a discount or underwriting fees	\$ 249	
Total	<u>\$ 249</u>	<u>\$ (250)</u>
Net decrease		<u>\$ (1)</u>

See Note 7 to the Financial Statements for more detailed information regarding PPL Electric's financing activities in 2012.

## Forecasted Sources of Cash

PPL Electric expects to continue to have sufficient sources of liquidity available in the near term, including cash flows from operations, credit facilities, commercial paper issuances and the issuance of long-term debt.

## Credit Facilities

At December 31, 2012, PPL Electric's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backstop</u>	<u>Unused Capacity</u>
Syndicated Credit Facility (a)	\$ 300		\$ 1	\$ 299
Asset-backed Credit Facility (b)	100		n/a	100
Total PPL Electric Credit Facilities	<u>\$ 400</u>		<u>\$ 1</u>	<u>\$ 399</u>

- (a) PPL Electric's Syndicated Credit Facility contains a financial covenant requiring PPL Electric's debt to total capitalization not to exceed 70%, as calculated in accordance with the credit facility, and other customary covenants.

The commitments under this credit facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 5% of the total committed capacity.

- (b) PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of \$100 million from a commercial paper conduit sponsored by a financial institution. At December 31, 2012, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under this facility was \$100 million.

In addition to the financial covenants noted above, the credit agreements governing the credit facilities contain financial and various other covenants. Failure to comply with the covenants after applicable grace periods could result in acceleration of repayment of borrowings and/or termination of the agreements. PPL Electric monitors compliance with the covenants on a regular basis. At December 31, 2012, PPL Electric was in compliance with these covenants. At this time, PPL Electric believes that these covenants and other borrowing conditions will not limit access to these funding sources.

See Note 7 to the Financial Statements for further discussion of PPL Electric's credit facilities.

## Commercial Paper

PPL Electric maintains a \$300 million commercial paper program to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are currently supported by PPL Electric's Syndicated Credit Facility. PPL Electric had no commercial paper outstanding at December 31, 2012.

## Contributions from PPL

From time to time PPL may make capital contributions to PPL Electric. PPL Electric may use these contributions for general corporate purposes.

## Long-term Debt Securities

PPL Electric currently plans to incur, subject to market conditions, up to \$400 million of long-term indebtedness in 2013, the proceeds of which will be used to fund capital expenditures and for other general corporate purposes.

## The Economic Stimulus Package

In April 2010, PPL Electric entered into an agreement with the DOE, in which the agency is to provide funding for one-half of a \$38 million smart grid project. The project included the deployment of smart grid technology to strengthen reliability, save energy and improve electric service for 60,000 Harrisburg, Pennsylvania area customers. It also provides benefits beyond the Harrisburg region, helping to speed power restoration across PPL Electric's 29-county service territory. Work on the grant project is complete as of December 31, 2012.

## Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as purchased power, payroll, and taxes, PPL Electric currently expects to incur future cash outflows for capital expenditures, various contractual obligations, payment of dividends on its common stock and possibly the purchase or redemption of a portion of its debt securities.

## Capital Expenditures

The table below shows PPL Electric's current capital expenditure projections for the years 2013 through 2017.

	Projected				
	2013	2014	2015	2016	2017
Construction expenditures (a) (b)					
Distribution facilities	\$ 352	\$ 321	\$ 309	\$ 294	\$ 297
Transmission facilities	616	532	399	357	313
Total Capital Expenditures	<u>\$ 968</u>	<u>\$ 853</u>	<u>\$ 708</u>	<u>\$ 651</u>	<u>\$ 610</u>

(a) Construction expenditures include AFUDC, which is expected to total approximately \$54 million for the years 2013 through 2017.

(b) Includes expenditures for intangible assets.

PPL Electric's capital expenditure projections for the years 2013 through 2017 total approximately \$3.8 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. The table includes projected costs for the asset optimization program focused on the replacement of aging transmission and distribution assets, and the PJM-approved regional transmission line expansion project. See Note 8 to the Financial Statements for additional information.

PPL Electric plans to fund its capital expenditures in 2013 with cash from operations, equity contributions from PPL, and proceeds from the issuance of debt securities.

## Contractual Obligations

PPL Electric has assumed various financial obligations and commitments in the ordinary course of conducting its business. At December 31, 2012, the estimated contractual cash obligations of PPL Electric were:

	Total	2013	2014 - 2015	2016 - 2017	After 2017
Long-term Debt (a)	\$ 1,974		\$ 110		\$ 1,864
Interest on Long-term Debt (b)	1,711	\$ 91	181	\$ 171	1,268
Purchase Obligations (c)	357	111	103	53	90
Other Long-term Liabilities Reflected on the Balance Sheet under GAAP (d) (e)	88	88			
Total Contractual Cash Obligations	<u>\$ 4,130</u>	<u>\$ 290</u>	<u>\$ 394</u>	<u>\$ 224</u>	<u>\$ 3,222</u>

(a) Reflects principal maturities only based on stated maturity dates. PPL Electric does not have any capital or operating lease obligations.

(b) Assumes interest payments through stated maturity.

- (c) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes PPL Electric's purchase obligations of electricity. Open purchase orders that are provided on demand with no firm commitment are excluded from the amounts presented.
- (d) The amounts represent contributions made or committed to be made for 2013 for PPL's U.S. pension plans. See Note 13 to the Financial Statements for a discussion of expected contributions.
- (e) At December 31, 2012, total unrecognized tax benefits of \$26 million were excluded from this table as PPL Electric cannot reasonably estimate the amount and period of future payments. See Note 5 to the Financial Statements for additional information.

#### *Dividends*

From time to time, as determined by its Board of Directors, PPL Electric pays dividends on its common stock to its parent, PPL.

#### *Purchase or Redemption of Debt Securities*

PPL Electric will continue to evaluate its outstanding debt securities and may decide to purchase or redeem these securities depending upon prevailing market conditions and available cash.

#### Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of PPL Electric. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL Electric are based on information provided by PPL Electric and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL Electric. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. PPL Electric's credit ratings affect its liquidity, access to capital markets and cost of borrowing under its credit facilities.

The following table sets forth PPL Electric's security credit ratings as of December 31, 2012.

Issuer	Senior Secured			Commercial Paper		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch
PPL Electric	A3	A-	A-	P-2	A-2	F-2

A downgrade in PPL Electric's credit ratings could result in higher borrowing costs and reduced access to capital markets. PPL Electric does not have credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

In addition to the credit ratings noted above, the rating agencies took the following actions related to PPL Electric in 2012.

In August 2012, Fitch assigned a rating and outlook to PPL Electric's \$250 million First Mortgage Bonds.

In August 2012, S&P and Moody's assigned a rating to PPL Electric's \$250 million First Mortgage Bonds.

In December 2012, Fitch affirmed the issuer default rating, individual security rating and the outlook for PPL Electric.

#### **Off-Balance Sheet Arrangements**

PPL Electric has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

## **Risk Management**

### Market Risk

#### *Commodity Price and Volumetric Risk - PLR Contracts*

PPL Electric is exposed to market price and volumetric risks from its obligation as PLR. The PUC has approved a cost recovery mechanism that allows PPL Electric to pass through to customers the cost associated with fulfilling its PLR obligation. This cost recovery mechanism substantially eliminates PPL Electric's exposure to market price risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement energy supply contracts for the majority of its PLR obligations. These supply contracts transfer the volumetric risk associated with the PLR obligation to the energy suppliers.

#### *Interest Rate Risk*

PPL Electric issues debt to finance its operations, which exposes it to interest rate risk. At December 31, 2012 and 2011, PPL Electric had no potential annual exposure to increased interest expense, based on its current debt portfolio. PPL Electric is also exposed to changes in the fair value of its debt portfolio. PPL Electric estimated that a 10% decrease in interest rates at December 31, 2012 would increase the fair value of its debt portfolio by \$93 million, compared with \$94 million at December 31, 2011.

### Credit Risk

Credit risk is the risk that PPL Electric would incur a loss as a result of nonperformance by counterparties of their contractual obligations. PPL Electric requires that counterparties maintain specified credit ratings and requires other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, PPL Electric has concentrations of suppliers, financial institutions and customers. These concentrations may impact PPL Electric's overall exposure to credit risk, positively or negatively, as counterparties may be similarly affected by changes in economic, regulatory or other conditions.

In 2009, the PUC approved PPL Electric's PLR procurement plan for the period January 2011 through May 2013. To date, PPL Electric has conducted all of its planned competitive solicitations.

Under the standard Supply Master Agreement (the Agreement) for the competitive solicitation process, PPL Electric requires all suppliers to post collateral if their credit exposure exceeds an established credit limit. In the event a supplier defaults on its obligation, PPL Electric would be required to seek replacement power in the market. All incremental costs incurred by PPL Electric would be recoverable from customers in future rates. At December 31, 2012, most of the successful bidders under all of the solicitations had an investment grade credit rating from S&P, and were not required to post collateral under the Agreement. A small portion of bidders were required to post collateral, which totaled less than \$1 million, under the Agreement. There is no instance under the Agreement in which PPL Electric is required to post collateral to its suppliers.

See Notes 15, 16, 18 and 19 to the Financial Statements for additional information on the competitive solicitations, the Agreement, credit concentration and credit risk.

### **Related Party Transactions**

PPL Electric is not aware of any material ownership interests or operating responsibility by senior management of PPL Electric in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL Electric. See Note 16 to the Financial Statements for additional information on related party transactions.

### **Environmental Matters**

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to PPL Electric's electricity transmission and distribution systems, as well as impacts on customers. PPL Electric cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

See "Item I. Business - Environmental Matters" and Note 15 to the Financial Statements for a discussion of environmental matters.

## Competition

See "Item I. Business - Segment Information - Pennsylvania Regulated Segment - Competition" for a discussion of competitive factors affecting PPL Electric.

### New Accounting Guidance

See Notes 1 and 24 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

### Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). Senior management has reviewed these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them, with PPL's Audit Committee.

#### Defined Benefits

PPL Electric participates in a qualified funded defined benefit pension plan, an unfunded non-qualified defined benefit plan and a funded other postretirement benefit plan, sponsored by other PPL subsidiaries and administered through PPL Services. PPL Electric is allocated a significant portion of the liability and net periodic defined benefit pension and other postretirement costs of the plans sponsored by other PPL subsidiaries based on participation in those plans. PPL Electric records an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to regulatory assets. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

PPL Services makes certain assumptions regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in regulatory assets for amounts that are expected to be recovered through regulated customer rates. The amount in regulatory assets is amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- **Discount Rate** - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.
- **Expected Return on Plan Assets** - Management projects the long-term rates of return on plan assets based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. These projected returns reduce the net benefit costs PPL records currently.
- **Rate of Compensation Increase** - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.
- **Health Care Cost Trend Rate** - Management projects the expected increases in the cost of health care.

In selecting a discount rate for its U.S. defined benefit plans, PPL Services starts with a cash flow analysis of the expected benefit payment stream for its plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields were eliminated to develop an appropriate subset of bonds. Individual bonds were then selected based on the timing of each plan's cash flows and parameters were established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed. At December 31, 2012, PPL Services decreased the discount rate for its U.S. pension plans from 5.07% to 4.22% and decreased the discount rate for its other postretirement benefit plans from 4.81% to 4.02%.

The expected long-term rates of return for PPL Services' U.S. defined benefit pension and other postretirement benefit plans have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. PPL management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption. At December 31, 2012, PPL Services' expected return on plan assets remained at 7.00% for its U.S. pension plan and increased from 5.70% to 5.75% for its other postretirement benefit plan.

In selecting a rate of compensation increase, PPL Services considers past experience in light of movements in inflation rates. At December 31, 2012, PPL Services' rate of compensation increase decreased from 4.00% to 3.95% for its U.S. plans.

In selecting health care cost trend rates for PPL Services' other postretirement benefit plans, PPL Services considers past performance and forecasts of health care costs. At December 31, 2012, PPL Services' health care cost trend rates were 8.00% for 2013, gradually declining to 5.50% for 2019.

A variance in the assumptions listed above could have a significant impact on the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and the regulatory assets allocated to PPL Electric. While the charts below reflect either an increase or decrease in each assumption, the inverse of this change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and regulatory assets by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

At December 31, 2012, the defined benefit plans were recorded as follows.

Pension liabilities	\$	(237)
Other postretirement benefit liabilities		(61)

The following chart reflects the sensitivities in the December 31, 2012 Balance Sheet associated with a change in certain assumptions based on PPL Services' primary defined benefit plans.

Actuarial assumption	Change in assumption	Increase (Decrease)	
		Impact on defined benefit liabilities	Impact on regulatory assets
Discount Rate	(0.25)%	\$ 46	\$ (46)
Rate of Compensation Increase	0.25%	7	(7)
Health Care Cost Trend Rate (a)	1.00%	1	(1)

(a) Only impacts other postretirement benefits.

In 2012, PPL Electric was allocated net periodic defined benefit costs charged to operating expense of \$22 million. This amount represents a \$4 million increase compared with the charge recognized during 2011.

The following chart reflects the sensitivities in the 2012 Statement of Income (excluding income tax effects) associated with a change in certain assumptions based on PPL Services' primary defined benefit plans.

Actuarial assumption	Change in assumption	Impact on defined benefit costs
Discount Rate	(0.25)%	\$ 3
Expected Return On Plan Assets	(0.25)%	3
Rate of Compensation Increase	0.25%	1

### Loss Accruals

Losses are accrued 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." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

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 management. Internal expertise and outside experts (such as lawyers and engineers) are used, as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

No new significant loss accruals were recorded in 2012.

Certain other events have been identified 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.

When an estimated loss is accrued, the triggering events for subsequently reducing the loss accrual are identified, where applicable. The triggering events generally occur when the contingency has been resolved and the actual loss is paid or written off, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the reduction 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 and actual payments are made, a better estimate of the loss is determined or the loss is no longer considered probable.

Loss accruals are reviewed 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.

See Note 15 to the Financial Statements for disclosure of loss contingencies accrued and other potential loss contingencies that have not met the criteria for accrual.

#### **Income Taxes**

Significant management judgment is required in developing the 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. Tax positions are evaluated 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%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known at the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. 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 in the future.

At December 31, 2012, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase by as much as \$11 million or decrease by up to \$25 million. This change could result from the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. 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 limitation.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified 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 to account for an uncertain tax position. See Note 5 to the Financial Statements for income tax disclosures.

### **Regulatory Assets and Liabilities**

PPL Electric's electricity delivery business is subject to cost-based rate regulation. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities, and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, then asset write-offs would be required to be recognized in operating income. Additionally, the regulatory agencies can provide flexibility in the manner and timing of depreciation of PP&E and amortization of regulatory assets.

At December 31, 2012, PPL Electric had regulatory assets of \$853 million and regulatory liabilities of \$60 million. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

See Note 6 to the Financial Statements for additional information on regulatory assets and liabilities.

### **Revenue Recognition - Unbilled Revenue**

Revenues related to the sale of energy are recorded when energy is delivered to customers. Because customers are billed on cycles which vary based on the timing of the actual meter reads taken throughout the month, PPL Electric records estimates for unbilled revenues at the end of each reporting period. Such unbilled revenue amounts reflect estimates of the amount of energy delivered to customers since the date of the last reading of their meters. The unbilled estimate is based on daily load models, the meter read schedule, and actual weather data. The unbilled accrual is based on estimated usage for each customer class, and the current rate schedule pricing. At December 31, 2012 and 2011, PPL Electric had unbilled revenue of \$110 million and \$102 million.

### **Other Information**

PPL's Audit Committee has approved the independent auditor to provide audit, audit-related and tax services permitted by Sarbanes-Oxley and SEC rules. The audit and audit-related services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews. See "Item 14. Principal Accounting Fees and Services" for more information.



## LG&E AND KU ENERGY LLC AND SUBSIDIARIES

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information provided in this Item 7 should be read in conjunction with LKE's Consolidated Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of LKE and its business strategy, a summary of Net Income and a discussion of certain events related to LKE's results of operations and financial condition.
- "Results of Operations" provides a summary of LKE's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal items on LKE's Statements of Income, comparing 2012 with 2011 and 2011 with 2010.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of LKE's liquidity position and credit profile. This section also includes a discussion of forecasted sources and uses of cash and rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of LKE's risk management programs relating to market and credit risk.
- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of LKE and that require its management to make significant estimates, assumptions and other judgments of matters inherently uncertain.

### Overview

#### **Introduction**

LKE, headquartered in Louisville, Kentucky, is a holding company. LKE became a wholly owned subsidiary of PPL when PPL acquired all of LKE's interests from E.ON US Investments Corp. on November 1, 2010. LKE has regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electric energy. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name. Refer to "Item 1. Business - Background" for a description of LKE's business.

#### **Business Strategy**

LKE's overall strategy is to provide reliable, safe, competitively priced energy to its customers and reasonable returns on regulated investments to its member.

A key objective for LKE is to maintain a strong credit profile through managing financing costs and access to credit markets. LKE continually focuses on maintaining an appropriate capital structure and liquidity position.

#### **Successor and Predecessor Financial Presentation**

LKE's Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010 and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, and the cost bases 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 periods are not comparable to the Predecessor periods; however, the core operations of LKE have not changed as a result of the acquisition.

## Financial and Operational Developments

### Net Income

Net Income for 2012, 2011 and 2010 was \$219 million, \$265 million and \$237 million. Earnings in 2012 decreased 17% from 2011 and earnings in 2011 increased 12% from 2010.

See "Results of Operations" for a discussion and analysis of LKE's earnings.

### Rate Case Proceedings

In June 2012, LG&E and KU filed requests with the KPSC for increases in annual base electric rates of approximately \$62 million at LG&E and approximately \$82 million at KU and an increase in annual base gas rates of approximately \$17 million at LG&E. In November 2012, LG&E and KU along with all of the parties filed a unanimous settlement agreement. Among other things, the settlement provided for increases in annual base electric rates of \$34 million at LG&E and \$51 million at KU and an increase in annual base gas rates of \$15 million at LG&E. The settlement agreement also included revised depreciation rates that result in reduced annual electric depreciation expense of approximately \$9 million for LG&E and approximately \$10 million for KU. The settlement agreement included an authorized return on equity at LG&E and KU of 10.25%. On December 20, 2012, the KPSC issued orders approving the provisions in the settlement agreement. The new rates became effective on January 1, 2013. In addition to the increased base rates, the KPSC approved a gas line tracker mechanism for LG&E to provide for recovery of costs associated with LG&E's gas main replacement program, gas service lines and risers.

### Equity Method Investment

KU owns 20% of the common stock of EEI. Through a power marketer affiliated with its majority owner, EEI sells its output to third parties. KU's investment in EEI is accounted for under the equity method of accounting. KU's direct exposure to loss as a result of its involvement with EEI is generally limited to the value of its investment. During the fourth quarter of 2012, KU concluded that an other-than-temporary decline in the value of its investment in EEI had occurred. Accordingly, KU recorded a \$15 million impairment charge, net of taxes, related to this investment as of December 31, 2012, bringing the investment balance to zero. The impairment charge is shown in the line "Other-Than-Temporary Impairments" on the Statement of Income for the year ended December 31, 2012.

### Registered Debt Exchange Offer by LKE

In June 2012, LKE completed an exchange of all its outstanding 4.375% Senior Notes due 2021 issued in September 2011 in a transaction not registered under the Securities Act of 1933, for similar securities that were issued in a transaction registered under the Securities Act of 1933. See Note 7 to the Financial Statements for additional information.

### Commercial Paper

In February 2012, LG&E and KU each established a commercial paper program for up to \$250 million to provide an additional financing source to fund their short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by the issuer's credit facility. At December 31, 2012, \$125 million of commercial paper was outstanding.

### Terminated Bluegrass CTs Acquisition

In September 2011, LG&E and KU entered into an asset purchase agreement with Bluegrass Generation for the purchase of the Bluegrass CTs, aggregating approximately 495 MW, plus limited associated contractual arrangements required for operation of the units, for a purchase price of \$110 million, pending receipt of applicable regulatory approvals. In May 2012, the KPSC issued an order approving the request to purchase the Bluegrass CTs. In November 2011, LG&E and KU filed an application with the FERC under the Federal Power Act requesting approval to purchase the Bluegrass CTs. In May 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to approval by the FERC of satisfactory mitigation measures to address market-power concerns. After a review of potentially available mitigation options, LG&E and KU determined that the options were not commercially justifiable. In June 2012, LG&E and KU terminated the asset purchase agreement for the Bluegrass CTs in accordance with its terms and made applicable filings with the KPSC and FERC.

## Cane Run Unit 7 Construction

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build Cane Run Unit 7. In May 2012, the KPSC issued an order approving the request. A formal request for recovery of the costs associated with the construction was not included in the CPCN filing with the KPSC but is expected to be included in future rate case proceedings. LG&E and KU commenced preliminary construction activities in the third quarter of 2012 and project construction is expected to be completed by May 2015. The project, which includes building a natural gas supply pipeline and related transmission projects, has an estimated cost of approximately \$600 million.

In conjunction with this construction and to meet new, more stringent EPA regulations with a 2015 compliance date, LG&E and KU anticipate retiring five older coal-fired electric generating units at the Cane Run and Green River plants, which have a combined summer capacity rating of 726 MW. In addition, KU retired the remaining 71 MW unit at the Tyrone plant in February 2013.

## Future Capacity Needs

In addition to the construction of a combined cycle gas unit at the Cane Run station, LG&E and KU continue to assess future capacity needs. As a part of the assessment, LG&E and KU issued an RFP in September 2012 for up to 700 MW of capacity beginning as early as 2015.

## Results of Operations

As previously noted, LKE's results for the periods after October 31, 2010 are on a basis of accounting different from its results for periods prior to November 1, 2010. See "Overview - Successor and Predecessor Financial Presentation" for further information.

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

The following table summarizes the significant components of net income for 2012, 2011 and 2010 and the changes therein:

### Earnings

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Net Income	\$ 219	\$ 265	\$ 47	\$ 190

The changes in the components of Net Income between these periods were due to the following factors, which reflect reclassifications for items included in Margins and certain items that management considers special. See additional detail of these special items in the table below.

	2012 vs. 2011	2011 vs. 2010
Margins	\$ (8)	\$ 92
Other operation and maintenance	(16)	(5)
Depreciation	(10)	(43)
Taxes, other than income	(9)	(14)
Other Income (Expense) - net	(14)	(13)
Interest Expense	(4)	29
Income Taxes	31	(18)
Special items, after-tax	(16)	
Total	<u>\$ (46)</u>	<u>\$ 28</u>

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Margins.
- Higher other operation and maintenance in 2012 compared with 2011 primarily due to \$11 million of expenses related to an increased scope of scheduled outages and a \$6 million credit to establish a regulatory asset recorded when approved in 2011 related to 2009 storm costs.

- Higher depreciation in 2012 compared with 2011 due to PP&E additions.

Higher depreciation in 2011 compared with 2010 primarily due to TC2 commencing dispatch in January 2011.

- Higher taxes, other than income in 2011 compared with 2010 primarily due to a \$9 million state coal tax credit that was applied to 2010 property taxes. The remaining increase was due to higher assessments, primarily from significant property additions.
- Lower other income (expense) - net in 2012 compared with 2011 primarily due to losses from the EEI investment.

Lower other income (expense) - net in 2011 compared with 2010 primarily due to \$19 million of other income from the establishment of a regulatory asset in 2010 for previously recorded losses on interest rate swaps.

- Lower interest expense in 2011 compared with 2010 due to lower interest rates and lower average long-term debt balances. Lower interest rates contributed \$17 million to the decrease in interest expense, as the interest rates on the first mortgage bonds were lower than the rates on the loans from E.ON AG affiliates, which were replaced.
- Lower income taxes in 2012 compared with 2011 primarily due to lower pre-tax income.

Higher income taxes in 2011 compared with 2010 primarily due to higher pre-tax income.

The following after-tax gains (losses), which management considers special items, also impacted earnings.

Income Statement Line Item	Successor			Predecessor
	2012	2011	2010	2010
Net operating loss carryforward and other tax-related adjustments				
Asset impairment, net of tax of \$10 (a)				
Discontinued operations adjustment, net of tax of \$4 (b)				
Energy-related economic activity, net of tax of \$0, \$(1), \$1, \$0 (c)				
BREC terminated lease, net of tax of \$0, \$1, \$(2), \$1 (d)				
Total	\$ (16)	\$ 1	\$ (1)	\$ (1)

- (a) KU recorded an impairment of its equity method investment in EEI. See Note 18 to the Financial Statements for additional information.  
 (b) 2012 includes an adjustment to an indemnification liability.  
 (c) Represents net unrealized gains (losses) on contracts that economically hedge anticipated cash flows.  
 (d) Represents costs associated with a terminated lease of WKE for the generating facilities of BREC. See Note 9 to the Financial Statements for additional information.

### 2013 Outlook

Excluding special items, LKE projects higher earnings in 2013 compared with 2012, primarily driven by electric and gas base rate increases effective January 1, 2013, returns on additional environmental capital investments and retail load growth, partially offset by higher operation and maintenance.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7 and Notes 6 and 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.

### Statement of Income Analysis –

#### Margins

#### Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margins." Margins 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 analyze and to report on the results of their operations. Margins is a single financial performance measure of LKE's electricity generation,

transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, fuel and energy purchases are deducted from revenues. In addition, utility revenues and expenses associated with approved cost recovery mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments primarily associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" and "Depreciation." As a result, this measure represents the net revenues from LKE's operations. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared with budget.

#### Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margins" as defined by LKE for 2012, 2011 and 2010.

	2012 Successor			2011 Successor		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 2,759		\$ 2,759	\$ 2,791	\$ 2	\$ 2,793
<b>Operating Expenses</b>						
Fuel	872		872	866		866
Energy purchases	195		195	238		238
Other operation and maintenance	101	\$ 677	778	90	661	751
Depreciation	51	295	346	49	285	334
Taxes, other than income		46	46		37	37
Total Operating Expenses	1,219	1,018	2,237	1,243	983	2,226
<b>Total</b>	<b>\$ 1,540</b>	<b>\$ (1,018)</b>	<b>\$ 522</b>	<b>\$ 1,548</b>	<b>\$ (981)</b>	<b>\$ 567</b>

	Successor			Predecessor		
	Two Months Ended December 31, 2010			Ten Months Ended October 31, 2010		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 495	\$ (1)	\$ 494	\$ 2,214		\$ 2,214
<b>Operating Expenses</b>						
Fuel	138		138	723		723
Energy purchases	68		68	211		211
Other operation and maintenance	14	127	141	57	\$ 529	586
Depreciation	7	42	49	35	200	235
Taxes, other than income		2	2		21	21
Total Operating Expenses	227	171	398	1,026	750	1,776
<b>Total</b>	<b>\$ 268</b>	<b>\$ (172)</b>	<b>\$ 96</b>	<b>\$ 1,188</b>	<b>\$ (750)</b>	<b>\$ 438</b>

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

#### Changes in Non-GAAP Financial Measures

Margins decreased by \$8 million for 2012 compared with 2011, primarily due to \$6 million of lower wholesale margins resulting from lower market prices. Retail margins were \$2 million lower, as volumes were impacted by unseasonably mild weather during the first four months of 2012. Total heating degree days decreased 11% compared to 2011, partially offset by a 6% increase in cooling degree days.

Margins increased by \$92 million for 2011 compared with 2010. New KPSC rates went into effect on August 1, 2010, contributing to an additional \$112 million in operating revenue over the prior year. Partially offsetting the rate increase were lower retail volumes resulting from weather and economic conditions.

## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Coal plant maintenance (a)	\$ 19	\$ 4
Distribution maintenance (b)	7	8
Administrative and general (c)	(7)	(1)
Steam operation (d)	2	10
Fuel for generation (e)		11
Other generation maintenance		(4)
Other	6	(4)
Total	<u>\$ 27</u>	<u>\$ 24</u>

- (a) Coal plant maintenance costs increased in 2012 compared with 2011 primarily due to \$11 million of expenses related to an increased scope of scheduled outages, as well as \$5 million of increased maintenance at the Ghent plant on the scrubber system and primary fuel combustion system.
- (b) Distribution maintenance costs increased in 2012 compared with 2011 primarily due to a \$6 million credit to establish a regulatory asset recorded when approved in 2011 related to 2009 storm costs.

Distribution maintenance costs increased in 2011 compared with 2010 primarily due to \$17 million of expenses related to amortization of storm restoration-related costs, a hazardous tree removal project initiated in August 2010 and an increase in pipeline integrity work. This increase was offset by a \$6 million credit to establish a regulatory asset recorded when approved in 2011 related to 2009 storm costs.

- (c) Administrative and general costs decreased in 2012 compared with 2011 primarily due to a decrease in pension expense resulting from pension funding and lower interest cost.
- (d) Steam operation costs increased in 2011 compared with 2010 primarily due to higher variable costs as a result of TC2 commencing dispatch in 2011.
- (e) Fuel handling costs are included in other operation and maintenance on the Statements of Income for the Successor periods and are in fuel on the Statement of Income for the Predecessor period.

## Depreciation

The increase (decrease) in depreciation was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
TC2 (dispatch began in January 2011)		\$ 32
E.W. Brown sulfur dioxide scrubber equipment (placed in-service in June 2010)		8
Other additions to PP&E	\$ 12	10
Total	<u>\$ 12</u>	<u>\$ 50</u>

## Taxes, Other Than Income

Taxes, other than income increased by \$9 million in 2012 compared with 2011 due in part to a \$4 million increase in property taxes resulting from property additions, higher assessed values and changes in property classifications to categories with higher tax rates.

Taxes, other than income increased by \$14 million in 2011 compared with 2010 primarily due to a \$9 million state coal tax credit that was applied to 2010 property taxes. The remaining increase was due to higher assessments, primarily from significant property additions.

## Other Income (Expense) - net

The increase (decrease) in other income (expense) - net was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Earnings (losses) from the EEI investment	\$ (9)	\$ (2)
Depreciation expense on TC2 joint-use assets held for future use		3
Losses on interest rate swaps (a)		(19)
Other	(5)	5
Total	<u>\$ (14)</u>	<u>\$ (13)</u>

- (a) A regulatory asset was established in 2010 for previously recorded losses on interest rate swaps.

## Other-Than-Temporary Impairments

Other-than-temporary impairments increased by \$25 million in 2012 compared with 2011 due to the \$25 million pre-tax impairment of the EEI investment. See Notes 1 and 18 to the Financial Statements for additional information.

## Interest Expense

The increase (decrease) in interest expense was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Interest rates (a)	\$ (2)	\$ (17)
Long-term debt balances (b)	8	(15)
Other	(2)	3
Total	<u>\$ 4</u>	<u>\$ (29)</u>

- (a) Interest expense decreased in 2011 compared with 2010 primarily due to lower interest rates on senior notes and first mortgage bonds issued in November 2010 compared with the rates on the loans from E.ON AG affiliates that were in place through October 2010.
- (b) Interest expense increased in 2012 compared with 2011 due to the LKE \$250 million senior notes that were issued in September 2011.

Interest expense decreased in 2011 compared with 2010 as the long-term debt balances were lower for the majority of 2011. The debt balances increased in September 2011 due to the issuance of the LKE \$250 million senior notes.

## Income Taxes

The increase (decrease) in income taxes was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Change in pre-tax income	\$ (34)	\$ 19
Net operating loss carryforward adjustments (a)	(9)	
Other	(4)	
Total	<u>\$ (47)</u>	<u>\$ 19</u>

- (a) Adjustments to deferred taxes related to net operating loss carryforwards based on income tax return adjustments.

## Income (Loss) from Discontinued Operations (net of income taxes)

Income (loss) from discontinued operations (net of income taxes) decreased by \$5 million in 2012 compared with 2011 primarily related to an adjustment to the estimated liability for indemnifications related to the termination of the WKE lease in 2009.

## Financial Condition

### Liquidity and Capital Resources

LKE expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents and its credit facilities, including commercial paper issuances. Additionally, subject to market conditions, subsidiaries of LKE currently plan to access capital markets in 2013.

LKE'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:

- changes in commodity prices that may increase the cost of producing or purchasing power or decrease the amount LKE receives from selling power;
- operational and credit risks associated with selling and marketing products in the wholesale power markets;
- unusual or extreme weather that may damage LKE's transmission and distribution facilities or affect energy sales to customers;
- reliance on transmission facilities that LKE does not own or control to deliver its electricity and natural gas;
- 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;
- the ability to recover and the timeliness and adequacy of recovery of costs associated with regulated utility businesses;
- costs of compliance with existing and new environmental laws;
- any adverse outcome of legal proceedings and investigations with respect to LKE'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 LKE's or its rated subsidiaries' credit ratings that could adversely affect their ability to access capital and increase the cost of credit facilities and any new debt.

See "Item 1A. Risk Factors" for further discussion of risks and uncertainties affecting LKE's cash flows.

At December 31, LKE had the following:

	2012	2011	2010
Cash and cash equivalents	\$ 43	\$ 59	\$ 11
Short-term investments (a)			163
	<u>\$ 43</u>	<u>\$ 59</u>	<u>\$ 174</u>
Short-term debt (b)			\$ 163
	<u>\$ 125</u>		<u>\$ 163</u>

- (a) Represents tax-exempt bonds issued by Louisville/Jefferson County, Kentucky, on behalf of LG&E that were purchased from the remarketing agent in 2008. Such bonds were remarketed to unaffiliated investors in January 2011. See Note 7 to the Financial Statements for additional information.
- (b) Borrowings in 2012 were made under LG&E's and KU's commercial paper programs and borrowings in 2010 were made under LG&E's syndicated credit facility. See Note 7 to the Financial Statements for additional information.

The changes in LKE's cash and cash equivalents position resulted from:

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Net cash provided by (used in) operating activities	\$ 747	\$ 781	\$ 26	\$ 488
Net cash provided by (used in) investing activities	(756)	(277)	(211)	(426)
Net cash provided by (used in) financing activities	(7)	(456)	167	(40)
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (16)</u>	<u>\$ 48</u>	<u>\$ (18)</u>	<u>\$ 22</u>

#### Operating Activities

Net cash provided by operating activities decreased by 4%, or \$34 million, in 2012 compared with 2011, primarily as a result of:

- Net income adjusted for non-cash items declined by \$94 million, which included an \$85 million reduction in deferred income taxes due primarily to the utilization of a capital loss carry forward in 2011.
- Working capital cash flow changes declined by \$66 million driven primarily by changes in receivables and unbilled revenues due to milder December weather in 2011 than in 2012 and 2010 and more income tax receivables collected in 2011 than in 2012.
- These items were offset by \$126 million increase in other operating cash flows driven by \$100 million reduction in pension funding.

Net cash provided by operating activities increased by 52%, or \$267 million, in 2011 compared with 2010, primarily as a result of:

- an increase in net income adjusted for non-cash effects of \$178 million (deferred income taxes and investment tax credits of \$101 million, depreciation of \$50 million, amortization of regulatory assets of \$24 million and other noncash items of \$3 million, partially offset by unrealized (gains) losses on derivatives of \$14 million, defined benefit plans - expense of \$13 million and loss from discontinued operations - net of tax of \$1 million);
- an increase in cash inflows related to income tax receivable of \$79 million primarily due to net operating losses of \$40 million recorded in 2010 and the payment of \$40 million received by LKE for tax benefits in 2011;
- a net decrease in cash provided from accounts receivable and unbilled revenues of \$75 million due to colder weather in December 2010 as compared with December 2009 and milder weather in December 2011 as compared with December 2010; and



- a decrease in cash outflows of \$28 million due to lower inventory levels in 2011 as compared with 2010 driven by \$32 million for fuel inventory purchased in 2010 for TC2 that was not used until 2011 when TC2 began dispatch, \$21 million due to lower coal burn as a result of unplanned outages at LG&E's Mill Creek plant and \$6 million for decreases in gas storage volumes, partially offset by \$22 million for KU's E.W. Brown and Ghent plants due primarily to increases in coal prices and \$7 million for increases in coal in-transit; partially offset by
- an increase in discretionary defined benefit plan contributions of \$105 million made in order to achieve LKE's long-term funding requirements.

#### Investing Activities

Net cash used in investing activities increased by 173%, or \$479 million, in 2012 compared with 2011, primarily as a result of:

- an increase in capital expenditures of \$291 million, primarily due to coal combustion residuals projects at Ghent and E.W. Brown, environmental air projects at Mill Creek and Ghent, and construction of Cane Run Unit 7; and
- a decrease in the proceeds from the sale of other investments of \$163 million in 2011.

Net cash used in investing activities decreased by 57%, or \$360 million, in 2011 compared with 2010, as a result of:

- proceeds from the sale of other investments of \$163 million in 2011;
- a decrease in capital expenditures of \$122 million, primarily due to the completion of KU's scrubber program in 2010 and TC2 being dispatched in 2011; and
- an increase from a change in notes receivable from affiliates of \$107 million; partially offset by
- proceeds from sales of discontinued operations of \$21 million in 2010; and
- a decrease in restricted cash of \$11 million.

See "Forecasted Uses of Cash" for detail regarding capital expenditures for the years 2013 through 2017.

#### Financing Activities

Net cash used in financing activities was \$7 million in 2012 compared with net cash used in financing activities of \$456 million in 2011, primarily as a result of decrease in distributions to PPL.

In 2012, cash used in financing activities consisted of:

- distributions to PPL of \$155 million; partially offset by
- the issuance of \$125 million of short-term debt in the form of commercial paper; and
- an increase in notes payable with affiliates of \$25 million.

Net cash used in financing activities was \$456 million in 2011 compared with net cash provided by financing activities of \$127 million in 2010, primarily as a result of increased distributions to PPL and reduced contributions from PPL.

In 2011, cash used in financing activities consisted of:

- distributions to PPL of \$533 million, which includes \$248 million using the proceeds of the long-term debt issuance noted below;
- a repayment on a revolving line of credit of \$163 million;
- the payment of debt issuance and credit facility costs of \$8 million; and
- the repayment of debt of \$2 million; partially offset by
- the issuance of senior notes of \$250 million.

In the two months of 2010 following PPL's acquisition of LKE, cash provided by financing activities of the Successor consisted of:

- the issuance of senior unsecured notes and first mortgage bonds of \$2,890 million after discounts;
- the issuance of debt of \$2,784 million to a PPL affiliate to repay debt due to E.ON AG affiliates upon the closing of PPL's acquisition of LKE;
- an equity contribution from PPL of \$1,565 million; and
- a draw on a revolving line of credit of \$163 million; partially offset by

- the repayment of debt to E.ON AG affiliates of \$4,319 million upon the closing of PPL's acquisition of LKE;
- the repayment of debt to a PPL affiliate of \$2,784 million upon the issuance of senior unsecured notes and first mortgage bonds;
- distributions to PPL of \$100 million; and
- the payment of debt issuance and credit facility costs of \$32 million.

In the ten months of 2010 preceding PPL's acquisition of LKE, cash used in financing activities by the Predecessor consisted of:

- the repayment of debt to an E.ON AG affiliate of \$900 million;
- distributions to E.ON US Investments Corp. of \$87 million; and
- a net decrease in notes payable with affiliates of \$3 million; partially offset by
- the issuance of debt of \$950 million to an E.ON AG affiliate.

See "Forecasted Sources of Cash" for a discussion of LKE's plans to issue debt securities, as well as a discussion of credit facility capacity available to LKE. Also see "Forecasted Uses of Cash" for a discussion of plans to pay dividends on common securities in the future, as well as maturities of long-term debt.

LKE's long-term debt securities activity through December 31, 2012 was:

	Debt	
	Issuances	Retirement
Non-cash Exchanges (a)		
LKE Senior Unsecured Notes	\$ 250	\$ (250)

- (a) In June 2012, LKE completed an exchange of all of its outstanding 4.375% Senior Notes due 2021 issued in September 2011, in a transaction not registered under the Securities Act of 1933, for similar securities that were issued in a transaction registered under the Securities Act of 1933.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

#### Auction Rate Securities

At December 31, 2012, LG&E's and KU's tax-exempt revenue bonds that are in the form of auction rate securities and total \$231 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the period ended December 31, 2012, the weighted-average rate on LG&E's and KU's auction rate bonds in total was 0.22%.

#### Forecasted Sources of Cash

LKE expects to continue to have sufficient sources of cash available in the near term, including various credit facilities, its commercial paper programs, issuance of debt securities and operating cash flow.

#### *Credit Facilities*

At December 31, 2012, LKE's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed / Commercial Paper Issued	Letters of Credit Issued	Unused Capacity
LKE Credit Facility with a subsidiary of PPL Energy Funding Corporation	\$ 300	\$ 25		\$ 275
LG&E Credit Facility (a) (d)	500	55		445
KU Credit Facilities (a) (b) (d)	598	70	\$ 198	330
Total Credit Facilities (c)	\$ 1,398	\$ 150	\$ 198	\$ 1,050

- (a) In November 2012, LG&E and KU amended their syndicated credit facilities to extend the expiration dates to November 2017. In addition, LG&E increased its credit facility's capacity to \$500 million.
- (b) In August 2012, the KU letter of credit facility agreement was amended and restated to allow for certain payments under the letter of credit facility to be converted to loans rather than requiring immediate payment.

- (c) The \$1.098 billion of commitments under LG&E's and KU's domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 11% of the total committed capacity; however, the PPL affiliate provided a commitment of approximately 21% of the total facilities listed above. The syndicated credit facilities, as well as KU's letter of credit facility, each contain a financial covenant requiring debt to total capitalization not to exceed 70% for LG&E or KU, as calculated in accordance with the facility, and other customary covenants.
- (d) Each company pays customary fees under their respective syndicated credit facilities, as well as KU's letter of credit facility, and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

See Note 7 to the Financial Statements for further discussion of LKE's credit facilities.

### Operating Leases

LKE and its subsidiaries also have available funding sources that are provided through operating leases. LKE's subsidiaries lease office space, gas storage and certain equipment. These leasing structures provide LKE additional operating and financing flexibility. The operating leases contain covenants that are typical for these agreements, such as maintaining insurance, maintaining corporate existence and timely payment of rent and other fees.

See Note 11 to the Financial Statements for further discussion of the operating leases.

### Capital Contributions from PPL

From time to time PPL may make capital contributions to LKE. LKE may use these contributions to fund capital expenditures, make capital contributions to its subsidiaries and for other general corporate purposes.

### Long-term Debt Securities

LG&E and KU currently plan to issue, subject to market conditions, up to \$350 million for LG&E and \$300 million for KU, of first mortgage bond indebtedness in 2013, the proceeds of which will be used to fund capital expenditures and for other general corporate purposes.

### Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, LKE currently expects to incur future cash outflows for capital expenditures, various contractual obligations, distributions to PPL and possibly the purchase or redemption of a portion of debt securities.

### Capital Expenditures

The table below shows LKE's current capital expenditure projections for the years 2013 through 2017.

	Projected				
	2013	2014	2015	2016	2017
Capital expenditures (a)					
Generating facilities	\$ 427	\$ 251	\$ 267	\$ 476	\$ 540
Distribution facilities	233	227	263	257	281
Transmission facilities	107	68	59	56	77
Environmental	655	722	513	292	107
Other	48	45	43	48	39
Total Capital Expenditures	<u>\$ 1,470</u>	<u>\$ 1,313</u>	<u>\$ 1,145</u>	<u>\$ 1,129</u>	<u>\$ 1,044</u>

- (a) LKE generally expects to recover these costs over a period equivalent to the related depreciable lives of the assets through rates. The 2013 total excludes amounts included in accounts payable as of December 31, 2012.

LKE's capital expenditure projections for the years 2013 through 2017 total approximately \$6.1 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes current estimates for LKE's environmental projects related to existing and proposed EPA compliance standards. Actual costs may be significantly lower or higher depending on the final requirements and market conditions. Environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism.

LKE plans to fund its capital expenditures in 2013 with cash on hand, cash from operations, short-term debt and issuance of debt securities.

## Contractual Obligations

LKE has assumed various financial obligations and commitments in the ordinary course of conducting its business. LKE is not liable for the debts of LG&E and KU, nor are LG&E and KU liable for the debts of one another. Accordingly, creditors of LG&E and KU may not satisfy their debts from the assets of LKE absent a specific contractual undertaking by LKE or LG&E and KU to pay the creditors or as required by applicable law or regulation. At December 31, 2012, the estimated contractual cash obligations of LKE were:

	Total	2013	2014 - 2015	2016 - 2017	After 2017
Long-term Debt (a)	\$ 4,085		\$ 900		\$ 3,185
Interest on Long-term Debt (b)	2,586	\$ 139	274	\$ 250	1,923
Operating Leases (c)	90	15	27	14	34
Coal and Natural Gas Purchase Obligations (d)	2,558	789	1,176	501	92
Unconditional Power Purchase Obligations (e)	1,038	30	60	64	884
Construction Obligations (f)	1,757	836	639	282	
Pension Benefit Plan Obligations (g)	153	153			
Other Obligations (h)	30	7	14	8	1
<b>Total Contractual Cash Obligations</b>	<b>\$ 12,297</b>	<b>\$ 1,969</b>	<b>\$ 3,090</b>	<b>\$ 1,119</b>	<b>\$ 6,119</b>

- (a) Reflects principal maturities only based on stated maturity dates. See Note 7 to the Financial Statements for a discussion of variable-rate remarketable bonds issued on behalf of LG&E and KU. LKE has no capital lease obligations.
- (b) Assumes interest payments through stated maturity. The payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated.
- (c) See Note 11 to the Financial Statements for additional information.
- (d) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 15 to the Financial Statements for additional information.
- (e) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 15 to the Financial Statements for additional information.
- (f) Represents construction commitments, including commitments for the Mill Creek and Ghent environmental air projects, Cane Run Unit 7, Ghent landfill and Ohio Falls refurbishment which are also reflected in the Capital Expenditures table presented above.
- (g) Based on the current funded status of LKE's qualified pension plans, no cash contributions are required. See Note 13 to the Financial Statements for a discussion of expected contributions.
- (h) Represents other contractual obligations.

## Dividends

From time to time, as determined by its Board of Directors, LKE pays dividends to the sole member, PPL.

As discussed in Note 7 to the Financial Statements, LG&E's and KU's ability to pay dividends is limited under a covenant in each of their revolving line of credit facilities. This covenant restricts their debt to total capital ratio to not more than 70%. See Note 7 to the Financial Statements for other restrictions related to distributions on capital interests for LKE subsidiaries.

## Purchase or Redemption of Debt Securities

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

## Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of LKE and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of LKE and its subsidiaries are based on information provided by LKE and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of LKE or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of LKE and its subsidiaries affect its liquidity, access to capital markets and cost of borrowing under its credit facilities.

The following table sets forth LKE's and its subsidiaries' security credit ratings as of December 31, 2012.

Issuer	Senior Unsecured			Senior Secured			Commercial Paper		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Fitch
LKE	Baa2	BBB-	BBB+						
LG&E			A	A2	A-	A+	P-2	A-2	F-2
KU			A	A2	A-	A+	P-2	A-2	F-2

In addition to the credit ratings noted above, the rating agencies took the following actions related to LKE and its subsidiaries:

In February 2012, Fitch assigned ratings to the two newly established commercial paper programs for LG&E and KU.

In March 2012, Moody's affirmed the following ratings:

- the long-term ratings of the First Mortgage Bonds for LG&E and KU;
- the issuer ratings for LG&E and KU; and
- the bank loan ratings for LG&E and KU.

Also in March 2012, Moody's and S&P each assigned short-term ratings to the two newly established commercial paper programs for LG&E and KU.

In March and May 2012, Moody's, S&P and Fitch affirmed the long-term ratings for LG&E's 2003 Series A, and 2007 Series B pollution control bonds.

In November 2012, Moody's and S&P affirmed the long-term ratings for LG&E's 2007 Series A pollution control bonds.

In December 2012, Fitch affirmed the issuer default ratings, individual security ratings and outlooks for LKE, LG&E and KU.

#### Ratings Triggers

LKE and its subsidiaries have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, commodity transportation and storage and interest rate instruments, which contain provisions requiring LKE and its subsidiaries to post additional collateral, or permitting the counterparty to terminate the contract, if LKE's or the subsidiaries' credit rating were to fall below investment grade. See Note 19 to the 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, 2012. At December 31, 2012, if LKE's or its subsidiaries' credit ratings had been below investment grade, the maximum amount that LKE would have been required to post as additional collateral to counterparties was \$78 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation and marketing operations, gas supply and interest rate contracts.

#### **Off-Balance Sheet Arrangements**

LKE has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

#### **Risk Management**

##### Market Risk

See Notes 1, 18 and 19 to the Financial Statements for information about LKE's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

#### Commodity Price Risk (Non-trading)

LG&E's and KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E and KU are subject to commodity price risk for only a small portion of on-going business operations. LKE sells excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 19 to the Financial Statements for additional disclosures.

The balance and change in net fair value of LKE's commodity derivative contracts for the periods ended December 31, 2012, 2011 and 2010 are shown in the table below.

	Gains (Losses)			Predecessor Ten Months Ended October 31, 2010
	Successor		Two Months Ended December 31, 2010	
	Year Ended December 31, 2012	Year Ended December 31, 2011		
Fair value of contracts outstanding at the beginning of the period		\$ (2)		\$ 3
Contracts realized or otherwise settled during the period		(3)		(4)
Fair value of new contracts entered into during the period				
Other changes in fair value (a)		5	\$ (2)	1
Fair value of contracts outstanding at the end of the period		\$	\$ (2)	\$

(a) Represents the change in value of outstanding transactions and the value of transactions entered into and settled during the period.

#### Interest Rate Risk

LKE and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. LKE utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under LKE's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of LKE's debt portfolio due to changes in the absolute level of interest rates.

At December 31, 2012 and 2011, LKE's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

LKE is also exposed to changes in the fair value of its debt portfolio. LKE estimated that a 10% decrease in interest rates at December 31, 2012, would increase the fair value of its debt portfolio by \$113 million compared with \$125 million at December 31, 2011.

LKE had the following interest rate hedges outstanding at:

	December 31, 2012			December 31, 2011		
	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates
Economic hedges						
Interest rate swaps (b)	\$ 179	\$ (58)	\$ (3)	\$ 179	\$ (60)	\$ (4)
Cash flow hedges						
Interest rate swaps (b)	300	14	(18)			

(a) Includes accrued interest.

(b) LKE utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While LKE is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such economic and cash flow hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at December 31, 2012 mature through 2043.

## Credit Risk

LKE is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. LKE 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. LKE is exposed to potential losses as a result of nonpayment by customers. LKE maintains an allowance for doubtful accounts based on a historical charge-off percentage for retail customers. Allowances for doubtful accounts from wholesale and municipal customers and for miscellaneous receivables are based on specific identification by management. Retail, wholesale and municipal customer accounts are written-off after four months of no payment activity. Miscellaneous receivables are written-off as management determines them to be uncollectible.

Certain of LKE's derivative instruments contain provisions that require it to provide immediate and on-going collateralization of derivative instruments in net liability positions based upon LKE's credit ratings from each of the major credit rating agencies. See Notes 18 and 19 to the Financial Statements for information regarding exposure and the risk management activities.

## **Related Party Transactions**

LKE is not aware of any material ownership interest or operating responsibility by senior management of LKE, LG&E or KU in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with LKE. See Note 16 to the Financial Statements for additional information on related party transactions.

## **Environmental Matters**

Protection of the environment is a major priority for LKE and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to LKE'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 expenditures 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 for their products or their demand for LKE's services.

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to LKE's generation assets and electricity transmission and distribution systems, as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where LKE has hydro generating facilities or where river water is used to cool its fossil powered generators. LKE cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

See "Item 1. Business - Environmental Matters" and Note 15 to the Financial Statements for a discussion of environmental matters.

## New Accounting Guidance

See Notes 1 and 24 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

## Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). LKE's senior management has reviewed these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them, with PPL's Audit Committee.

## Revenue Recognition - Unbilled Revenue

Revenues related to the sale of energy are recorded when service is rendered or when energy is delivered to customers. Because customers of LG&E's and KU's retail operations are billed on cycles which vary based on the timing of the actual reading of their electric and gas meters, LKE records estimates for unbilled revenues at the end of each reporting period. Such unbilled revenue amounts reflect estimates of the amount of electricity and gas delivered to customers since the date of the last reading of their meters. The unbilled revenues reflect consideration of estimated usage by customer class, the effect of different rate schedules, changes in weather, and where applicable, the impact of weather normalization or other regulatory provisions of rate structures. In addition to the unbilled revenue accrual resulting from cycle billing, LKE makes additional accruals resulting from the timing of customer bills. The accrual of unbilled revenues in this manner properly matches revenues and related costs. At December 31, 2012 and 2011, LKE had unbilled revenue balances of \$156 million and \$146 million.

## Defined Benefits

LKE and certain of its subsidiaries sponsor and participate in qualified funded and non-qualified unfunded defined benefit pension plans. LKE also sponsors a funded other postretirement benefit plan. These plans are applicable to the majority of the employees of LKE and its subsidiaries. LKE records an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to OCI or regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

Certain assumptions are made by LKE and certain of its subsidiaries regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in OCI or regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. These amounts in regulatory assets and liabilities are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- **Discount Rate** - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.
- **Expected Long-term Return on Plan Assets** - Management projects the long-term rates of return on plan assets based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. These projected returns reduce the net benefit costs LKE records currently.
- **Rate of Compensation Increase** - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.
- **Health Care Cost Trend Rate** - Management projects the expected increases in the cost of health care.

In selecting a discount rate for its defined benefit plans LKE starts with a cash flow analysis of the expected benefit payment stream for its plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Individual bonds are then selected based on the timing of each plan's cash flows and parameters are established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed. At December 31, 2012, LKE decreased the discount rate for its pension plans from 5.08% to 4.24% and decreased the discount rate for its other postretirement benefit plan from 4.78% to 3.99%.



The expected long-term rates of return for LKE's defined benefit pension plans and defined other postretirement benefit plan have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. LKE management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption. At December 31, 2012, LKE's expected return on plan assets decreased from 7.25% to 7.10%.

In selecting a rate of compensation increase, LKE considers past experience in light of movements in inflation rates. At December 31, 2012, LKE's rate of compensation increase remained at 4.00%.

In selecting health care cost trend rates LKE considers past performance and forecasts of health care costs. At December 31, 2012, LKE's health care cost trend rates were 8.00% for 2013, gradually declining to 5.50% for 2019.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and OCI or regulatory assets and liabilities for LKE. While the charts below reflect either an increase or decrease in each assumption, the inverse of the change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and OCI or regulatory assets and liabilities for LKE by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

At December 31, 2012, the defined benefit plans were recorded as follows:

Pension liabilities (a)	\$	417
Other postretirement benefit liabilities		141

(a) Amount includes current and noncurrent portions.

The following chart reflects the sensitivities in the December 31, 2012 Balance Sheet associated with a change in certain assumptions based on LKE's primary defined benefit plans.

Actuarial assumption	Increase (Decrease)			
	Change in assumption	Impact on defined benefit liabilities	Impact on OCI	Impact on regulatory assets
Discount Rate	(0.25)%	\$ 59	\$ (22)	\$ 37
Rate of Compensation Increase	0.25%	10	(6)	4
Health Care Cost Trend Rate (a)	1%	5	(1)	4

(a) Only impacts other postretirement benefits.

In 2012, LKE recognized net periodic defined benefit costs charged to operating expense of \$40 million. This amount represents an \$11 million decrease from 2011. This decrease in expense for 2012 was primarily attributable to the increase in the expected return on plan assets resulting from pension contributions of \$57 million, a reduction in the amortization of outstanding losses and lower interest cost.

The following chart reflects the sensitivities in the 2012 Statement of Income (excluding income tax effects) associated with a change in certain assumptions based on LKE's primary defined benefit plans.

Actuarial assumption	Change in assumption	Impact on defined benefit costs
Discount Rate	(0.25)%	\$ 4
Expected Return on Plan Assets	(0.25)%	3
Rate of Compensation Increase	0.25%	1
Health Care Cost Trend Rate (a)	1%	

(a) Only impacts other postretirement benefits.

## Asset Impairment (Excluding Investments)

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying amount may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

- a significant decrease in the market price of an asset;
- a significant adverse change in the extent or 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; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For a long-lived asset classified as held and used, 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 amount 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. Alternate courses of action are considered to recover the carrying amount of a long-lived asset, and estimated cash flows from the "most likely" alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in significantly different results than those identified and recorded in the financial statements.

For a long-lived asset classified as held for sale, impairment exists when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If the asset (disposal group) is impaired, an impairment loss is recorded to adjust the carrying amount to its fair value less cost to sell. A gain is recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative impairment previously recognized.

For determining fair value, quoted market prices in active markets are the best evidence. However, when market prices are unavailable, LKE considers all valuation techniques appropriate under the circumstances and for which market participant inputs can be obtained. Generally discounted cash flows are used to estimate fair value, which incorporates market participant inputs when available. Discounted cash flows are calculated by estimating future cash flow streams and applying appropriate discount rates to determine the present value of the cash flow streams.

Goodwill is tested for impairment at the reporting unit level. LKE's reporting units have been determined to be at the operating segment level. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit may be greater than the unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

Beginning in 2012, LKE may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative assessment and directly test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if LKE concludes it is more likely than not the fair value of a reporting unit is less than the carrying amount based on the step zero assessment.

When the two-step quantitative impairment test is elected or required as a result of the step zero assessment in step one, LKE identifies a potential impairment by comparing the estimated fair value of a reporting unit with its carrying amount, including goodwill, on the measurement date. If the estimated fair value of a reporting unit 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 of the quantitative test requires a calculation of the implied fair value of goodwill which is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value of a reporting unit is allocated to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination and the estimated fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the estimated fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of the reporting unit's 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.

LKE elected to perform the two-step quantitative impairment test of goodwill for all of its reporting units in the fourth quarter of 2012 and no impairment was recognized. Management used both discounted cash flows and market multiples, which required significant assumptions to estimate the fair value of each reporting unit. Applying an appropriate weighting to both the discounted cash flow and market multiple valuations, a decrease in the forecasted cash flows of 10%, an increase in the discount rate by 25 basis points, or a 10% decrease in the multiples would not have resulted in an impairment of goodwill.

### **Loss Accruals**

Losses are accrued 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." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

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 management. Internal expertise and outside experts (such as lawyers and engineers) are used, as necessary to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

In 2012, the estimated liability for indemnifications related to the 2009 termination of the WKE lease was increased.

Certain other events have been identified 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."

When an estimated loss is accrued, the triggering events for subsequently adjusting the loss accrual are identified, where applicable. The triggering events generally occur when the contingency has been resolved and the actual loss is paid or written off, 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, LKE makes actual payments, a better estimate of the loss is determined or the loss is no longer considered probable.

Loss accruals are reviewed 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.

See Note 15 to the Financial Statements for additional information.

### **Asset Retirement Obligations**

LKE 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 Consolidated Statements of Income, changes in the obligation due to the passage of time. Since costs of removal are collected in rates, the accretion and depreciation are offset with a regulatory credit on the income statement, such that there is no earnings impact. The regulatory asset created by the

regulatory credit 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. See Note 21 to the Financial Statements for related disclosures.

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.

At December 31, 2012, LKE had AROs comprised of current and noncurrent amounts, totaling \$131 million recorded on the Balance Sheet. Of the total amount, \$90 million, or 69%, relates to LKE's ash ponds, landfills and natural gas mains. 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 LKE's ARO liabilities for ash ponds, landfills and natural gas mains at December 31, 2012:

	<u>Change In Assumption</u>	<u>Impact on ARO Liability</u>
Retirement Cost	10%	\$ 11
Discount Rate	(0.25)%	3
Inflation Rate	0.25%	8

### Income Taxes

Significant management judgment is required in developing the 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. Tax positions are evaluated 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%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known at the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. 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 in the future.

At December 31, 2012, LKE's existing reserve exposure to either increases or decreases in unrecognized tax benefits during the next 12 months is \$1 million. This change could result from subsequent recognition, derecognition 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 limitation.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified 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 to account for an uncertain tax position. See Note 5 to the Financial Statements for related disclosures.

### **Regulatory Assets and Liabilities**

LKE's subsidiaries, LG&E and KU, are cost-based rate-regulated utilities. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and 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 KPSC, the VSCC and the TRA.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, then asset write-off would be required to be recognized in operating income. Additionally, the regulatory agencies can provide flexibility in the manner and timing of the depreciation of PP&E and amortization of regulatory assets.

At December 31, 2012, LKE had regulatory assets of \$649 million and regulatory liabilities of \$1,011 million. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

See Note 6 to the Financial Statements for additional information on regulatory assets and liabilities.

### **Other Information**

PPL's Audit Committee has approved the independent auditor to provide audit, tax and other services permitted by Sarbanes-Oxley and SEC rules. The audit services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews. See "Item 14. Principal Accounting Fees and Services" for more information.

## LOUISVILLE GAS AND ELECTRIC COMPANY

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information provided in this Item 7 should be read in conjunction with LG&E's Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of LG&E and its business strategy, a summary of Net Income and a discussion of certain events related to LG&E's results of operations and financial condition.
- "Results of Operations" provides a summary of LG&E's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal items on LG&E's Statements of Income, comparing 2012 with 2011 and 2011 with 2010.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of LG&E's liquidity position and credit profile. This section also includes a discussion of forecasted sources and uses of cash and rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of LG&E's risk management programs relating to market and credit risk.
- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of LG&E and that require its management to make significant estimates, assumptions and other judgments of matters inherently uncertain.

#### Overview

##### **Introduction**

LG&E, headquartered in Louisville, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy and distribution and sale of natural gas in Kentucky. LG&E and its affiliate, KU, are wholly owned subsidiaries of LKE. LKE, a holding company, became a wholly owned subsidiary of PPL when PPL acquired all of LKE's interests from E.ON US Investments Corp. on November 1, 2010. Following the acquisition, both LG&E and KU continue operating as subsidiaries of LKE, which is now an intermediary holding company in PPL's group of companies. Refer to "Item 1. Business - Background" for a description of LG&E's business.

##### **Business Strategy**

LG&E's overall strategy is to provide reliable, safe, competitively priced energy to its customers and reasonable returns on regulated investments to its shareowner.

A key objective for LG&E is to maintain a strong credit profile through managing financing costs and access to credit markets. LG&E continually focuses on maintaining an appropriate capital structure and liquidity position.

##### **Successor and Predecessor Financial Presentation**

LG&E's Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010 and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, and the cost bases 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 periods are not comparable to the Predecessor periods; however, the core operations of LG&E have not changed as a result of the acquisition.

## Financial and Operational Developments

### Net Income

Net Income for 2012, 2011 and 2010 was \$123 million, \$124 million and \$128 million. Earnings in 2012 decreased 1% from 2011 and earnings in 2011 decreased 3% from 2010.

See "Results of Operations" for a discussion and analysis of LG&E's earnings.

### Rate Case Proceedings

In June 2012, LG&E filed a request with the KPSC for an increase in annual base electric rates of approximately \$62 million and an increase in annual base gas rates of approximately \$17 million. In November 2012, LG&E along with all of the parties filed a unanimous settlement agreement. Among other things, the settlement provided for increases in annual base electric rates of \$34 million and an increase in annual base gas rates of \$15 million. The settlement agreement also included revised depreciation rates that result in reduced annual electric depreciation expense of approximately \$9 million. The settlement agreement included an authorized return on equity of 10.25%. On December 20, 2012, the KPSC issued an order approving the provisions in the settlement agreement. The new rates became effective on January 1, 2013. In addition to the increased base rates, the KPSC approved a gas line tracker mechanism to provide for recovery of costs associated with LG&E's gas main replacement program, gas service lines and risers.

### Commercial Paper

In February 2012, LG&E established a commercial paper program for up to \$250 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by LG&E's Syndicated Credit Facility. At December 31, 2012, LG&E had \$55 million of commercial paper outstanding.

### Terminated Bluegrass CTs Acquisition

In September 2011, LG&E and KU entered into an asset purchase agreement with Bluegrass Generation for the purchase of the Bluegrass CTs, aggregating approximately 495 MW, plus limited associated contractual arrangements required for operation of the units, for a purchase price of \$110 million, pending receipt of applicable regulatory approvals. In May 2012, the KPSC issued an order approving the request to purchase the Bluegrass CTs. In November 2011, LG&E and KU filed an application with the FERC under the Federal Power Act requesting approval to purchase the Bluegrass CTs. In May 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to approval by the FERC of satisfactory mitigation measures to address market-power concerns. After a review of potentially available mitigation options, LG&E and KU determined that the options were not commercially justifiable. In June 2012, LG&E and KU terminated the asset purchase agreement for the Bluegrass CTs in accordance with its terms and made applicable filings with the KPSC and FERC.

### Cane Run Unit 7 Construction

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build Cane Run Unit 7. In May 2012, the KPSC issued an order approving the request. LG&E will own a 22% undivided interest and KU will own a 78% undivided interest in the new generating unit. A formal request for recovery of the costs associated with the construction was not included in the CPCN filing with the KPSC but is expected to be included in future rate case proceedings. LG&E and KU commenced preliminary construction activities in the third quarter of 2012 and project construction is expected to be completed by May 2015. The project, which includes building a natural gas supply pipeline and related transmission projects, has an estimated cost of approximately \$600 million.

In conjunction with this construction and to meet new, more stringent EPA regulations with a 2015 compliance date, LG&E anticipates retiring three older coal-fired electric generating units at the Cane Run plant, which have a combined summer capacity rating of 563 MW.

### Future Capacity Needs

In addition to the construction of a combined cycle gas unit at the Cane Run station, LG&E and KU continue to assess future capacity needs. As a part of the assessment, LG&E and KU issued an RFP in September 2012 for up to 700 MW of capacity beginning as early as 2015.

## Results of Operations

As previously noted, LG&E's results for the periods after October 31, 2010 are on a basis of accounting different from its results for periods prior to November 1, 2010. See "Overview - Successor and Predecessor Financial Presentation" for further information.

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

The following table summarizes the significant components of net income for 2012, 2011 and 2010 and the changes therein:

### Earnings

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Net Income	\$ 123	\$ 124	\$ 19	\$ 109

The changes in the components of Net Income between these periods were due to the following factors, which reflect reclassifications for items included in Margins and certain items that management considers special.

	2012 vs. 2011	2011 vs. 2010
Margins	\$ 3	\$ 39
Other operation and maintenance	3	(10)
Depreciation	(4)	(13)
Taxes, other than income	(5)	(5)
Other Income (Expense) - net	(1)	(16)
Other	4	(1)
Special items, after-tax	(1)	2
Total	<u>\$ (1)</u>	<u>\$ (4)</u>

The net unrealized gains (losses) on contracts that economically hedge anticipated cash flows are considered special items by management. There were no unrealized gains (losses) in 2012.

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Margins.
- Higher other operation and maintenance in 2011 compared with 2010 primarily due to higher distribution maintenance costs of \$8 million due to amortization of storm restoration related costs and a hazardous tree removal project initiated in August 2010.
- Higher depreciation in 2011 compared with 2010 primarily due to TC2 commencing dispatch in January 2011.
- Lower other income (expense) - net in 2011 compared with 2010 primarily due to \$19 million of other income from the establishment of a regulatory asset in 2010 for previously recorded losses on interest rate swaps.

### 2013 Outlook

Excluding special items, LG&E projects higher earnings in 2013 compared with 2012, primarily driven by electric and gas base rate increases effective January 1, 2013, returns on additional environmental capital investments and retail load growth, partially offset by higher operation and maintenance.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7 and Notes 6 and 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.



## Statement of Income Analysis –

### Margins

#### Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margins." Margins 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 analyze and to report on the results of their operations. Margins is a single financial performance measure of LG&E's electricity generation, transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, fuel and energy purchases are deducted from revenues. In addition, utility revenues and expenses associated with approved cost recovery mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments primarily associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" and "Depreciation." As a result, this measure represents the net revenues from LG&E's operations. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared with budget.

#### Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margins" as defined by LG&E for 2012, 2011 and 2010.

	2012 Successor			2011 Successor		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,324		\$ 1,324	\$ 1,363	\$ 1	\$ 1,364
Operating Expenses						
Fuel	374		374	350		350
Energy purchases	175		175	245		245
Other operation and maintenance	45	\$ 318	363	42	321	363
Depreciation	3	149	152	2	145	147
Taxes, other than income		23	23		18	18
Total Operating Expenses	597	490	1,087	639	484	1,123
Total	\$ 727	\$ (490)	\$ 237	\$ 724	\$ (483)	\$ 241

	Successor			Predecessor		
	Two Months Ended December 31, 2010			Ten Months Ended October 31, 2010		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 255	\$ (1)	\$ 254	\$ 1,057		\$ 1,057
Operating Expenses						
Fuel	60		60	306		306
Energy purchases	63		63	155		155
Other operation and maintenance	9	58	67	28	\$ 253	281
Depreciation		23	23	6	109	115
Taxes, other than income		1	1		12	12
Total Operating Expenses	132	82	214	495	374	869
Total	\$ 123	\$ (83)	\$ 40	\$ 562	\$ (374)	\$ 188

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

#### Changes in Non-GAAP Financial Measures

Margins increased by \$3 million for 2012 compared with 2011, primarily due to \$9 million of higher retail margins as a result of new environmental investments. This increase was partially offset by lower wholesale margins of \$6 million as volumes were impacted by lower market prices. Retail volumes were consistent with the prior year as increased industrial sales offset declines associated with unseasonably mild weather during the first four months of 2012. Total heating degree days decreased 13% compared to 2011, partially offset by a 7% increase in cooling degree days.

Margins increased by \$39 million for 2011 compared with 2010. New KPSC rates went into effect on August 1, 2010, contributing to an additional \$48 million in operating revenue over the prior year. Partially offsetting the rate increase were lower retail volumes resulting from weather and economic conditions.

## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Administrative and general (a)	\$ (5)	\$ 4
Distribution maintenance (b)	(1)	8
Fuel for generation (c)		5
Coal plant maintenance (d)	2	(5)
Other	4	3
<b>Total</b>	<u>\$ 4</u>	<u>\$ 15</u>

- (a) Administrative and general costs decreased in 2012 compared with 2011 primarily due to a decrease in pension expense resulting from pension funding and lower interest cost.
- (b) Distribution maintenance costs increased in 2011 compared with 2010 primarily due to amortization of storm restoration-related costs, a hazardous tree removal project initiated in August 2010 and an increase in pipeline integrity work.
- (c) Fuel handling costs are included in other operation and maintenance on the Statements of Income for the Successor periods and are in fuel on the Statement of Income for the Predecessor period.
- (d) Coal plant maintenance costs increased in 2012 compared with 2011 primarily due to an increased scope of scheduled outages.

Coal plant maintenance costs decreased in 2011 compared with 2010 primarily due to the timing of scheduled maintenance outages and non-outage boiler maintenance.

## Depreciation

Depreciation increased by \$5 million in 2012 compared with 2011 due to PP&E additions.

Depreciation increased by \$9 million in 2011 compared with 2010 primarily due to TC2 commencing dispatch in January 2011.

## Taxes, Other Than Income

Taxes, other than income increased by \$5 million in 2012 compared with 2011 due in part to a \$2 million increase in property taxes resulting from property additions, higher assessed values and changes in property classifications to categories with higher tax rates.

Taxes, other than income increased by \$5 million in 2011 compared with 2010 primarily due to a \$4 million state coal tax credit that was applied to 2010 property taxes. The remaining increase was due to higher assessments, primarily from significant property additions.

## Other Income (Expense) - net

Other income (expense) - net decreased by \$16 million in 2011 compared with 2010 primarily due to \$19 million of other income from the establishment of a regulatory asset for previously recorded losses on interest rate swaps in 2010.

## Interest Expense

The increase (decrease) in interest expense was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
Interest rates (a)	\$ (2)	\$ (7)
Long-term debt balances (b)		2
Other		3
<b>Total</b>	<u>\$ (2)</u>	<u>\$ (2)</u>

- (a) Interest expense decreased in 2011 compared with 2010 due to lower interest rates on first mortgage bonds issued in November 2010 compared with the rates on the loans from E.ON AG affiliates that were in place through October 2010.
- (b) Interest expense increased in 2011 compared with 2010 due to lower long-term debt balances for the first ten months of 2010.

## Financial Condition

### Liquidity and Capital Resources

LG&E expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents and its credit facilities, including commercial paper issuances. Additionally, subject to market conditions, LG&E currently plans to access capital markets in 2013.

LG&E'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:

- changes in commodity prices that may increase the cost of producing or purchasing power or decrease the amount LG&E receives from selling power;
- operational and credit risks associated with selling and marketing products in the wholesale power markets;
- unusual or extreme weather that may damage LG&E's transmission and distribution facilities or affect energy sales to customers;
- reliance on transmission facilities that LG&E does not own or control to deliver its electricity and natural gas;
- 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;
- the ability to recover and the timeliness and adequacy of recovery of costs associated with regulated utility businesses;
- costs of compliance with existing and new environmental laws;
- any adverse outcome of legal proceedings and investigations with respect to LG&E'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 LG&E's credit ratings that could adversely affect its ability to access capital and increase the cost of credit facilities and any new debt.

See "Item 1A. Risk Factors" for further discussion of risks and uncertainties affecting LG&E's cash flows.

At December 31, LG&E had the following:

	2012	2011	2010
Cash and cash equivalents	\$ 22	\$ 25	\$ 2
Short-term investments (a)			163
	\$ 22	\$ 25	\$ 165
Short-term debt (b)			\$ 163

- (a) Represents tax-exempt bonds issued by Louisville/Jefferson County, Kentucky, on behalf of LG&E that were purchased from the remarketing agent in 2008. Such bonds were remarketed to unaffiliated investors in January 2011. See Note 7 to the Financial Statements for additional information.
- (b) Borrowings in 2012 were made under LG&E's commercial paper program and borrowings in 2010 were made under LG&E's syndicated credit facility. See Note 7 to the Financial Statements for additional information.

The changes in LG&E's cash and cash equivalents position resulted from:

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Net cash provided by (used in) operating activities	\$ 308	\$ 325	\$ (8)	\$ 189
Net cash provided by (used in) investing activities	(289)	(42)	(63)	(107)
Net cash provided by (used in) financing activities	(22)	(260)	69	(83)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (3)	\$ 23	\$ (2)	\$ (1)

### Operating Activities

Net cash provided by operating activities decreased by 5%, or \$17 million, in 2012 compared with 2011, primarily as a result of:

- Working capital cash flow changes declined by \$65 million driven primarily by changes in receivables and unbilled revenues due to milder December weather in 2011 than in 2012 and 2010, and lower inventory levels in 2011 as compared with 2010 driven by lower gas prices.
- The decline was offset by \$44 million increase in other operating cash flows driven by \$43 million reduction in pension funding.

Net cash provided by operating activities increased by 80%, or \$144 million, in 2011 compared with 2010, primarily as a result of:

- a decrease in working capital related to accounts receivable and unbilled revenues of \$86 million primarily due to the timing of cash receipts and colder weather in December 2010 as compared with December 2009 and milder weather in December 2011 as compared with December 2010;
- an increase in net income adjusted for non-cash effects of \$34 million (the recording of a regulatory asset for previously recorded losses on interest rate swaps of \$22 million, deferred income taxes and investment tax credits of \$17 million, depreciation of \$9 million, partially offset by unrealized (gains) losses on derivatives of \$14 million, defined benefit plans - expense of \$3 million and other noncash items of \$3 million);
- a decrease in cash outflows of \$32 million due to lower inventory levels in 2011 as compared with 2010 driven by \$21 million due to lower coal burn as a result of unplanned outages at the Mill Creek plant, \$8 million for fuel inventory purchased in 2010 for TC2 that was not used until 2011 when TC2 began dispatch and \$6 million for decreases in gas storage volumes;
- a decrease in cash refunded to customers of \$25 million due to prior period over-recoveries related to the gas supply clause filings in 2009; and
- a decrease in cash outflows related to accrued taxes of \$22 million due to the timing of payments of accrued tax liabilities in 2011 and 2010; partially offset by
- an increase in discretionary defined benefit plan contributions of \$44 million made in order to achieve LG&E's long-term funding requirements; and
- an increase in working capital related to accounts payable of \$41 million, which was driven primarily by the timing of cash payments and a decrease in natural gas purchases of \$18 million in 2011 as compared with 2010 due to a decrease in combustion turbine generation as a result of the dispatch of TC2 beginning in January 2011.

### Investing Activities

Net cash used in investing activities increased by \$247 million, in 2012 compared with 2011, primarily as a result of:

- a decrease in the proceeds from the sale of other investments of \$163 million in 2011; and
- an increase in capital expenditures of \$90 million due primarily to construction of Cane Run Unit 7 and Mill Creek environmental air projects.

Net cash used in investing activities decreased by 75%, or \$128 million, in 2011 compared with 2010, as a result of:

- proceeds from the sale of other investments of \$163 million in 2011; and
- a decrease in capital expenditures of \$24 million due primarily to TC2 being dispatched in 2011; partially offset by
- proceeds from the sale of assets of \$48 million in 2010; and
- a decrease in restricted cash of \$11 million.

See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2013 through 2017.

### Financing Activities

Net cash used in financing activities was \$22 million, in 2012 compared with \$260 million in 2011, primarily as a result of changes in short-term debt.

In 2012, cash used in financing activities consisted of:

- the payment of common stock dividends to LKE of \$75 million; partially offset by
- the issuance of short-term debt in the form of commercial paper of \$55 million.

Net cash used in financing activities was \$260 million, in 2011 compared with \$14 million in 2010, primarily as a result of changes in short-term debt.

In 2011, cash used in financing activities consisted of:

- a repayment on a revolving line of credit of \$163 million;
- the payment of common stock dividends to LKE of \$83 million;
- a net decrease in notes payable with affiliates of \$12 million; and
- the payment of debt issuance and credit facility costs of \$2 million.

In the two months of 2010 following PPL's acquisition of LKE, cash provided by financing activities of the Successor consisted of:

- the issuance of first mortgage bonds of \$531 million after discounts;
- the issuance of debt of \$485 million to a PPL affiliate to repay debt due to an E.ON AG affiliate upon the closing of PPL's acquisition of LKE; and
- a draw on a revolving line of credit of \$163 million; partially offset by
- the repayment of debt to an E.ON AG affiliate of \$485 million upon the closing of PPL's acquisition of LKE;
- the repayment of debt to a PPL affiliate of \$485 million upon the issuance of first mortgage bonds;
- a net decrease in notes payable with affiliates of \$130 million; and
- the payment of debt issuance and credit facility costs of \$10 million.

In the ten months of 2010 preceding PPL's acquisition of LKE, cash used in financing activities by the Predecessor consisted of:

- the payment of common stock dividends to LKE of \$55 million and
- a net decrease in notes payable with affiliates of \$28 million.

See "Forecasted Sources of Cash" for a discussion of LG&E's plans to issue debt securities, as well as a discussion of credit facility capacity available to LG&E. Also see "Forecasted Uses of Cash" for a discussion of plans to pay dividends on common securities in the future, as well as maturities of long-term debt.

LG&E had no long-term debt securities activity during the year.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

#### Auction Rate Securities

At December 31, 2012, LG&E's tax-exempt revenue bonds that are in the form of auction rate securities and total \$135 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the period ended December 31, 2012, the weighted-average rate on LG&E's auction rate bonds in total was 0.20%.

#### Forecasted Sources of Cash

LG&E expects to continue to have sufficient sources of cash available in the near term, including various credit facilities, its commercial paper program, issuance of debt securities and operating cash flow.

## Credit Facilities

At December 31, 2012, LG&E's total committed borrowing capacity under its Syndicated Credit Facility and the use of this borrowing capacity were:

	Capacity	Commercial Paper Issued	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a) (b) (c)	\$ 500	\$ 55		\$ 445

- (a) The commitments under LG&E's Syndicated Credit Facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 6% of the total committed capacity available to LG&E.
- (b) In November 2012, LG&E amended the Syndicated Credit Facility to extend the expiration date to November 2017. In addition, LG&E increased the credit facility capacity to \$500 million.
- (c) LG&E pays customary fees under its syndicated credit facility, and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At December 31, 2012, there was no balance outstanding.

See Note 7 to the Financial Statements for further discussion of LG&E's credit facilities.

## Operating Leases

LG&E also has available funding sources that are provided through operating leases. LG&E leases office space, gas storage and certain equipment. These leasing structures provide LG&E additional operating and financing flexibility. The operating leases contain covenants that are typical for these agreements, such as maintaining insurance, maintaining corporate existence and timely payment of rent and other fees.

See Note 11 to the Financial Statements for further discussion of the operating leases.

## Capital Contributions from LKE

From time to time LKE may make capital contributions to LG&E. LG&E may use these contributions to fund capital expenditures and for other general corporate purposes.

## Long-term Debt Securities

LG&E currently plans to issue, subject to market conditions, up to \$350 million of first mortgage bond indebtedness in 2013, the proceeds of which will be used to fund capital expenditures and for other general corporate purposes.

## Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, LG&E currently expects to incur future cash outflows for capital expenditures, various contractual obligations, payment of dividends on its common stock and possibly the purchase or redemption of a portion of debt securities.

## Capital Expenditures

The table below shows LG&E's current capital expenditure projections for the years 2013 through 2017.

	Projected				
	2013	2014	2015	2016	2017
Capital expenditures (a)					
Generating facilities	\$ 138	\$ 111	\$ 131	\$ 225	\$ 232
Distribution facilities	144	140	166	165	174
Transmission facilities	59	31	19	16	16
Environmental	324	336	249	186	42
Other	22	22	20	23	19
Total Capital Expenditures	<u>\$ 687</u>	<u>\$ 640</u>	<u>\$ 585</u>	<u>\$ 615</u>	<u>\$ 483</u>

- (a) LG&E generally expects to recover these costs over a period equivalent to the related depreciable lives of the assets through rates. The 2013 total excludes amounts included in accounts payable as of December 31, 2012.

LG&E's capital expenditure projections for the years 2013 through 2017 total approximately \$3.0 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes current estimates for LG&E's environmental projects related to existing and proposed EPA compliance standards. Actual costs may be significantly lower or higher depending on the final requirements and market conditions. Environmental compliance costs incurred by LG&E in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism.

LG&E plans to fund its capital expenditures in 2013 with cash on hand, cash from operations, short-term debt and issuance of debt securities.

#### Contractual Obligations

LG&E has assumed various financial obligations and commitments in the ordinary course of conducting its business. At December 31, 2012, the estimated contractual cash obligations of LG&E were:

	Total	2013	2014 - 2015	2016 - 2017	After 2017
Long-term Debt (a)	\$ 1,109		\$ 250		\$ 859
Interest on Long-term Debt (b)	839	\$ 37	70	\$ 66	666
Operating Leases (c)	35	5	11	5	14
Coal and Natural Gas Purchase Obligations (d)	1,512	378	697	345	92
Unconditional Power Purchase Obligations (e)	719	21	42	44	612
Construction Obligations (f)	735	382	273	80	
Pension Benefit Plan Obligations (g)	42	42			
Other Obligations (h)	8	2	4	2	
<b>Total Contractual Cash Obligations</b>	<b>\$ 4,999</b>	<b>\$ 867</b>	<b>\$ 1,347</b>	<b>\$ 542</b>	<b>\$ 2,243</b>

- (a) Reflects principal maturities only based on stated maturity dates. See Note 7 to the Financial Statements for a discussion of variable-rate remarketable bonds issued on behalf of LG&E. LG&E has no capital lease obligations.
- (b) Assumes interest payments through stated maturity. The payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated.
- (c) See Note 11 to the Financial Statements for additional information.
- (d) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 15 to the Financial Statements for additional information.
- (e) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 15 to the Financial Statements for additional information.
- (f) Represents construction commitments, including commitments for the Mill Creek environmental air projects, Cane Run Unit 7 and Ohio Falls refurbishment which are also reflected in the Capital Expenditures table presented above.
- (g) Based on the current funded status of LG&E's qualified pension plan and LKE's qualified pension plan, which covers LG&E employees, no cash contributions are required. See Note 13 to the Financial Statements for a discussion of expected contributions.
- (h) Represents other contractual obligations.

#### Dividends

From time to time, as determined by its Board of Directors, LG&E pays dividends to its sole shareholder, LKE.

As discussed in Note 7 to the Financial Statements, LG&E's ability to pay dividends is limited under a covenant in its \$500 million revolving line of credit facility. This covenant restricts the debt to total capital ratio to not more than 70%. See Note 7 to the Financial Statements for other restrictions related to distributions on capital interests for LG&E.

#### Purchase or Redemption of Debt Securities

LG&E will continue to evaluate purchasing or redeeming outstanding debt securities and may decide to take action depending upon prevailing market conditions and available cash.

#### Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of LG&E. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of LG&E are based on information provided by LG&E and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of LG&E. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of LG&E affect its liquidity, access to capital markets and cost of borrowing under its credit facilities.

The following table sets forth LG&E's security credit ratings as of December 31, 2012.

Issuer	Senior Unsecured			Senior Secured			Commercial Paper		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Fitch
LG&E			A	A2	A-	A+	P-2	A-2	F-2

In addition to the credit ratings noted above, the rating agencies took the following actions related to LG&E:

In February 2012, Fitch assigned ratings to LG&E's newly established commercial paper program.

In March 2012, Moody's affirmed the following ratings:

- the long-term ratings of the First Mortgage Bonds for LG&E;
- the issuer ratings for LG&E; and
- the bank loan ratings for LG&E.

Also in March 2012, Moody's and S&P each assigned short-term ratings to LG&E's newly established commercial paper program.

In March and May 2012, Moody's, S&P and Fitch affirmed the long-term ratings for LG&E's 2003 Series A and 2007 Series B pollution control bonds.

In November 2012, Moody's and S&P affirmed the long-term ratings for LG&E's 2007 Series A pollution control bonds.

In December 2012, Fitch affirmed the issuer default ratings, individual security ratings and outlook for LG&E.

#### Ratings Triggers

LG&E has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, commodity transportation and storage and interest rate instruments, which contain provisions requiring LG&E to post additional collateral, or permitting the counterparty to terminate the contract, if LG&E's credit rating were to fall below investment grade. See Note 19 to the 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, 2012. At December 31, 2012, if LG&E's credit ratings had been below investment grade, the maximum amount that LG&E would have been required to post as additional collateral to counterparties was \$57 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation and marketing operations, gas supply and interest rate contracts.

#### **Off-Balance Sheet Arrangements**

LG&E has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

#### **Risk Management**

##### Market Risk

See Notes 1, 18 and 19 to the Financial Statements for information about LG&E's risk management objectives, valuation techniques and accounting designations.



The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

#### Commodity Price Risk (Non-trading)

LG&E's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E is subject to commodity price risk for only a small portion of on-going business operations. LG&E sells excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 19 to the Financial Statements for additional disclosures.

The balance and change in net fair value of LG&E's commodity derivative contracts for the periods ended December 31, 2012, 2011 and 2010 are shown in the table below.

	Gains (Losses)			Predecessor Ten Months Ended October 31, 2010
	Successor		Two Months Ended December 31, 2010	
	Year Ended December 31, 2012	Year Ended December 31, 2011		
Fair value of contracts outstanding at the beginning of the period		\$ (1)		
Contracts realized or otherwise settled during the period		(3)		\$ 3
Fair value of new contracts entered into during the period				(4)
Other changes in fair value (a)		4	\$ (1)	1
Fair value of contracts outstanding at the end of the period		\$	\$ (1)	\$

(a) Represents the change in value of outstanding transactions and the value of transactions entered into and settled during the period.

#### Interest Rate Risk

LG&E issues debt to finance its operations, which exposes it to interest rate risk. LG&E utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under LG&E's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of LG&E's debt portfolio due to changes in the absolute level of interest rates.

At December 31, 2012 and 2011, LG&E's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

LG&E is also exposed to changes in the fair value of its debt portfolio. LG&E estimated that a 10% decrease in interest rates at December 31, 2012, would increase the fair value of its debt portfolio by \$27 million. This estimate is unchanged from December 31, 2011.

LG&E had the following interest rate hedges outstanding at:

	December 31, 2012			December 31, 2011		
	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates
Economic hedges						
Interest rate swaps (b)	\$ 179	\$ (58)	\$ (3)	\$ 179	\$ (60)	\$ (4)
Cash flow hedges						
Interest rate swaps (b)	150	7	(9)			

(a) Includes accrued interest.

(b) LG&E utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While LG&E is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such economic and cash flow hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at December 31, 2012 mature through 2043.

## Credit Risk

LG&E is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. LG&E 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. LG&E is exposed to potential losses as a result of nonpayment by customers. LG&E maintains an allowance for doubtful accounts based on a historical charge-off percentage for retail customers. Allowances for doubtful accounts from wholesale customers and miscellaneous receivables are based on specific identification by management. Retail and wholesale customer accounts are written-off after four months of no payment activity. Miscellaneous receivables are written-off as management determines them to be uncollectible.

Certain of LG&E's derivative instruments contain provisions that require it to provide immediate and on-going collateralization of derivative instruments in net liability positions based upon LG&E's credit ratings from each of the major credit rating agencies. See Notes 18 and 19 to the Financial Statements for information regarding exposure and the risk management activities.

## **Related Party Transactions**

LG&E is not aware of any material ownership interest or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with LG&E. See Note 16 to the Financial Statements for additional information on related party transactions.

## **Environmental Matters**

Protection of the environment is a major priority for LG&E and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to LG&E'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 expenditures 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 for their products or their demand for LG&E's services.

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to LG&E's generation assets and electricity transmission and distribution systems, as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where LG&E has hydro generating facilities or where river water is used to cool its fossil powered generators. LG&E cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

See "Item 1. Business - Environmental Matters" and Note 15 to the Financial Statements for a discussion of environmental matters.

## New Accounting Guidance

See Notes 1 and 24 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

## Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). LG&E's senior management has reviewed these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them, with PPL's Audit Committee.

## Revenue Recognition - Unbilled Revenue

Revenues related to the sale of energy are recorded when service is rendered or when energy is delivered to customers. Because customers of LG&E's retail operations are billed on cycles which vary based on the timing of the actual reading of their electric and gas meters, LG&E records estimates for unbilled revenues at the end of each reporting period. Such unbilled revenue amounts reflect estimates of the amount of electricity and gas delivered to customers since the date of the last reading of their meters. The unbilled revenues reflect consideration of estimated usage by customer class, the effect of different rate schedules, changes in weather and where applicable, the impact of weather normalization or other regulatory provisions of rate structures. In addition to the unbilled revenue accrual resulting from cycle billing, LG&E makes additional accruals resulting from the timing of customer bills. The accrual of unbilled revenues in this manner properly matches revenues and related costs. At December 31, 2012 and 2011, LG&E had unbilled revenue balances of \$72 million and \$65 million.

## Defined Benefits

LG&E sponsors and participates in qualified funded defined benefit pension plans and participates in a funded other postretirement benefit plan. These plans are applicable to the majority of the employees of LG&E. The plans LG&E participates in are sponsored by LKE. LKE allocates a portion of the liability and net periodic defined benefit pension and other postretirement costs of certain plans to LG&E based on its participation. LG&E records an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

Certain assumptions are made by LKE and LG&E regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. These amounts in regulatory assets and liabilities are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- **Discount Rate** - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.
- **Expected Long-term Return on Plan Assets** - Management projects the long-term rates of return on plan assets based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. These projected returns reduce the net benefit costs LG&E records currently.
- **Rate of Compensation Increase** - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.
- **Health Care Cost Trend Rate** - Management projects the expected increases in the cost of health care.

In selecting a discount rate for their defined benefit plans LKE and LG&E start with a cash flow analysis of the expected benefit payment stream for their plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Individual bonds are then selected based on the timing of each plan's cash flows and parameters are established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed. At December 31, 2012, LKE decreased the discount rate for its pension plan from 5.12% to 4.26%. LG&E decreased the discount rate for its pension plan from 5.05% to 4.20%. LKE decreased the discount rate for its other postretirement benefit plan from 4.78% to 3.99%.

The expected long-term rates of return for LKE's and LG&E's defined benefit pension plans and LKE's defined other postretirement benefit plan have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. LKE and LG&E management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption. At December 31, 2012, LKE's and LG&E's expected return on plan assets decreased from 7.25% to 7.10%.

In selecting a rate of compensation increase, LKE and LG&E consider past experience in light of movements in inflation rates. At December 31, 2012, LKE's and LG&E's rate of compensation increase remained at 4.00%.

In selecting health care cost trend rates, LKE considers past performance and forecasts of health care costs. At December 31, 2012, LKE's health care cost trend rates were 8.00% for 2013, gradually declining to 5.50% for 2019.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and regulatory assets and liabilities for LG&E. While the charts below reflect either an increase or decrease in each assumption, the inverse of the change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and regulatory assets and liabilities for LG&E by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

At December 31, 2012, the defined benefit plans were recorded as follows:

Pension liabilities	\$	102
Other postretirement benefit liabilities		81

The following chart reflects the sensitivities in the December 31, 2012 Balance Sheet associated with a change in certain assumptions based on LG&E's primary defined benefit plans.

Actuarial assumption	Increase (Decrease)		
	Change in assumption	Impact on defined benefit liabilities	Impact on regulatory assets
Discount Rate	(0.25)%	\$ 21	\$ 21
Rate of Compensation Increase	0.25%	2	2
Health Care Cost Trend Rate (a)	1%	1	1

(a) Only impacts other postretirement benefits.

In 2012, LG&E recognized net periodic defined benefit costs charged to operating expense of \$18 million. This amount represents a \$3 million decrease from 2011. This decrease in expense for 2012 was primarily attributable to the increase in the expected return on plan assets resulting from pension contributions of \$21 million, a reduction in the amortization of outstanding losses and lower interest cost.

The following chart reflects the sensitivities in the 2012 Statement of Income (excluding income tax effects) associated with a change in certain assumptions based on LG&E's primary defined benefit plans.

Actuarial assumption	Change in assumption	Impact on defined benefit costs
Discount Rate	(0.25)%	\$ 2
Expected Return on Plan Assets	(0.25)%	1
Rate of Compensation Increase	0.25%	
Health Care Cost Trend Rate (a)	1%	

(a) Only impacts other postretirement benefits.

## Asset Impairment (Excluding Investments)

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying amount may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

- a significant decrease in the market price of an asset;
- a significant adverse change in the extent or 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; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For a long-lived asset classified as held and used, 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 amount 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. Alternate courses of action are considered to recover the carrying amount of a long-lived asset, and estimated cash flows from the "most likely" alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in significantly different results than those identified and recorded in the financial statements.

For a long-lived asset classified as held for sale, impairment exists when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If the asset (disposal group) is impaired, an impairment loss is recorded to adjust the carrying amount to its fair value less cost to sell. A gain is recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative impairment previously recognized.

For determining fair value, quoted market prices in active markets are the best evidence. However, when market prices are unavailable, LG&E considers all valuation techniques appropriate under the circumstances and for which market participant inputs can be obtained. Generally discounted cash flows are used to estimate fair value, which incorporates market participant inputs when available. Discounted cash flows are calculated by estimating future cash flow streams and applying appropriate discount rates to determine the present value of the cash flow streams.

In 2012, LG&E did not recognize an impairment of any long-lived assets.

Goodwill is tested for impairment at the reporting unit level. LG&E's reporting unit has been determined to be at the operating segment level. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit may be greater than the unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

Beginning in 2012, LG&E may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative assessment and directly test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not the fair value of the reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if LG&E concludes it is more likely than not the fair value of the reporting unit is less than the carrying amount based on the step zero assessment.

When the two-step quantitative impairment test is elected or required as a result of the step zero assessment, in step one, LG&E identifies a potential impairment by comparing the estimated fair value of LG&E (the goodwill reporting unit) with its carrying amount, 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 of the quantitative test requires a calculation of the implied fair value of goodwill, which 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 LG&E's assets and liabilities as if LG&E had been acquired in a business combination and the estimated fair value of LG&E was the price paid. The excess of the estimated fair value of LG&E over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of LG&E's 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 LG&E's goodwill.

LG&E elected to perform the two-step quantitative impairment test of goodwill in the fourth quarter of 2012 and no impairment was recognized. Management used both discounted cash flows and market multiples, which required significant assumptions, to estimate the fair value of LG&E. Applying an appropriate weighting to both the discounted cash flow and market multiple valuations, a decrease in the forecasted cash flows of 10%, an increase in the discount rate by 25 basis points, or a 10% decrease in the multiples would not have resulted in an impairment of goodwill.

### **Loss Accruals**

Losses are accrued 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." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

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 management. Internal expertise and outside experts (such as lawyers and engineers) are used, as necessary to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

In 2012, no significant adjustments were made to LG&E's existing contingencies.

Certain other events have been identified 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."

When an estimated loss is accrued, the triggering events for subsequently adjusting the loss accrual are identified, where applicable. The triggering events generally occur when the contingency has been resolved and the actual loss is paid or written off, 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, LG&E makes actual payments, a better estimate of the loss is determined or the loss is no longer considered probable.

Loss accruals are reviewed 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.

See Note 15 to the Financial Statements for additional information.

## Asset Retirement Obligations

LG&E 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. Since costs of removal are collected in rates, the accretion and depreciation are offset with a regulatory credit on the income statement, such that there is no earnings impact. The regulatory asset created by the regulatory credit 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. See Note 21 to the Financial Statements for related disclosures.

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.

At December 31, 2012, LG&E had AROs comprised of current and noncurrent amounts, totaling \$62 million recorded on the Balance Sheet. Of the total amount, \$39 million, or 63%, relates to LG&E's ash ponds, landfills and natural gas mains. 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 LG&E's ARO liabilities for ash ponds, landfills and natural gas mains at December 31, 2012:

	Change In Assumption	Impact on ARO Liability
Retirement Cost	10%	\$ 5
Discount Rate	(0.25)%	1
Inflation Rate	0.25%	5

## Income Taxes

Significant management judgment is required in developing the 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. Tax positions are evaluated 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%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known at the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. 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 in the future.

At December 31, 2012, LG&E'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, derecognition 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 limitation.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified 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 to account for an uncertain tax position. See Note 5 to the Financial Statements for related disclosures.

### **Regulatory Assets and Liabilities**

LG&E is a cost-based rate-regulated utility. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and 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 and the KPSC.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, then asset write-off would be required to be recognized in operating income. Additionally, the regulatory agencies can provide flexibility in the manner and timing of the depreciation of PP&E and amortization of regulatory assets.

At December 31, 2012, LG&E had regulatory assets of \$419 million and regulatory liabilities of \$475 million. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

See Note 6 to the Financial Statements for additional information on regulatory assets and liabilities.

### **Other Information**

PPL's Audit Committee has approved the independent auditor to provide audit, tax and other services permitted by Sarbanes-Oxley and SEC rules. The audit services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews. See "Item 14. Principal Accounting Fees and Services" for more information.



## KENTUCKY UTILITIES COMPANY

### Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations

The information provided in this Item 7 should be read in conjunction with KU's Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of KU and its business strategy, a summary of Net Income and a discussion of certain events related to KU's results of operations and financial condition.
- "Results of Operations" provides a summary of KU's earnings and a description of key factors expected to impact future earnings. This section ends with explanations of significant changes in principal items on KU's Statements of Income, comparing 2012 with 2011 and 2011 with 2010.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of KU's liquidity position and credit profile. This section also includes a discussion of forecasted sources and uses of cash and rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of KU's risk management programs relating to market and credit risk.
- "Application of Critical Accounting Policies" 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 of matters inherently uncertain.

### Overview

#### **Introduction**

KU, headquartered in Lexington, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU and its affiliate, LG&E, are wholly owned subsidiaries of LKE. LKE, a holding company, became a wholly owned subsidiary of PPL when PPL acquired all of LKE's interests from E.ON US Investments Corp. on November 1, 2010. Following the acquisition, both KU and LG&E continue operating as subsidiaries of LKE, which is now an intermediary holding company in PPL's group of companies. Refer to "Item 1. Business - Background" for a description of KU's business.

#### **Business Strategy**

KU's overall strategy is to provide reliable, safe, competitively priced energy to its customers and reasonable returns on regulated investments to its shareowner.

A key objective for KU is to maintain a strong credit profile through managing financing costs and access to credit markets. KU continually focuses on maintaining an appropriate capital structure and liquidity position.

#### **Successor and Predecessor Financial Presentation**

KU's Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010 and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, and the cost bases 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 periods are not comparable to the Predecessor periods; however, the core operations of KU have not changed as a result of the acquisition.

## Financial and Operational Developments

### Net Income

Net Income for 2012, 2011 and 2010 was \$137 million, \$178 million and \$175 million. Earnings in 2012 decreased 23% from 2011 and earnings in 2011 increased 2% from 2010.

See "Results of Operations" for a discussion and analysis of KU's earnings.

### Rate Case Proceedings

In June 2012, KU filed a request with the KPSC for an increase in annual base electric rates of approximately \$82 million. In November 2012, KU along with all of the parties filed a unanimous settlement agreement. Among other things, the settlement provided for increases in annual base electric rates of \$51 million. The settlement agreement also included revised depreciation rates that result in reduced annual depreciation expense of approximately \$10 million. The settlement agreement included an authorized return on equity of 10.25%. On December 20, 2012, the KPSC issued an order approving the provisions in the settlement agreement. The new rates became effective on January 1, 2013.

### Equity Method Investment

KU owns 20% of the common stock of EEI. Through a power marketer affiliated with its majority owner, EEI sells its output to third parties. KU's investment in EEI is accounted for under the equity method of accounting. KU's direct exposure to loss as a result of its involvement with EEI is generally limited to the value of its investment. During the fourth quarter of 2012, KU concluded that an other-than-temporary decline in the value of its investment in EEI had occurred. Accordingly, KU recorded a \$15 million impairment charge, net of taxes, related to this investment as of December 31, 2012, bringing the investment balance to zero. The impairment charge is shown in the line "Other-Than-Temporary Impairments" on the Statement of Income for the year ended December 31, 2012.

### Commercial Paper

In February 2012, KU established a commercial paper program for up to \$250 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by KU's Syndicated Credit Facility. At December 31, 2012, KU had \$70 million of commercial paper outstanding.

### Terminated Bluegrass CTs Acquisition

In September 2011, KU and LG&E entered into an asset purchase agreement with Bluegrass Generation for the purchase of the Bluegrass CTs, aggregating approximately 495 MW, plus limited associated contractual arrangements required for operation of the units, for a purchase price of \$110 million, pending receipt of applicable regulatory approvals. In May 2012, the KPSC issued an order approving the request to purchase the Bluegrass CTs. In November 2011, KU and LG&E filed an application with the FERC under the Federal Power Act requesting approval to purchase the Bluegrass CTs. In May 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to approval by the FERC of satisfactory mitigation measures to address market-power concerns. After a review of potentially available mitigation options, KU and LG&E determined that the options were not commercially justifiable. In June 2012, KU and LG&E terminated the asset purchase agreement for the Bluegrass CTs in accordance with its terms and made applicable filings with the KPSC and FERC.

### Cane Run Unit 7 Construction

In September 2011, KU and LG&E filed a CPCN with the KPSC requesting approval to build Cane Run Unit 7. In May 2012, the KPSC issued an order approving the request. KU will own a 78% undivided interest and LG&E will own a 22% undivided interest in the new generating unit. A formal request for recovery of the costs associated with the construction was not included in the CPCN filing with the KPSC but is expected to be included in future rate case proceedings. KU and LG&E commenced preliminary construction activities in the third quarter of 2012 and project construction is expected to be completed by May 2015. The project, which includes building a natural gas supply pipeline and related transmission projects, has an estimated cost of approximately \$600 million.

In conjunction with this construction and to meet new, more stringent EPA regulations with a 2015 compliance date, KU anticipates retiring two older coal-fired electric generating units at the Green River plant, which have a combined summer capacity rating of 163 MW. In addition, KU retired the remaining 71 MW unit at the Tyrone plant in February 2013.

## Future Capacity Needs

In addition to the construction of a combined cycle gas unit at the Cane Run station, KU and LG&E continue to assess future capacity needs. As a part of the assessment, KU and LG&E issued an RFP in September 2012 for up to 700 MW of capacity beginning as early as 2015.

## Results of Operations

As previously noted, KU's results for the periods after October 31, 2010 are on a basis of accounting different from its results for periods prior to November 1, 2010. See "Overview - Successor and Predecessor Financial Presentation" for further information.

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

The following table summarizes the significant components of net income for 2012, 2011 and 2010 and the changes therein:

### Earnings

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Net Income	\$ 137	\$ 178	\$ 35	\$ 140

The changes in the components of Net Income between these periods were due to the following factors, which reflect reclassifications for items included in Margins and certain items that management considers special.

	2012 vs. 2011	2011 vs. 2010
Margins	\$ (10)	\$ 52
Other operation and maintenance	(16)	(12)
Depreciation	(6)	(28)
Taxes, other than income	(4)	(9)
Other Income (Expense) - net	(7)	(2)
Interest Expense	1	8
Income Taxes	16	(6)
Special items, after-tax	(15)	
Total	<u>\$ (41)</u>	<u>\$ 3</u>

As a result of low energy prices and environmental regulations, KU assessed the recoverability of its equity method investment in EEI. KU determined it was impaired, and recorded a \$15 million impairment charge, net of taxes, as of December 31, 2012. This impairment is considered a special item by management.

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Margins.
- Higher other operation and maintenance in 2012 compared with 2011 primarily due to \$8 million of higher coal plant maintenance costs related to an increased scope of scheduled outages and a \$6 million credit to establish a regulatory asset recorded when approved in 2011 related to 2009 storm costs.  
  
Higher other operation and maintenance in 2011 compared with 2010 primarily due to \$19 million of higher coal plant maintenance costs related to an increased scope of scheduled outages and higher variable costs from increased generation due to TC2 commencing dispatch in January 2011. This increase was partially offset by a \$6 million credit to establish a regulatory asset recorded when approved in 2011 related to 2009 storm costs.
- Higher depreciation in 2011 compared with 2010 primarily due to TC2 commencing dispatch in January 2011.

- Lower interest expense in 2011 compared with 2010 primarily due to \$18 million less expense primarily related to lower interest rates on the first mortgage bonds issued in November 2010 compared with the rates on the loans from E.ON AG affiliates in place through October 2010. This decrease was partially offset by \$8 million of higher expense resulting from higher long-term debt balances.
- Lower income taxes in 2012 compared with 2011 primarily due to lower pre-tax income.

### 2013 Outlook

Excluding special items, KU projects higher earnings in 2013 compared with 2012, primarily driven by electric base rate increases effective January 1, 2013, returns on additional environmental capital investments and retail load growth, partially offset by higher operation and maintenance.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7 and Notes 6 and 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.

### Statement of Income Analysis --

#### Margins

#### Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margins." Margins 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 analyze and to report on the results of their operations. Margins is a single financial performance measure of KU's electricity generation, transmission and distribution operations. In calculating this measure, fuel and energy purchases are deducted from revenues. In addition, utility revenues and expenses associated with approved cost recovery mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments primarily associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" and "Depreciation." As a result, this measure represents the net revenues from KU's operations. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared with budget.

#### Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margins" as defined by KU for 2012, 2011 and 2010.

	2012 Successor			2011 Successor		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,524		\$ 1,524	\$ 1,548		\$ 1,548
Operating Expenses						
Fuel	498		498	516		516
Energy purchases	109		109	112		112
Other operation and maintenance	55	\$ 329	384	49	\$ 313	362
Depreciation	49	144	193	48	138	186
Taxes, other than income		23	23		19	19
Total Operating Expenses	711	496	1,207	725	470	1,195
Total	\$ 813	\$ (496)	\$ 317	\$ 823	\$ (470)	\$ 353

	Successor			Predecessor		
	Two Months Ended December 31, 2010			Ten Months Ended October 31, 2010		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 263		\$ 263	\$ 1,248		\$ 1,248
Operating Expenses						
Fuel	78		78	417		417
Energy purchases	28		28	147		147
Other operation and maintenance	6	\$ 59	65	29	\$ 242	271
Depreciation	6	20	26	29	90	119
Taxes, other than income		1	1		9	9
Total Operating Expenses	118	80	198	622	341	963
Total	\$ 145	\$ (80)	\$ 65	\$ 626	\$ (341)	\$ 285

- (a) Represents amounts excluded from Margins.  
(b) As reported on the Statements of Income.

#### Changes in Non-GAAP Financial Measures

Margins decreased by \$10 million for 2012 compared with 2011, primarily due to \$10 million of lower retail margins, as volumes were impacted by unseasonably mild weather during the first four months of 2012. Total heating degree days decreased 9% compared to 2011, partially offset by a 4% increase in cooling degree days.

Margins increased by \$52 million for 2011 compared with 2010. New KPSC rates went into effect on August 1, 2010, contributing to an additional \$64 million in operating revenue over the prior year. Partially offsetting the rate increase were lower retail volumes resulting from weather and economic conditions.

#### **Other Operation and Maintenance**

The increase (decrease) in other operation and maintenance was due to:

	2012 vs. 2011	2011 vs. 2010
Coal plant maintenance (a)	\$ 17	\$ 9
Distribution maintenance (b)	8	
Administrative and general (c)	(5)	7
Fuel for generation (d)		6
Steam operation (e)		10
Other generation maintenance		(2)
Other	2	(4)
Total	\$ 22	\$ 26

- (a) Coal plant maintenance costs increased in 2012 compared with 2011 primarily due to \$8 million of expenses related to an increased scope of scheduled outages, as well as \$5 million of increased maintenance on the scrubber system and primary fuel combustion system at the Ghent plant.

Coal plant maintenance costs increased in 2011 compared with 2010 primarily due to \$8 million of expenses related to an increased scope of scheduled outages.

- (b) Distribution maintenance increased in 2012 compared with 2011 primarily due to a \$6 million credit to establish a regulatory asset recorded when approved in 2011 related to 2009 storm costs.  
(c) Administrative and general costs decreased in 2012 compared with 2011 primarily due to a decrease in pension expense resulting from pension funding and lower interest cost.

Administrative and general costs increased in 2011 compared with 2010 due to higher outside services costs of \$2 million, higher labor costs of \$1 million and higher pension costs of \$1 million.

- (d) Fuel handling costs are included in other operation and maintenance on the Statements of Income for the Successor periods and are in fuel on the Statement of Income for the Predecessor period.  
(e) Steam operation costs increased in 2011 compared with 2010 due to increased generation as a result of TC2 commencing dispatch in 2011.

## Depreciation

The increase (decrease) in depreciation was due to:

	<u>2012 vs. 2011</u>	<u>2011 vs. 2010</u>
TC2 (dispatch began in January 2011)		\$ 25
E.W. Brown sulfur dioxide scrubber equipment (placed in-service in June 2010)		8
Other additions to PP&E	\$ 7	8
Total	<u>\$ 7</u>	<u>\$ 41</u>

## Taxes, Other Than Income

Taxes, other than income increased by \$9 million in 2011 compared with 2010, primarily due to a \$5 million state coal tax credit that was applied to 2010 property taxes. The remaining increase was due to higher assessments, primarily from significant property additions.

## Other Income (Expense) - net

Other income (expense) - net decreased by \$7 million in 2012 compared with 2011 primarily due to \$8 million losses from the EEI investment recorded in 2012.

## Other-Than-Temporary Impairments

Other-than-temporary impairments increased by \$25 million in 2012 compared with 2011 due to the \$25 million pre-tax impairment of the EEI investment. See Notes 1 and 18 to the Financial Statements for additional information.

## Interest Expense

Interest expense decreased by \$8 million in 2011 compared with 2010, primarily due to \$18 million less expense primarily related to lower interest rates on the first mortgage bonds issued in November 2010 compared with the rates on the loans from E.ON AG affiliates in place through October 2010. This decrease was partially offset by \$8 million of higher expense resulting from higher long-term debt balances.

## Income Taxes

Income taxes decreased by \$26 million in 2012 compared with 2011, primarily due to the decrease in pre-tax income.

Income taxes increased by \$6 million in 2011 compared with 2010, primarily due to the increase in pre-tax income.

## Financial Condition

### Liquidity and Capital Resources

KU expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents, its credit facilities and commercial paper issuances. Additionally, subject to market conditions, KU currently plans to access capital markets in 2013.

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:

- changes in commodity prices that may increase the cost of producing or purchasing power or decrease the amount KU receives from selling power;
- 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;
- reliance on transmission facilities that KU does not own or control to deliver its electricity;
- 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;
- the ability to recover and the timeliness and adequacy of recovery of costs associated with regulated utility businesses;
- 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 "Item 1A. Risk Factors" for further discussion of risks and uncertainties affecting KU's cash flows.

At December 31, KU had the following:

	2012	2011	2010
Cash and cash equivalents	\$ 21	\$ 31	\$ 3
Short-term debt (a)	\$ 70		

(a) Represents borrowings made under KU's commercial paper program. See Note 7 to the Financial Statements for additional information.

The changes in KU's cash and cash equivalents position resulted from:

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Net cash provided by operating activities	\$ 500	\$ 444	\$ 30	\$ 344
Net cash provided by (used in) investing activities	(480)	(279)	(89)	(340)
Net cash provided by (used in) financing activities	(30)	(137)	58	(2)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (10)	\$ 28	\$ (1)	\$ 2

#### Operating Activities

Net cash provided by operating activities increased by 13%, or \$56 million, in 2012 compared with 2011, primarily as a result of:

- Other operating cash flows increased by \$45 million driven by a \$29 million reduction in pension funding.
- Working capital cash flows increased by \$11 million driven by lower income tax payments as a result of lower taxable income in 2012, offset by changes in receivables and unbilled revenues due to milder December weather in 2011 than in 2012 and 2010.

Net cash provided by operating activities increased by 19%, or \$70 million, in 2011 compared with 2010, primarily as a result of:

- an increase in net income adjusted for non-cash effects of \$115 million (deferred income taxes and investment tax credits of \$81 million and depreciation of \$41 million, partially offset by defined benefit plans - expense of \$2 million and other noncash items of \$19 million);
- a net decrease in working capital related to unbilled revenues of \$21 million due to colder weather in December 2010 as compared with December 2009, and milder weather in December 2011 as compared with December 2010; partially offset by
- an increase in discretionary defined benefit plan contributions of \$30 million made in order to achieve KU's long-term funding requirements;
- the timing of ECR collections of \$28 million; and
- an increase in cash outflows related to accrued taxes of \$28 million due to an accrual in excess of payments made in 2010 for the 2010 tax year and the payment of the 2010 tax liability in 2011, along with payments made in 2011 over the accrual for the 2011 tax year.

### Investing Activities

Net cash used in investing activities increased by 72%, or \$201 million, in 2012 compared with 2011, as a result of an increase in capital expenditures of \$201 million, primarily due to coal combustion residuals projects at Ghent and E.W. Brown, construction of Cane Run Unit 7 and Ghent environmental air projects.

See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2013 through 2017.

Net cash used in investing activities decreased by 35%, or \$150 million, in 2011 compared with 2010, as a result of a decrease in capital expenditures of \$150 million primarily due to the completion of KU's scrubber program in 2010 and TC2 being dispatched in 2011.

### Financing Activities

Net cash used in financing activities was \$30 million in 2012 compared with net cash provided by financing activities of \$137 million in 2011, primarily as a result of less long-term debt issuances and higher dividends to LKE.

In 2012, cash used in financing activities consisted of:

- the payment of common stock dividends to LKE of \$100 million; partially offset by
- the issuance of short-term debt in the form of commercial paper \$70 million.

Net cash used in financing activities was \$137 million in 2011 compared with net cash provided by financing activities of \$56 million in 2010, primarily as a result of less long-term debt issuances and higher dividends to LKE.

In 2011, cash used in financing activities consisted of:

- the payment of common stock dividends to LKE of \$124 million;
- a net decrease in notes payable with affiliates of \$10 million; and
- the payment of debt issuance and credit facility costs of \$3 million.

In the two months of 2010 following the acquisition, cash provided by financing activities of the Successor consisted of:

- the issuance of first mortgage bonds of \$1,489 million after discounts; and
- the issuance of debt of \$1,331 million to a PPL affiliate to repay debt due to an E.ON AG affiliate upon the closing of PPL's acquisition of LKE; partially offset by
- the repayment of debt to an E.ON AG affiliate of \$1,331 million upon the closing of PPL's acquisition of LKE;
- the repayment of debt to a PPL affiliate of \$1,331 million upon the issuance of first mortgage bonds;
- a net decrease in notes payable with affiliates of \$83 million; and
- the payment of debt issuance and credit facility costs of \$17 million.

In the ten months of 2010 preceding PPL's acquisition of LKE, cash used in financing activities by the Predecessor consisted of:

- the payment of common stock dividends to LKE of \$50 million; partially offset by
- a net increase in notes payable with affiliates of \$48 million.

See "Forecasted Sources of Cash" for a discussion of KU's plans to issue debt securities, as well as a discussion of credit facility capacity available to KU. Also see "Forecasted Uses of Cash" for a discussion of plans to pay dividends on common securities in the future, as well as maturities of long-term debt.

KU had no long-term debt securities activity during the year.

See Note 7 to the Financial Statements for additional information about long-term debt securities.



### Auction Rate Securities

At December 31, 2012, KU's tax-exempt revenue bonds that are in the form of auction rate securities and total \$96 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the period ended December 31, 2012, the weighted-average rate on KU's auction rate bonds in total was 0.25%.

### Forecasted Sources of Cash

KU expects to continue to have sufficient sources of cash available in the near term, including various credit facilities, its commercial paper program, issuance of debt securities and operating cash flow.

#### *Credit Facilities*

At December 31, 2012, KU's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Capacity</u>	<u>Commercial Paper Issued</u>	<u>Letters of Credit Issued</u>	<u>Unused Capacity</u>
Syndicated Credit Facility (a) (d)	\$ 400	\$ 70		\$ 330
Letter of Credit Facility (b) (d)	198		\$ 198	
Total Credit Facilities (c)	<u>\$ 598</u>	<u>\$ 70</u>	<u>\$ 198</u>	<u>\$ 330</u>

- (a) In November 2012, KU amended its Syndicated Credit Facility to extend the expiration date to November 2017.
- (b) In August 2012, the KU letter of credit facility agreement was amended and restated to allow for certain payments under the letter of credit facility to be converted to loans rather than requiring immediate payment.
- (c) The commitments under KU's credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 19% of the total committed capacity available to KU.
- (d) KU pays customary fees under its syndicated credit facility as well as its letter of credit facility, and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At December 31, 2012 there was no balance outstanding.

See Note 7 to the Financial Statements for further discussion of KU's credit facilities.

#### *Operating Leases*

KU also has available funding sources that are provided through operating leases. KU leases office space and certain equipment. These leasing structures provide KU additional operating and financing flexibility. The operating leases contain covenants that are typical for these agreements, such as maintaining insurance, maintaining corporate existence and timely payment of rent and other fees.

See Note 11 to the Financial Statements for further discussion of the operating leases.

#### *Capital Contributions from LKE*

From time to time LKE may make capital contributions to KU. KU may use these contributions to fund capital expenditures and for other general corporate purposes.

#### *Long-term Debt Securities*

KU currently plans to issue, subject to market conditions, up to \$300 million of first mortgage bond indebtedness in 2013, the proceeds of which will be used to fund capital expenditures and for other general corporate purposes.

### Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, KU currently expects to incur future cash outflows for capital expenditures, various contractual obligations, payment of dividends on its common stock and possibly the purchase or redemption of a portion of debt securities.

## Capital Expenditures

The table below shows KU's current capital expenditure projections for the years 2013 through 2017.

	Projected				
	2013	2014	2015	2016	2017
Capital expenditures (a)					
Generating facilities	\$ 289	\$ 140	\$ 136	\$ 251	\$ 308
Distribution facilities	89	87	97	92	107
Transmission facilities	48	37	40	40	61
Environmental	331	386	264	106	65
Other	27	24	25	27	22
Total Capital Expenditures	<u>\$ 784</u>	<u>\$ 674</u>	<u>\$ 562</u>	<u>\$ 516</u>	<u>\$ 563</u>

(a) KU generally expects to recover these costs over a period equivalent to the related depreciable lives of the assets through rates. The 2013 total excludes amounts included in accounts payable as of December 31, 2012.

KU's capital expenditure projections for the years 2013 through 2017 total approximately \$3.1 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes current estimates for KU's environmental projects related to existing and proposed EPA compliance standards. Actual costs may be significantly lower or higher depending on the final requirements and market conditions. Environmental compliance costs incurred by KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism.

KU plans to fund its capital expenditures in 2013 with cash on hand, cash from operations, short-term debt and issuance of debt securities.

## Contractual Obligations

KU has assumed various financial obligations and commitments in the ordinary course of conducting its business. At December 31, 2012, the estimated contractual cash obligations of KU were:

	Total	2013	2014 - 2015	2016 - 2017	After 2017
Long-term Debt (a)	\$ 1,851		\$ 250		\$ 1,601
Interest on Long-term Debt (b)	1,481	\$ 64	130	\$ 126	1,161
Operating Leases (c)	51	9	15	9	18
Coal and Natural Gas Purchase Obligations (d)	1,046	411	479	156	-
Unconditional Power Purchase Obligations (e)	319	9	18	20	272
Construction Obligations (f)	1,023	455	366	202	
Pension Benefit Plan Obligations (g)	59	59			
Other Obligations (h)	21	5	9	6	1
Total Contractual Cash Obligations	<u>\$ 5,851</u>	<u>\$ 1,012</u>	<u>\$ 1,267</u>	<u>\$ 519</u>	<u>\$ 3,053</u>

- (a) Reflects principal maturities only based on stated maturity dates. See Note 7 to the Financial Statements for a discussion of variable-rate remarketable bonds issued on behalf of KU. KU has no capital lease obligations.
- (b) Assumes interest payments through stated maturity. The payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated.
- (c) See Note 11 to the Financial Statements for additional information.
- (d) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 15 to the Financial Statements for additional information.
- (e) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 15 to the Financial Statements for additional information.
- (f) Represents construction commitments, including commitments for the Ghent environmental air projects, Cane Run Unit 7 and Ghent landfill which are also reflected in the Capital Expenditures table presented above.
- (g) Based on the current funded status of LKE's qualified pension plan, which covers KU employees, no cash contributions are required. See Note 13 to the Financial Statements for a discussion of expected contributions.
- (h) Represents other contractual obligations.

## Dividends

From time to time, as determined by its Board of Directors, KU pays dividends to its sole shareholder, LKE.

As discussed in Note 7 to the Financial Statements, KU's ability to pay dividends is 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%. See Note 7 to the Financial Statements for other restrictions related to distributions on capital interests for KU.

### Purchase or Redemption of Debt Securities

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

### Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of KU. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of KU are based on information provided by KU and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of KU. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of KU affect its liquidity, access to capital markets and cost of borrowing under its credit facilities.

The following table sets forth KU's security credit ratings as of December 31, 2012.

Issuer	Senior Unsecured			Senior Secured			Commercial Paper		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Fitch
Kentucky Utilities			A	A2	A-	A+	P-2	A-2	F-2

In addition to the credit ratings noted above, the rating agencies took the following actions related to KU:

In February 2012, Fitch assigned ratings to KU's newly established commercial paper program.

In March 2012, Moody's affirmed the following ratings:

- the long-term ratings of the First Mortgage Bonds for KU;
- the issuer ratings for KU; and
- the bank loan ratings for KU.

Also in March 2012, Moody's and S&P each assigned short-term ratings to KU's newly established commercial paper program.

In December 2012, Fitch affirmed the issuer default ratings, individual security ratings and outlook for KU.

### Ratings Triggers

KU has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, and commodity transportation and storage, which contain provisions requiring KU to post additional collateral, or permitting the counterparty to terminate the contract, if KU's credit rating were to fall below investment grade. See Note 19 to the 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, 2012. At December 31, 2012, if KU's credit ratings had been below investment grade, the maximum amount that KU would have been required to post as additional collateral to counterparties was \$21 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation and marketing operations.

### Off-Balance Sheet Arrangements

KU has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

### Risk Management

#### Market Risk

See Notes 1, 18 and 19 to the Financial Statements for information about KU's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

### *Commodity Price Risk (Non-trading)*

KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, KU is subject to commodity price risk for only a small portion of on-going business operations. KU sells excess economic generation to maximize the value of the physical assets at times when the assets are not required to serve KU's or LG&E's customers. See Note 19 to the Financial Statements for additional disclosures.

The balance and change in net fair value of KU's commodity derivative contracts for the periods ended December 31, 2012, 2011 and 2010 were not significant.

### *Interest Rate Risk*

KU issues debt to finance its operations, which exposes it to interest rate risk. KU utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under KU's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of KU's debt portfolio due to changes in the absolute level of interest rates.

At December 31, 2012 and 2011, KU's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

KU is also exposed to changes in the fair value of its debt portfolio. KU estimated that a 10% decrease in interest rates at December 31, 2012, would increase the fair value of its debt portfolio by \$67 million compared with \$72 million at December 31, 2011.

At December 31, 2012, KU had the following interest rate hedges outstanding:

	<u>Exposure Hedged</u>	<u>Fair Value, Net - Asset (Liability)</u>	<u>Effect of a 10% Adverse Movement in Rates</u>
Cash flow hedges			
Interest rate swaps (a)	\$ 150	\$ 7	\$ (9)

(a) KU utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While KU is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such cash flow hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at December 31, 2012 mature through 2043.

### 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. KU is exposed to potential losses as a result of nonpayment by customers. KU maintains an allowance for doubtful accounts based on a historical charge-off percentage for retail customers. Allowances for doubtful accounts from wholesale and municipal customers and miscellaneous receivables are based on specific identification by management. Retail, wholesale and municipal customer accounts are written-off after four months of no payment activity. Miscellaneous receivables are written-off as management determines them to be uncollectible.

Certain of KU's derivative instruments contain provisions that require it to provide immediate and on-going collateralization of derivative instruments in net liability positions based upon KU's credit ratings from each of the major credit rating agencies. See Notes 18 and 19 to the Financial Statements for information regarding exposure and the risk management activities.

## Related Party Transactions

KU is not aware of any material ownership interest or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with KU. See Note 16 to the Financial Statements for additional information on related party transactions.

## Environmental Matters

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 expenditures 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 for their products or their demand for KU's services.

Physical effects associated with climate change could include the impact of changes in weather patterns, such as storm frequency and intensity, and the resultant potential damage to KU's generation assets and electricity transmission and distribution systems, as well as impacts on customers. In addition, changed weather patterns could potentially reduce annual rainfall in areas where KU has hydro generating facilities or where river water is used to cool its fossil powered generators. KU cannot currently predict whether its businesses will experience these potential climate change-related risks or estimate the potential cost of their related consequences.

See "Item 1. Business - Environmental Matters" and Note 15 to the Financial Statements for a discussion of environmental matters.

### New Accounting Guidance

See Notes 1 and 24 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

### Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). KU's senior management has reviewed these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them, with PPL's Audit Committee.

#### **Revenue Recognition - Unbilled Revenue**

Revenues related to the sale of energy are recorded when service is rendered or when energy is delivered to customers. Because customers of KU's retail operations are billed on cycles which vary based on the timing of the actual reading of their electric meters, KU records estimates for unbilled revenues at the end of each reporting period. Such unbilled revenue amounts reflect estimates of the amount of electricity delivered to customers since the date of the last reading of their meters. The unbilled revenues reflect consideration of estimated usage by customer class, the effect of different rate schedules, changes in weather, and where applicable, the impact of weather normalization or other regulatory provisions of rate structures. In addition to the unbilled revenue accrual resulting from cycle billing, KU makes additional accruals resulting from the timing of customer bills. The accrual of unbilled revenues in this manner properly matches revenues and related costs. At December 31, 2012 and 2011, KU had unbilled revenue balances of \$84 million and \$81 million.

## Defined Benefits

KU participates in a qualified funded defined benefit pension plan and a funded other postretirement benefit plan. These plans are applicable to the majority of the employees of KU and are sponsored by LKE. LKE allocates a portion of the liability and net periodic defined benefit pension and other postretirement costs of the plans to KU based on its participation. KU records an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

Certain assumptions are made by LKE regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. These amounts in regulatory assets and liabilities are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- **Discount Rate** - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.
- **Expected Long-term Return on Plan Assets** - Management projects the long-term rates of return on plan assets based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. These projected returns reduce the net benefit costs KU records currently.
- **Rate of Compensation Increase** - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.
- **Health Care Cost Trend Rate** - Management projects the expected increases in the cost of health care.

In selecting a discount rate for its defined benefit plans, LKE starts with a cash flow analysis of the expected benefit payment stream for its plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Individual bonds are then selected based on the timing of each plan's cash flows and parameters are established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed. At December 31, 2012, LKE decreased the discount rate for its pension plan from 5.12% to 4.26% and decreased the discount rate for its other postretirement benefit plan from 4.78% to 3.99%.

The expected long-term rates of return for LKE's defined benefit pension and other postretirement benefit plans have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. LKE management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption. At December 31, 2012, LKE's expected return on plan assets decreased from 7.25% to 7.10%.

In selecting a rate of compensation increase, LKE considers past experience in light of movements in inflation rates. At December 31, 2012, LKE's rate of compensation increase remained at 4.00%.

In selecting health care cost trend rates LKE considers past performance and forecasts of health care costs. At December 31, 2012, LKE's health care cost trend rates were 8.00% for 2013, gradually declining to 5.50% for 2019.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and regulatory assets and liabilities allocated to KU. While the charts below reflect either an increase or decrease in each assumption, the inverse of the change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and regulatory assets and liabilities for KU by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

At December 31, 2012, the defined benefit plans were recorded as follows:

Pension liabilities	\$	104
Other postretirement benefit liabilities		53

The following chart reflects the sensitivities in the December 31, 2012 Balance Sheet associated with a change in certain assumptions based on KU's primary defined benefit plans.

Actuarial assumption	Change In assumption	Increase (Decrease)	
		Impact on defined benefit liabilities	Impact on regulatory assets
Discount Rate	(0.25)%	\$ 17	\$ 17
Rate of Compensation Increase	0.25%	3	3
Health Care Cost Trend Rate (a)	1%	3	3

(a) Only impacts other postretirement benefits.

In 2012 KU recognized net periodic defined benefit costs charged to operating expense of \$11 million. This amount represents a \$3 million decrease from 2011. This decrease in expense for 2012 was primarily attributable to the increase in the expected return on plan assets resulting from pension contributions of \$15 million, a reduction in the amortization of outstanding losses and lower interest cost.

The following chart reflects the sensitivities in the 2012 Statement of Income (excluding income tax effects) associated with a change in certain assumptions based on KU's primary defined benefit plans.

Actuarial assumption	Change In assumption	Impact on defined benefit costs
Discount Rate	(0.25)%	\$ 2
Expected Return on Plan Assets	(0.25)%	1
Rate of Compensation Increase	0.25%	1
Health Care Cost Trend Rate (a)	1%	

(a) Only impacts other postretirement benefits.

### Asset Impairment (Excluding Investments)

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying amount may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

- a significant decrease in the market price of an asset;
- a significant adverse change in the extent or 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; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For a long-lived asset classified as held and used, 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 amount 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. Alternate courses of action are considered to recover the carrying amount of a long-lived asset, and estimated cash flows from the "most likely" alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in significantly different results than those identified and recorded in the financial statements.

For a long-lived asset classified as held for sale, impairment exists when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If the asset (disposal group) is impaired, an impairment loss is recorded to adjust the carrying amount to its fair value less cost to sell. A gain is recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative impairment previously recognized.

For determining fair value, quoted market prices in active markets are the best evidence. However, when market prices are unavailable, KU considers all valuation techniques appropriate under the circumstances and for which market participant inputs can be obtained. Generally discounted cash flows are used to estimate fair value, which incorporates market participant inputs when available. Discounted cash flows are calculated by estimating future cash flow streams and applying appropriate discount rates to determine the present value of the cash flow streams.

Goodwill is tested for impairment at the reporting unit level. KU's reporting unit has been determined to be at the operating segment level. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit may be greater than the unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

Beginning in 2012, KU may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative assessment and directly test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not the fair value of the reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if KU concludes it is more likely than not the fair value of the reporting unit is less than the carrying amount based on the step zero assessment.

When the two-step quantitative impairment test is elected or required as a result of the step zero assessment, in step one, KU identifies a potential impairment by comparing the estimated fair value of KU (the goodwill reporting unit) with its carrying amount, 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 of the quantitative test requires a calculation of the implied fair value of goodwill, which 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 KU's 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 KU's goodwill.

KU elected to perform the two-step quantitative impairment test of goodwill in the fourth quarter of 2012 and no impairment was recognized. Management used both discounted cash flows and market multiples, which required significant assumptions, to estimate the fair value of KU. Applying an appropriate weighting to both the discounted cash flow and market multiple valuations, a decrease in the forecasted cash flows of 10%, an increase in the discount rate by 25 basis points, or a 10% decrease in the multiples would not have resulted in an impairment of goodwill.



## Loss Accruals

Losses are accrued 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." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

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 management. Internal expertise and outside experts (such as lawyers and engineers) are used, as necessary to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

In 2012, no significant adjustments were made to KU's existing contingencies.

Certain other events have been identified 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."

When an estimated loss is accrued, the triggering events for subsequently adjusting the loss accrual are identified, where applicable. The triggering events generally occur when the contingency has been resolved and the actual loss is paid or written off, 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.

Loss accruals are reviewed 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.

See Note 15 to the Financial Statements for additional information.

## 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. Since costs of removal are collected in rates, the accretion and depreciation are offset with a regulatory credit on the income statement, such that there is no earnings impact. The regulatory asset created by the regulatory credit 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. See Note 21 to the Financial Statements for related disclosures.

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.

At December 31, 2012, KU had AROs totaling \$69 million recorded on the Balance Sheet. Of the total amount, \$51 million, or 74%, relates to KU's ash ponds and landfill. 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 landfill at December 31, 2012:

	Change in Assumption	Impact on ARO Liability
Retirement Cost	10%	\$ 6
Discount Rate	(0.25)%	2
Inflation Rate	0.25%	3

### Income Taxes

Significant management judgment is required in developing the 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. Tax positions are evaluated 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%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known at the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. 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 in the future.

At December 31, 2012, 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, derecognition 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 limitation.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified 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 to account for an uncertain tax position. See Note 5 to the Financial Statements for related disclosures.

### Regulatory Assets and Liabilities

KU is a cost-based rate-regulated utility. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and 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 KPSC, the VSCC or the TRA.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, then asset write-off would be required to be recognized in operating income. Additionally, the regulatory agencies can provide flexibility in the manner and timing of the depreciation of PP&E and amortization of regulatory assets.

At December 31, 2012, KU had regulatory assets of \$230 million and regulatory liabilities of \$536 million. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

See Note 6 to the Financial Statements for additional information on regulatory assets and liabilities.

#### **Other Information**

PPL's Audit Committee has approved the independent auditor to provide audit, tax and other services permitted by Sarbanes-Oxley and SEC rules. The audit services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews. See "Item 14. Principal Accounting Fees and Services" for more information.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company**

Reference is made to "Risk Management - Energy Marketing & Trading and Other" for PPL and PPL Energy Supply and "Risk Management" for PPL Electric, LKE, LG&E and KU in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareowners of PPL Corporation

We have audited the accompanying consolidated balance sheets of PPL Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2012. 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 did not audit the 2010 financial statements of LG&E and KU Energy LLC (LKE), a wholly owned subsidiary, which statements reflect total revenues of \$494 million for the period November 1, 2010 (date of acquisition) to December 31, 2010. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for LKE, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and, for 2010, the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Corporation and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PPL Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania  
February 28, 2013

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareowners of PPL Corporation

We have audited PPL Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control —Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). PPL Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Management's Report on Internal Control over Financial Reporting at Item 9A. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

Because of 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.

In our opinion, PPL Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PPL Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2012 and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ Emst & Young LLP

Philadelphia, Pennsylvania  
February 28, 2013

**Report of Independent Registered Public Accounting Firm**

To the Board of Managers and Sole Member of PPL Energy Supply, LLC

We have audited the accompanying consolidated balance sheets of PPL Energy Supply, LLC and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2012. 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 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Energy Supply, LLC and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania  
February 28, 2013



**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareowners of PPL Electric Utilities Corporation

We have audited the accompanying consolidated balance sheets of PPL Electric Utilities Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 2012. 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 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Electric Utilities Corporation and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania  
February 28, 2013

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Sole Member of LG&E and KU Energy LLC

We have audited the accompanying consolidated balance sheets of LG&E and KU Energy LLC and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income and comprehensive income, cash flows, and equity for each of the two years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule 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 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LG&E and KU Energy LLC and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Louisville, Kentucky  
February 28, 2013

**Report of Independent Registered Public Accounting Firm**

To the Member of LG&E and KU Energy LLC

In our opinion, the accompanying consolidated statements of income, comprehensive income, cash flows, and equity present fairly, in all material respects, the results of operations and cash flows of LG&E and KU Energy LLC and its subsidiaries (Successor Company) for the period from November 1, 2010 to December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule 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.

As discussed in Note 10 to the consolidated 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.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky  
February 25, 2011

**Report of Independent Registered Public Accounting Firm**

To the Member of LG&E and KU Energy LLC

In our opinion, the accompanying consolidated statements of income, comprehensive income, cash flows, and equity present fairly, in all material respects, the results of operations and cash flows of LG&E and KU Energy LLC and its subsidiaries (formerly E.ON U.S. LLC, Predecessor Company) for the period from January 1, 2010 to October 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule 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.

As discussed in Note 10 to the consolidated 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.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky  
February 25, 2011

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholder of Louisville Gas and Electric Company

We have audited the accompanying balance sheets of Louisville Gas and Electric Company as of December 31, 2012 and 2011, and the related statements of income and comprehensive income, cash flows, and equity for each of the two years in the period ended December 31, 2012. 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 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisville Gas and Electric Company at December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles .

/s/ Ernst & Young LLP

Louisville, Kentucky  
February 28, 2013

**Report of Independent Registered Public Accounting Firm**

To the Stockholder of Louisville Gas and Electric Company

In our opinion, the accompanying statements of income, comprehensive income, cash flows, and equity present fairly, in all material respects, the results of operations and cash flows of Louisville Gas and Electric Company (Successor Company) 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.

As discussed in Note 10 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.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky  
February 25, 2011

**Report of Independent Registered Public Accounting Firm**

To the Stockholder of Louisville Gas and Electric Company

In our opinion, the accompanying statements of income, comprehensive income, cash flows, and equity present fairly, in all material respects, the results of operations and cash flows of Louisville Gas and Electric Company (Predecessor Company) for the period from January 1, 2010 to October 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.

As discussed in Note 10 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.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky  
February 25, 2011

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholder of Kentucky Utilities Company

We have audited the accompanying balance sheets of Kentucky Utilities Company as of December 31, 2012 and 2011, and the related statements of income and comprehensive income, cash flows, and equity for each of the two years in the period ended December 31, 2012. 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 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Utilities Company at December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Louisville, Kentucky  
February 28, 2013



**Report of Independent Registered Public Accounting Firm**

To the Stockholder of Kentucky Utilities Company

In our opinion, the accompanying statements of income, comprehensive income, cash flows, and equity present fairly, in all material respects, the results of operations and cash flows of Kentucky Utilities Company (Successor Company) 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.

As discussed in Note 10 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.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky  
February 25, 2011

**Report of Independent Registered Public Accounting Firm**

To the Stockholder of Kentucky Utilities Company

In our opinion, the accompanying statements of income, comprehensive income, cash flows, and equity present fairly, in all material respects, the results of operations and cash flows of Kentucky Utilities Company (Predecessor Company) for the period from January 1, 2010 to October 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.

As discussed in Note 10 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.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky  
February 25, 2011

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,**

**PPL Corporation and Subsidiaries**

(Millions of Dollars, except share data)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Operating Revenues</b>			
Utility	\$ 6,808	\$ 6,292	\$ 3,668
Unregulated retail electric and gas	844	726	415
Wholesale energy marketing			
Realized	4,433	3,807	4,832
Unrealized economic activity (Note 19)	(311)	1,407	(805)
Net energy trading margins	4	(2)	2
Energy-related businesses	508	507	409
<b>Total Operating Revenues</b>	<u>12,286</u>	<u>12,737</u>	<u>8,521</u>
<b>Operating Expenses</b>			
Operation			
Fuel	1,837	1,946	1,235
Energy purchases			
Realized	2,997	2,130	2,773
Unrealized economic activity (Note 19)	(442)	1,123	(286)
Other operation and maintenance	2,835	2,667	1,756
Depreciation	1,100	960	556
Taxes, other than income	366	326	238
Energy-related businesses	484	484	383
<b>Total Operating Expenses</b>	<u>9,177</u>	<u>9,636</u>	<u>6,655</u>
<b>Operating Income</b>	<u>3,109</u>	<u>3,101</u>	<u>1,866</u>
Other Income (Expense) - net	(39)	4	(31)
Other-Than-Temporary Impairments	27	6	3
Interest Expense	961	898	593
<b>Income from Continuing Operations Before Income Taxes</b>	<u>2,082</u>	<u>2,201</u>	<u>1,239</u>
Income Taxes	545	691	263
<b>Income from Continuing Operations After Income Taxes</b>	<u>1,537</u>	<u>1,510</u>	<u>976</u>
Income (Loss) from Discontinued Operations (net of income taxes)	(6)	2	(17)
<b>Net Income</b>	<u>1,531</u>	<u>1,512</u>	<u>959</u>
Net Income Attributable to Noncontrolling Interests	5	17	21
<b>Net Income Attributable to PPL Shareowners</b>	<u>\$ 1,526</u>	<u>\$ 1,495</u>	<u>\$ 938</u>
<b>Amounts Attributable to PPL Shareowners:</b>			
Income from Continuing Operations After Income Taxes	\$ 1,532	\$ 1,493	\$ 955
Income (Loss) from Discontinued Operations (net of income taxes)	(6)	2	(17)
<b>Net Income</b>	<u>\$ 1,526</u>	<u>\$ 1,495</u>	<u>\$ 938</u>
<b>Earnings Per Share of Common Stock:</b>			
Income from Continuing Operations After Income Taxes Available to PPL Common Shareowners:			
Basic	\$ 2.62	\$ 2.70	\$ 2.21
Diluted	\$ 2.61	\$ 2.70	\$ 2.20
Net Income Available to PPL Common Shareowners:			
Basic	\$ 2.61	\$ 2.71	\$ 2.17
Diluted	\$ 2.60	\$ 2.70	\$ 2.17
<b>Dividends Declared Per Share of Common Stock</b>	<u>\$ 1.44</u>	<u>\$ 1.40</u>	<u>\$ 1.40</u>
<b>Weighted-Average Shares of Common Stock Outstanding (in thousands)</b>			
Basic	580,276	550,395	431,345
Diluted	581,626	550,952	431,569



**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31,**  
**PPL Corporation and Subsidiaries**  
*(Millions of Dollars)*

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Net income</b>	<b>\$ 1,531</b>	<b>\$ 1,512</b>	<b>\$ 959</b>
<b>Other comprehensive income (loss):</b>			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Foreign currency translation adjustments, net of tax of \$2, (\$2), (\$1)	94	(48)	(59)
Available-for-sale securities, net of tax of (\$31), (\$6), (\$31)	29	9	29
Qualifying derivatives, net of tax of (\$32), (\$139), (\$148)	39	202	219
Equity investees' other comprehensive income (loss), net of tax of (\$1), \$0, \$0	2		
Defined benefit plans:			
Prior service costs, net of tax of \$0, (\$1), (\$14)	1	(3)	17
Net actuarial gain (loss), net of tax of \$343, \$58, \$50	(965)	(152)	(80)
Transition obligation, net of tax of \$0, \$0, (\$4)			8
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Available-for-sale securities, net of tax of \$1, \$5, \$3	(7)	(7)	(5)
Qualifying derivatives, net of tax of \$278, \$246, \$84	(434)	(370)	(126)
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0		3	
Defined benefit plans:			
Prior service costs, net of tax of (\$5), (\$5), (\$7)	10	10	12
Net actuarial loss, net of tax of (\$29), (\$19), (\$14)	79	47	41
Transition obligation, net of tax of \$0, \$0, (\$1)			2
<b>Total other comprehensive income (loss) attributable to PPL Shareowners</b>	<b>(1,152)</b>	<b>(309)</b>	<b>58</b>
<b>Comprehensive income (loss)</b>	<b>379</b>	<b>1,203</b>	<b>1,017</b>
Comprehensive income attributable to noncontrolling interests	5	17	21
<b>Comprehensive income (loss) attributable to PPL Shareowners</b>	<b>\$ 374</b>	<b>\$ 1,186</b>	<b>\$ 996</b>

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,**  
**PPL Corporation and Subsidiaries**  
*(Millions of Dollars)*

	2012	2011	2010
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 1,531	\$ 1,512	\$ 959
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	1,100	961	567
Amortization	186	254	213
Defined benefit plans - expense	166	205	102
Deferred income taxes and investment tax credits	424	582	241
Impairment of assets	28	13	120
Unrealized (gains) losses on derivatives, and other hedging activities	27	(314)	542
Provision for Montana hydroelectric litigation		(74)	66
Other	52	36	32
Change in current assets and current liabilities			
Accounts receivable	7	(89)	(106)
Accounts payable	(29)	(36)	216
Unbilled revenues	(19)	64	(99)
Prepayments	(5)	294	(318)
Counterparty collateral	(34)	(190)	(18)
Taxes	24	(104)	20
Regulatory assets and liabilities, net	(2)	106	(110)
Accrued interest	32	109	50
Other	8	6	9
Other operating activities			
Defined benefit plans - funding	(607)	(667)	(396)
Other assets	(33)	(62)	(45)
Other liabilities	(92)	(99)	(12)
Net cash provided by (used in) operating activities	<u>2,764</u>	<u>2,507</u>	<u>2,033</u>
<b>Cash Flows from Investing Activities</b>			
Expenditures for property, plant and equipment	(3,105)	(2,487)	(1,597)
Proceeds from the sale of certain non-core generation facilities		381	
Proceeds from the sale of the Long Island generation business			124
Proceeds from the sale of the Maine hydroelectric generation business			38
Ironwood Acquisition, net of cash acquired	(84)		
Acquisition of WPD Midlands		(5,763)	
Acquisition of LKE, net of cash acquired			(6,812)
Purchases of nuclear plant decommissioning trust investments	(154)	(169)	(128)
Proceeds from the sale of nuclear plant decommissioning trust investments	139	156	114
Proceeds from the sale of other investments	20	163	
Net (increase) decrease in restricted cash and cash equivalents	96	(143)	85
Other investing activities	(35)	(90)	(53)
Net cash provided by (used in) investing activities	<u>(3,123)</u>	<u>(7,952)</u>	<u>(8,229)</u>
<b>Cash Flows from Financing Activities</b>			
Issuance of long-term debt	1,223	5,745	4,642
Retirement of long-term debt	(108)	(1,210)	(20)
Issuance of common stock	72	2,297	2,441
Payment of common stock dividends	(833)	(746)	(566)
Redemption of preference stock of a subsidiary	(250)		(54)
Debt issuance and credit facility costs	(17)	(102)	(175)
Contract adjustment payments on Equity Units	(94)	(72)	(13)
Net increase (decrease) in short-term debt	74	(125)	70
Other financing activities	(19)	(20)	(18)
Net cash provided by (used in) financing activities	<u>48</u>	<u>5,767</u>	<u>6,307</u>
<b>Effect of Exchange Rates on Cash and Cash Equivalents</b>	<u>10</u>	<u>(45)</u>	<u>13</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(301)</u>	<u>277</u>	<u>124</u>
Cash and Cash Equivalents at Beginning of Period	1,202	925	801
Cash and Cash Equivalents at End of Period	<u>\$ 901</u>	<u>\$ 1,202</u>	<u>\$ 925</u>
<b>Supplemental Disclosures of Cash Flow Information</b>			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 847	\$ 696	\$ 458
Income taxes - net	\$ 73	\$ (76)	\$ 313

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,**  
**PPL Corporation and Subsidiaries**  
*(Millions of Dollars, shares in thousands)*

	2012	2011
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 901	\$ 1,202
Short-term investments		16
Restricted cash and cash equivalents	54	152
Accounts receivable (less reserve: 2012, \$64; 2011, \$54)		
Customer	745	732
Other	79	91
Unbilled revenues	857	834
Fuel, materials and supplies	673	654
Prepayments	166	160
Price risk management assets	1,525	2,548
Regulatory assets	19	9
Other current assets	49	28
<b>Total Current Assets</b>	<b>5,068</b>	<b>6,426</b>
<b>Investments</b>		
Nuclear plant decommissioning trust funds	712	640
Other investments	47	78
<b>Total Investments</b>	<b>759</b>	<b>718</b>
<b>Property, Plant and Equipment</b>		
Regulated utility plant	25,196	22,994
Less: accumulated depreciation - regulated utility plant	4,164	3,534
Regulated utility plant, net	21,032	19,460
Non-regulated property, plant and equipment		
Generation	11,295	10,514
Nuclear fuel	524	457
Other	726	637
Less: accumulated depreciation - non-regulated property, plant and equipment	5,942	5,676
Non-regulated property, plant and equipment, net	6,603	5,932
Construction work in progress	2,397	1,874
<b>Property, Plant and Equipment, net (a)</b>	<b>30,032</b>	<b>27,266</b>
<b>Other Noncurrent Assets</b>		
Regulatory assets	1,483	1,349
Goodwill	4,158	4,114
Other intangibles (a)	925	1,065
Price risk management assets	572	920
Other noncurrent assets	637	790
<b>Total Other Noncurrent Assets</b>	<b>7,775</b>	<b>8,238</b>
<b>Total Assets</b>	<b>\$ 43,634</b>	<b>\$ 42,648</b>

(a) At December 31, 2012 and December 31, 2011, includes \$428 million and \$416 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and \$10 million and \$11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant. See Note 22 for additional information.

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,**  
**PPL Corporation and Subsidiaries**  
*(Millions of Dollars, shares in thousands)*

	<u>2012</u>	<u>2011</u>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	\$ 652	\$ 578
Long-term debt due within one year	751	
Accounts payable	1,252	1,150
Taxes	90	65
Interest	325	287
Dividends	210	207
Price risk management liabilities	1,065	1,570
Regulatory liabilities	61	73
Other current liabilities	1,219	1,325
Total Current Liabilities	<u>5,625</u>	<u>5,255</u>
<b>Long-term Debt</b>	<u>18,725</u>	<u>17,993</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	3,387	3,326
Investment tax credits	328	285
Price risk management liabilities	629	840
Accrued pension obligations	2,076	1,313
Asset retirement obligations	536	484
Regulatory liabilities	1,010	1,010
Other deferred credits and noncurrent liabilities	820	1,046
Total Deferred Credits and Other Noncurrent Liabilities	<u>8,786</u>	<u>8,304</u>
<b>Commitments and Contingent Liabilities (Notes 6 and 15)</b>		
<b>Equity</b>		
PPL Shareowners' Common Equity		
Common stock - \$0.01 par value (a)	6	6
Additional paid-in capital	6,936	6,813
Earnings reinvested	5,478	4,797
Accumulated other comprehensive loss	(1,940)	(788)
Total PPL Shareowners' Common Equity	<u>10,480</u>	<u>10,828</u>
Noncontrolling Interests	18	268
Total Equity	<u>10,498</u>	<u>11,096</u>
<b>Total Liabilities and Equity</b>	<u>\$ 43,634</u>	<u>\$ 42,648</u>

(a) 780,000 shares authorized; 581,944 and 578,405 shares issued and outstanding at December 31, 2012 and December 31, 2011.

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*



**CONSOLIDATED STATEMENTS OF EQUITY**  
**PPL Corporation and Subsidiaries**  
(Millions of Dollars)

	<b>PPL Shareowners</b>						<b>Total</b>
	<b>Common stock shares outstanding (a)</b>	<b>Common stock</b>	<b>Additional paid-in capital</b>	<b>Earnings reinvested</b>	<b>Accumulated other comprehensive loss</b>	<b>Non- controlling interests</b>	
<b>December 31, 2009 (b)</b>	377,183	\$ 4	\$ 2,280	\$ 3,749	\$ (537)	\$ 319	\$ 5,815
Common stock issued (c)	106,208	1	2,490				2,491
Purchase Contracts (d)			(176)				(176)
Stock-based compensation (e)			8				8
Net income				938		21	959
Dividends, dividend equivalents, redemptions and distributions (f)				(605)		(72)	(677)
Other comprehensive income (loss)					58		58
<b>December 31, 2010 (b)</b>	<u>483,391</u>	<u>\$ 5</u>	<u>\$ 4,602</u>	<u>\$ 4,082</u>	<u>\$ (479)</u>	<u>\$ 268</u>	<u>\$ 8,478</u>
Common stock issued (c)	95,014	\$ 1	\$ 2,344				\$ 2,345
Purchase Contracts (d)			(143)				(143)
Stock-based compensation (e)			10				10
Net income				\$ 1,495		\$ 17	1,512
Dividends, dividend equivalents, redemptions and distributions (f)				(780)		(17)	(797)
Other comprehensive income (loss)					\$ (309)		(309)
<b>December 31, 2011 (b)</b>	<u>578,405</u>	<u>\$ 6</u>	<u>\$ 6,813</u>	<u>\$ 4,797</u>	<u>\$ (788)</u>	<u>\$ 268</u>	<u>\$ 11,096</u>
Common stock issued (c)	3,543		\$ 99				\$ 99
Common stock repurchased	(4)						
Stock-based compensation (e)			18				18
Net income				\$ 1,526		\$ 5	1,531
Dividends, dividend equivalents, redemptions and distributions (f)			6	(845)		(255)	(1,094)
Other comprehensive income (loss)					\$ (1,152)		(1,152)
<b>December 31, 2012 (b)</b>	<u>581,944</u>	<u>\$ 6</u>	<u>\$ 6,936</u>	<u>\$ 5,478</u>	<u>\$ (1,940)</u>	<u>\$ 18</u>	<u>\$ 10,498</u>

- (a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareowners' meeting.
- (b) See "General - Comprehensive Income" in Note 1 for disclosure of balances of each component of AOCI.
- (c) 2011 includes the April issuance of 92 million shares of common stock, and 2010 includes the June issuance of 103.5 million shares of common stock. See Note 7 for additional information. All years presented include shares of common stock issued through various stock and incentive compensation plans.
- (d) 2011 includes \$123 million for the 2011 Purchase Contracts and \$20 million of related fees and expenses, net of tax. 2010 includes \$157 million for the 2010 Purchase Contracts and \$19 million of related fees and expenses, net of tax. See Note 7 for additional information.
- (e) 2012, 2011 and 2010 include \$47 million, \$33 million and \$26 million of stock-based compensation expense related to new and existing unvested equity awards, and \$(29) million, \$(23) million and \$(18) million related primarily to the reclassification from "Stock-based compensation" to "Common stock issued" for the issuance of common stock after applicable equity award vesting periods and tax adjustments related to stock-based compensation.
- (f) "Earnings reinvested" includes dividends and dividend equivalents on PPL common stock and restricted stock units. "Noncontrolling interests" includes dividends, redemptions and distributions to noncontrolling interests. In April 2010 and June 2012, collectively, PPL Electric redeemed all of its outstanding preferred securities. See Note 3 for additional information on both redemptions.

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,**  
**PPL Energy Supply, LLC and Subsidiaries**  
*(Millions of Dollars)*

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Operating Revenues</b>			
Wholesale energy marketing			
Realized	\$ 4,433	\$ 3,807	\$ 4,832
Unrealized economic activity (Note 19)	(311)	1,407	(805)
Wholesale energy marketing to affiliate	78	26	320
Unregulated retail electric and gas	848	727	415
Net energy trading margins	4	(2)	2
Energy-related businesses	448	464	364
<b>Total Operating Revenues</b>	<u>5,500</u>	<u>6,429</u>	<u>5,128</u>
<b>Operating Expenses</b>			
Operation			
Fuel	965	1,080	1,096
Energy purchases			
Realized	2,260	1,160	1,636
Unrealized economic activity (Note 19)	(442)	1,123	(286)
Energy purchases from affiliate	3	3	3
Other operation and maintenance	1,041	929	979
Depreciation	285	244	236
Taxes, other than income	69	71	46
Energy-related businesses	432	458	357
<b>Total Operating Expenses</b>	<u>4,613</u>	<u>5,068</u>	<u>4,067</u>
<b>Operating Income</b>	887	1,361	1,061
Other Income (Expense) - net	18	23	22
Other-Than-Temporary Impairments	1	6	3
Interest Income from Affiliates	2	8	9
Interest Expense	168	174	208
<b>Income (Loss) from Continuing Operations Before Income Taxes</b>	738	1,212	881
Income Taxes	263	445	261
<b>Income (Loss) from Continuing Operations After Income Taxes</b>	475	767	620
Income (Loss) from Discontinued Operations (net of income taxes)	2	2	242
<b>Net Income</b>	475	769	862
Net Income Attributable to Noncontrolling Interests	1	1	1
<b>Net Income Attributable to PPL Energy Supply Member</b>	<u>\$ 474</u>	<u>\$ 768</u>	<u>\$ 861</u>
<b>Amounts Attributable to PPL Energy Supply Member:</b>			
Income (Loss) from Continuing Operations After Income Taxes	\$ 474	\$ 766	\$ 619
Income (Loss) from Discontinued Operations (net of income taxes)	2	2	242
<b>Net Income</b>	<u>\$ 474</u>	<u>\$ 768</u>	<u>\$ 861</u>

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31,**  
**PPL Energy Supply, LLC and Subsidiaries**  
*(Millions of Dollars)*

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Net income</b>	<b>\$ 475</b>	<b>\$ 769</b>	<b>\$ 862</b>
<b>Other comprehensive income (loss):</b>			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Foreign currency translation adjustments, net of tax of \$0, \$0, (\$1)			(59)
Available-for-sale securities, net of tax of (\$31), (\$6), (\$31)	29	9	29
Qualifying derivatives, net of tax of (\$46), (\$164), (\$207)	68	267	305
Defined benefit plans:			
Prior service costs, net of tax of \$0, (\$2), (\$8)	1	(2)	12
Net actuarial gain (loss), net of tax of \$56, \$13, \$36	(82)	(22)	(63)
Transition obligation, net of tax of \$0, \$0, (\$3)			6
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Available-for-sale securities, net of tax of \$1, \$5, \$3	(7)	(7)	(5)
Qualifying derivatives, net of tax of \$291, \$242, \$99	(463)	(353)	(145)
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0		3	
Defined benefit plans:			
Prior service costs, net of tax of (\$2), (\$3), (\$5)	5	4	9
Net actuarial loss, net of tax of (\$2), (\$2), (\$14)	10	4	39
Transition obligation, net of tax of \$0, \$0, (\$1)			1
<b>Total other comprehensive income (loss) attributable to PPL Energy Supply Member</b>	<b>(439)</b>	<b>(97)</b>	<b>129</b>
<b>Comprehensive income (loss)</b>	<b>36</b>	<b>672</b>	<b>991</b>
Comprehensive income attributable to noncontrolling interests	1	1	1
<b>Comprehensive income (loss) attributable to PPL Energy Supply Member</b>	<b>\$ 35</b>	<b>\$ 671</b>	<b>\$ 990</b>

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,**  
**PPL Energy Supply, LLC and Subsidiaries**  
*(Millions of Dollars)*

	2012	2011	2010
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 475	\$ 769	\$ 862
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Pre-tax gain from the sale of the Maine hydroelectric generation business			(25)
Depreciation	285	245	365
Amortization	119	137	160
Defined benefit plans - expense	43	36	52
Deferred income taxes and investment tax credits	152	317	(31)
Impairment of assets	3	13	120
Unrealized (gains) losses on derivatives, and other hedging activities	(41)	(283)	536
Provision for Montana hydroelectric litigation		(74)	66
Other	42	25	41
Change in current assets and current liabilities			
Accounts receivable	(54)	38	(18)
Accounts payable	(45)	(89)	20
Unbilled revenues	33	14	(88)
Counterparty collateral	(34)	(190)	(18)
Taxes	(27)	27	87
Other	(68)	(18)	8
Other operating activities			
Defined benefit plans - funding	(75)	(152)	(302)
Other assets	(41)	(30)	(71)
Other liabilities	17	(9)	76
Net cash provided by (used in) operating activities	<u>784</u>	<u>776</u>	<u>1,840</u>
<b>Cash Flows from Investing Activities</b>			
Expenditures for property, plant and equipment	(648)	(661)	(1,009)
Proceeds from the sale of certain non-core generation facilities		381	
Proceeds from the sale of the Long Island generation business			124
Proceeds from the sale of the Maine hydroelectric generation business			38
Ironwood Acquisition, net of cash acquired	(84)		
Expenditures for intangible assets	(45)	(57)	(82)
Purchases of nuclear plant decommissioning trust investments	(154)	(169)	(128)
Proceeds from the sale of nuclear plant decommissioning trust investments	139	156	114
Issuance of long-term notes receivable to affiliates			(1,816)
Repayment of long-term notes receivable from affiliates			1,816
Net (increase) decrease in notes receivable from affiliates	198	(198)	
Net (increase) decrease in restricted cash and cash equivalents	104	(128)	84
Other investing activities	21	8	34
Net cash provided by (used in) investing activities	<u>(469)</u>	<u>(668)</u>	<u>(825)</u>
<b>Cash Flows from Financing Activities</b>			
Issuance of long-term debt		500	602
Retirement of long-term debt	(9)	(750)	
Contributions from member	563	461	3,625
Distributions to member	(787)	(316)	(4,692)
Cash included in net assets of subsidiary distributed to member		(325)	
Debt issuance and credit facility costs	(3)	(9)	(53)
Net increase (decrease) in short-term debt	(44)	50	(93)
Other financing activities	(1)	(1)	(1)
Net cash provided by (used in) financing activities	<u>(281)</u>	<u>(390)</u>	<u>(612)</u>
<b>Effect of Exchange Rates on Cash and Cash Equivalents</b>			<u>13</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>34</u>	<u>(282)</u>	<u>416</u>
Cash and Cash Equivalents at Beginning of Period	<u>379</u>	<u>661</u>	<u>245</u>
Cash and Cash Equivalents at End of Period	<u>\$ 413</u>	<u>\$ 379</u>	<u>\$ 661</u>
<b>Supplemental Disclosures of Cash Flow Information</b>			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 150	\$ 165	\$ 275
Income taxes - net	\$ 128	\$ 69	\$ 278

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,**  
**PPL Energy Supply, LLC and Subsidiaries**  
*(Millions of Dollars)*

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 413	\$ 379
Restricted cash and cash equivalents	46	145
Accounts receivable (less reserve: 2012, \$23; 2011, \$15)		
Customer	183	169
Other	31	31
Accounts receivable from affiliates	125	89
Unbilled revenues	369	402
Note receivable from affiliates		198
Fuel, materials and supplies	327	298
Prepayments	15	14
Price risk management assets	1,511	2,527
Other current assets	10	11
<b>Total Current Assets</b>	<u><b>3,030</b></u>	<u><b>4,263</b></u>
<b>Investments</b>		
Nuclear plant decommissioning trust funds	712	640
Other investments	41	40
<b>Total Investments</b>	<u><b>753</b></u>	<u><b>680</b></u>
<b>Property, Plant and Equipment</b>		
Non-regulated property, plant and equipment		
Generation	11,305	10,517
Nuclear fuel	524	457
Other	294	245
Less: accumulated depreciation - non-regulated property, plant and equipment	5,817	5,573
Non-regulated property, plant and equipment, net	6,306	5,646
Construction work in progress	987	840
<b>Property, Plant and Equipment, net (a)</b>	<u><b>7,293</b></u>	<u><b>6,486</b></u>
<b>Other Noncurrent Assets</b>		
Goodwill	86	86
Other intangibles (a)	252	386
Price risk management assets	557	896
Other noncurrent assets	404	382
<b>Total Other Noncurrent Assets</b>	<u><b>1,299</b></u>	<u><b>1,750</b></u>
<b>Total Assets</b>	<u><b>\$ 12,375</b></u>	<u><b>\$ 13,179</b></u>

(a) At December 31, 2012 and December 31, 2011, includes \$428 million and \$416 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and \$10 million and \$11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant. See Note 22 for additional information.

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,**  
**PPL Energy Supply, LLC and Subsidiaries**  
*(Millions of Dollars)*

	<u>2012</u>	<u>2011</u>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	\$ 356	\$ 400
Long-term debt due within one year	751	
Accounts payable	438	472
Accounts payable to affiliates	31	14
Taxes	62	90
Interest	31	30
Price risk management liabilities	1,010	1,560
Deferred income taxes	158	315
Other current liabilities	319	344
<b>Total Current Liabilities</b>	<u>3,156</u>	<u>3,225</u>
<b>Long-term Debt</b>	<u>2,521</u>	<u>3,024</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	1,232	1,223
Investment tax credits	186	136
Price risk management liabilities	556	785
Accrued pension obligations	293	214
Asset retirement obligations	365	349
Other deferred credits and noncurrent liabilities	218	186
<b>Total Deferred Credits and Other Noncurrent Liabilities</b>	<u>2,850</u>	<u>2,893</u>
<b>Commitments and Contingent Liabilities (Note 15)</b>		
<b>Equity</b>		
Member's equity	3,830	4,019
Noncontrolling interests	18	18
<b>Total Equity</b>	<u>3,848</u>	<u>4,037</u>
<b>Total Liabilities and Equity</b>	<u>\$ 12,375</u>	<u>\$ 13,179</u>

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**CONSOLIDATED STATEMENTS OF EQUITY**  
**PPL Energy Supply, LLC and Subsidiaries**  
*(Millions of Dollars)*

	Member's equity	Non- controlling interests	Total
<b>December 31, 2009 (a)</b>	\$ 4,568	\$ 18	\$ 4,586
Net income	861	1	862
Other comprehensive income (loss)	129		129
Contributions from member	3,625		3,625
Distributions	(4,692)	(1)	(4,693)
<b>December 31, 2010 (a)</b>	<u>\$ 4,491</u>	<u>\$ 18</u>	<u>\$ 4,509</u>
Net income	\$ 768	\$ 1	\$ 769
Other comprehensive income (loss)	(97)		(97)
Contributions from member	461		461
Distributions	(316)	(1)	(317)
Distribution of membership interest in PPL Global (b)	(1,288)		(1,288)
<b>December 31, 2011 (a)</b>	<u>\$ 4,019</u>	<u>\$ 18</u>	<u>\$ 4,037</u>
Net income	\$ 474	\$ 1	\$ 475
Other comprehensive income (loss)	(439)		(439)
Contributions from member	563		563
Distributions	(787)	(1)	(788)
<b>December 31, 2012 (a)</b>	<u>\$ 3,830</u>	<u>\$ 18</u>	<u>\$ 3,848</u>

- (a) See "General - Comprehensive Income" in Note 1 for disclosure of balances of each component of AOCI.  
(b) See Note 9 for additional information.

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

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**CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,**  
**PPL Electric Utilities Corporation and Subsidiaries**  
*(Millions of Dollars)*

	2012	2011	2010
<b>Operating Revenues</b>			
Retail electric	\$ 1,760	\$ 1,881	\$ 2,448
Electric revenue from affiliate	3	11	7
<b>Total Operating Revenues</b>	<u>1,763</u>	<u>1,892</u>	<u>2,455</u>
<b>Operating Expenses</b>			
Operation			
Energy purchases	550	738	1,075
Energy purchases from affiliate	78	26	320
Other operation and maintenance	576	530	502
Depreciation	160	146	136
Taxes, other than income	105	104	138
<b>Total Operating Expenses</b>	<u>1,469</u>	<u>1,544</u>	<u>2,171</u>
<b>Operating Income</b>	294	348	284
Other Income (Expense) - net	9	7	7
Interest Expense	99	98	99
<b>Income Before Income Taxes</b>	204	257	192
Income Taxes	68	68	57
<b>Net Income (a)</b>	136	189	135
Distributions on Preferred Securities	4	16	20
<b>Net Income Available to PPL</b>	<u>\$ 132</u>	<u>\$ 173</u>	<u>\$ 115</u>

(a) Net income approximates comprehensive income.

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,**  
**PPL Electric Utilities Corporation and Subsidiaries**  
*(Millions of Dollars)*

	2012	2011	2010
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 136	\$ 189	\$ 135
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	160	146	136
Amortization	18	8	(23)
Defined benefit plans - expense	22	18	20
Deferred income taxes and investment tax credits	114	106	198
Other	2	1	4
Change in current assets and current liabilities			
Accounts receivable	3	(5)	(38)
Accounts payable	27	(68)	31
Unbilled revenues	(8)	36	59
Prepayments	2	58	(112)
Regulatory assets and liabilities	(1)	107	(85)
Taxes	12	(23)	(38)
Other	(5)	7	(27)
Other operating activities			
Defined benefit plans - funding	(59)	(113)	(55)
Other assets	(3)	(28)	5
Other liabilities	(31)	(19)	2
Net cash provided by (used in) operating activities	<u>389</u>	<u>420</u>	<u>212</u>
<b>Cash Flows from Investing Activities</b>			
Expenditures for property, plant and equipment	(624)	(481)	(401)
Other investing activities	11	4	(2)
Net cash provided by (used in) investing activities	<u>(613)</u>	<u>(477)</u>	<u>(403)</u>
<b>Cash Flows from Financing Activities</b>			
Issuance of long-term debt	249	645	
Retirement of long-term debt		(458)	
Contributions from PPL	150	100	55
Redemption of preference stock	(250)		(54)
Payment of common stock dividends to parent	(95)	(92)	(71)
Other financing activities	(10)	(22)	(20)
Net cash provided by (used in) financing activities	<u>44</u>	<u>173</u>	<u>(90)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(180)</b>	<b>116</b>	<b>(281)</b>
Cash and Cash Equivalents at Beginning of Period	320	204	485
Cash and Cash Equivalents at End of Period	<u>\$ 140</u>	<u>\$ 320</u>	<u>\$ 204</u>
<b>Supplemental Disclosures of Cash Flow Information</b>			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 81	\$ 75	\$ 87
Income taxes - net	\$ (42)	\$ (44)	\$ (33)

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,**  
**PPL Electric Utilities Corporation and Subsidiaries**  
*(Millions of Dollars, shares in thousands)*

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 140	\$ 320
Accounts receivable (less reserve: 2012, \$18; 2011, \$17)		
Customer	249	267
Other	5	9
Accounts receivable from affiliates	29	35
Unbilled revenues	110	102
Materials and supplies	39	42
Prepayments	76	78
Deferred income taxes	45	25
Other current assets	4	5
<b>Total Current Assets</b>	<u>697</u>	<u>883</u>
<b>Property, Plant and Equipment</b>		
Regulated utility plant	6,286	5,830
Less: accumulated depreciation - regulated utility plant	<u>2,316</u>	<u>2,217</u>
Regulated utility plant, net	3,970	3,613
Other, net	2	2
Construction work in progress	<u>370</u>	<u>242</u>
<b>Property, Plant and Equipment, net</b>	<u>4,342</u>	<u>3,857</u>
<b>Other Noncurrent Assets</b>		
Regulatory assets	853	729
Intangibles	171	155
Other noncurrent assets	<u>55</u>	<u>81</u>
<b>Total Other Noncurrent Assets</b>	<u>1,079</u>	<u>965</u>
<b>Total Assets</b>	<u>\$ 6,118</u>	<u>\$ 5,705</u>

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,**  
**PPL Electric Utilities Corporation and Subsidiaries**  
*(Millions of Dollars, shares in thousands)*

	<u>2012</u>	<u>2011</u>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 259	\$ 171
Accounts payable to affiliates	63	64
Taxes	12	
Interest	26	24
Regulatory liabilities	52	53
Customer deposits and prepayments	21	39
Vacation	23	22
Other current liabilities	49	47
<b>Total Current Liabilities</b>	<u>505</u>	<u>420</u>
<b>Long-term Debt</b>	<u>1,967</u>	<u>1,718</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	1,233	1,115
Investment tax credits	3	5
Accrued pension obligations	237	186
Regulatory liabilities	8	7
Other deferred credits and noncurrent liabilities	103	129
<b>Total Deferred Credits and Other Noncurrent Liabilities</b>	<u>1,584</u>	<u>1,442</u>
<b>Commitments and Contingent Liabilities (Notes 6 and 15)</b>		
<b>Shareowners' Equity</b>		
Preferred securities		250
Common stock - no par value (a)	364	364
Additional paid-in capital	1,135	979
Earnings reinvested	563	532
<b>Total Equity</b>	<u>2,062</u>	<u>2,125</u>
<b>Total Liabilities and Equity</b>	<u>\$ 6,118</u>	<u>\$ 5,705</u>

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at December 31, 2012 and December 31, 2011.

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY**  
**PPL Electric Utilities Corporation and Subsidiaries**  
*(Millions of Dollars)*

	Common stock shares outstanding (a)	Preferred securities	Common stock	Additional paid-in capital	Earnings reinvested	Total
<b>December 31, 2009</b>	66,368	\$ 301	\$ 364	\$ 824	\$ 407	\$ 1,896
Net income					135	135
Redemption of preferred securities (b)		(51)			(3)	(54)
Capital contributions from PPL				55		55
Cash dividends declared on preferred securities					(17)	(17)
Cash dividends declared on common stock					(71)	(71)
<b>December 31, 2010</b>	<u>66,368</u>	<u>\$ 250</u>	<u>\$ 364</u>	<u>\$ 879</u>	<u>\$ 451</u>	<u>\$ 1,944</u>
Net income					\$ 189	\$ 189
Capital contributions from PPL				\$ 100		100
Cash dividends declared on preferred securities					(16)	(16)
Cash dividends declared on common stock					(92)	(92)
<b>December 31, 2011</b>	<u>66,368</u>	<u>\$ 250</u>	<u>\$ 364</u>	<u>\$ 979</u>	<u>\$ 532</u>	<u>\$ 2,125</u>
Net income					\$ 136	\$ 136
Redemption of preferred securities (b)		\$ (250)		\$ 6	(6)	(250)
Capital contributions from PPL				150		150
Cash dividends declared on preferred securities					(4)	(4)
Cash dividends declared on common stock					(95)	(95)
<b>December 31, 2012</b>	<u>66,368</u>	<u>\$</u>	<u>\$ 364</u>	<u>\$ 1,135</u>	<u>\$ 563</u>	<u>\$ 2,062</u>

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.

(b) In April 2010 and June 2012, collectively, PPL Electric redeemed all of its outstanding preferred securities. See Note 3 for additional information on both redemptions.

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**CONSOLIDATED STATEMENTS OF INCOME**  
**LG&E and KU Energy LLC and Subsidiaries**  
(Millions of Dollars)

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Operating Revenues</b>	\$ 2,759	\$ 2,793	\$ 494	\$ 2,214
<b>Operating Expenses</b>				
Operation				
Fuel	872	866	138	723
Energy purchases	195	238	68	211
Other operation and maintenance	778	751	141	586
Depreciation	346	334	49	235
Taxes, other than income	46	37	2	21
<b>Total Operating Expenses</b>	<b>2,237</b>	<b>2,226</b>	<b>398</b>	<b>1,776</b>
<b>Operating Income</b>	<b>522</b>	<b>567</b>	<b>96</b>	<b>438</b>
Other Income (Expense) - net	(15)	(1)	(2)	14
Other-Than-Temporary Impairments	25			
Interest Expense	150	146	20	21
Interest Expense with Affiliate	1	1	4	131
<b>Income (Loss) from Continuing Operations Before Income Taxes</b>	<b>331</b>	<b>419</b>	<b>70</b>	<b>300</b>
Income Taxes	106	153	25	109
<b>Income (Loss) from Continuing Operations After Income Taxes</b>	<b>225</b>	<b>266</b>	<b>45</b>	<b>191</b>
Income (Loss) from Discontinued Operations (net of income taxes)	(6)	(1)	2	(1)
<b>Net Income (Loss)</b>	<b>\$ 219</b>	<b>\$ 265</b>	<b>\$ 47</b>	<b>\$ 190</b>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**LG&E and KU Energy LLC and Subsidiaries**  
*(Millions of Dollars)*

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Net income (loss)</b>	<b>\$ 219</b>	<b>\$ 265</b>	<b>\$ 47</b>	<b>\$ 190</b>
<b>Other comprehensive income (loss):</b>				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Qualifying derivatives, net of tax of \$0, \$0, \$0, (\$7)				10
Equity investee's other comprehensive income (loss), net of tax of (\$1), \$0, \$0, \$1	1			(2)
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$1, \$0, \$0		(2)		
Net actuarial loss, net of tax of \$13, (\$1), (\$3), \$15	(21)		6	(20)
Reclassification to net income - (gains) losses, net of tax expense (benefit):				
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$0, \$0, (\$1)				1
Net actuarial loss, net of tax of \$0, \$1, \$0, (\$1)	1			1
<b>Total other comprehensive income (loss)</b>	<b>(19)</b>	<b>(2)</b>	<b>6</b>	<b>(10)</b>
<b>Comprehensive income (loss) attributable to member</b>	<b>\$ 200</b>	<b>\$ 263</b>	<b>\$ 53</b>	<b>\$ 180</b>

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**LG&E and KU Energy LLC and Subsidiaries**  
(Millions of Dollars)

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Cash Flows from Operating Activities</b>				
Net income (loss)	\$ 219	\$ 265	\$ 47	\$ 190
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities				
Depreciation	346	334	49	235
Amortization of regulatory assets	27	27	3	
Defined benefit plans - expense	40	51	12	52
Deferred income taxes and investment tax credits	133	218	52	65
Unrealized (gains) losses on derivatives				14
Loss from discontinued operations - net of tax				1
Impairment of assets	25			
Other	2	(9)	11	(23)
Change in current assets and current liabilities				
Accounts receivable	(9)	17	(17)	12
Accounts payable	1	(32)	(14)	(34)
Accounts payable to affiliates	(1)		4	(7)
Unbilled revenues	(10)	24	(70)	41
Fuel, materials and supplies	8	15	15	(28)
Income tax receivable	2	37	(40)	(2)
Taxes	1	(2)	4	18
Other		(1)	(27)	47
Other operating activities				
Defined benefit plans - funding	(70)	(170)	(8)	(57)
Discontinued operations				13
Other assets	(5)	(11)	12	14
Other liabilities	38	18	(7)	(63)
Net cash provided by (used in) operating activities	<u>747</u>	<u>781</u>	<u>26</u>	<u>488</u>
<b>Cash Flows from Investing Activities</b>				
Expenditures for property, plant and equipment	(768)	(477)	(152)	(447)
Proceeds from sales of discontinued operations				21
Proceeds from the sale of other investments		163		
Net (increase) decrease in notes receivable from affiliates	15	46	(61)	
Net (increase) decrease in restricted cash and cash equivalents	(3)	(9)	2	
Net cash provided by (used in) investing activities	<u>(756)</u>	<u>(277)</u>	<u>(211)</u>	<u>(426)</u>
<b>Cash Flows from Financing Activities</b>				
Issuance of short-term debt with affiliate			1,001	900
Retirement of short-term debt with affiliate			(1,001)	(575)
Net increase (decrease) in notes payable with affiliates	25			(3)
Issuance of long-term debt with affiliate			1,783	50
Retirement of long-term debt with affiliate			(1,783)	(325)
Issuance of long-term debt		250	2,890	
Retirement of long-term debt		(2)		
Net increase (decrease) in short-term debt	125	(163)	163	
Repayment to E.ON AG affiliates			(4,319)	
Debt issuance and credit facility costs	(2)	(8)	(32)	
Distributions to member	(155)	(533)	(100)	(87)
Contributions from member			1,565	
Net cash provided by (used in) financing activities	<u>(7)</u>	<u>(456)</u>	<u>167</u>	<u>(40)</u>
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b>	<u>(16)</u>	<u>48</u>	<u>(18)</u>	<u>22</u>
Cash and Cash Equivalents at Beginning of Period	59	11	29	7
Cash and Cash Equivalents at End of Period	<u>\$ 43</u>	<u>\$ 59</u>	<u>\$ 11</u>	<u>\$ 29</u>
<b>Supplemental Disclosures of Cash Flow Information</b>				
Cash paid (received) during the period for:				
Interest - net of amount capitalized	\$ 139	\$ 126	\$ 41	\$ 153
Income taxes - net	\$ (45)	\$ (98)	\$ (1)	\$ 9

The accompanying Notes to Financial Statements are an integral part of the financial statements.



**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,**  
**LG&E and KU Energy LLC and Subsidiaries**  
*(Millions of Dollars)*

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 43	\$ 59
Accounts receivable (less reserve: 2012, \$19; 2011, \$17)		
Customer	133	129
Other	19	20
Unbilled revenues	156	146
Accounts receivable from affiliates	1	
Notes receivable from affiliates		15
Fuel, materials and supplies	276	283
Prepayments	28	22
Price risk management assets from affiliates	14	
Income taxes receivable	1	3
Deferred income taxes	13	17
Regulatory assets	19	9
Other current assets	4	3
<b>Total Current Assets</b>	<u>707</u>	<u>706</u>
<b>Investments</b>	<u>1</u>	<u>31</u>
<b>Property, Plant and Equipment</b>		
Regulated utility plant	8,073	7,519
Less: accumulated depreciation - regulated utility plant	519	277
Regulated utility plant, net	7,554	7,242
Other, net	3	2
Construction work in progress	750	557
<b>Property, Plant and Equipment, net</b>	<u>8,307</u>	<u>7,801</u>
<b>Other Noncurrent Assets</b>		
Regulatory assets	630	620
Goodwill	996	996
Other intangibles	271	314
Other noncurrent assets	107	108
<b>Total Other Noncurrent Assets</b>	<u>2,004</u>	<u>2,038</u>
<b>Total Assets</b>	<u>\$ 11,019</u>	<u>\$ 10,576</u>

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,**  
**LG&E and KU Energy LLC and Subsidiaries**  
*(Millions of Dollars)*

	<u>2012</u>	<u>2011</u>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	\$ 125	
Notes payable with affiliates	25	
Accounts payable	283	\$ 224
Accounts payable to affiliates	1	2
Customer deposits	48	45
Taxes	26	25
Regulatory liabilities	9	20
Interest	21	23
Salaries and benefits	69	59
Other current liabilities	36	35
<b>Total Current Liabilities</b>	<u>643</u>	<u>433</u>
<b>Long-term Debt</b>	<u>4,075</u>	<u>4,073</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	541	413
Investment tax credits	138	144
Price risk management liabilities	53	55
Accrued pension obligations	414	359
Asset retirement obligations	125	116
Regulatory liabilities	1,002	1,003
Other deferred credits and noncurrent liabilities	242	239
<b>Total Deferred Credits and Other Noncurrent Liabilities</b>	<u>2,515</u>	<u>2,329</u>
<b>Commitments and Contingent Liabilities (Notes 6 and 15)</b>		
<b>Member's equity</b>	<u>3,786</u>	<u>3,741</u>
<b>Total Liabilities and Equity</b>	<u>\$ 11,019</u>	<u>\$ 10,576</u>

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**CONSOLIDATED STATEMENTS OF EQUITY**  
**LG&E and KU Energy LLC and Subsidiaries**  
*(Millions of Dollars)*

	Member's Equity	Non- controlling interests	Total
<b>December 31, 2009 - Predecessor (a)</b>	\$ 2,192	\$ 32	\$ 2,224
Net income	190		190
Distributions to member	(81)		(81)
Other comprehensive income (loss)	(10)		(10)
Noncontrolling interest - income (loss) from discontinued operations	(11)	(32)	(43)
<b>October 31, 2010 - Predecessor (a)</b>	<u>\$ 2,280</u>	<u>\$</u>	<u>\$ 2,280</u>
<b>Effect of PPL acquisition</b>	<b>\$ 213</b>		<b>\$ 213</b>
Net income	47		47
Contributions from member	1,565		1,565
Distributions to member	(100)		(100)
Other comprehensive income (loss)	6		6
<b>December 31, 2010 - Successor (a)</b>	<u>\$ 4,011</u>	<u>\$</u>	<u>\$ 4,011</u>
Net income	\$ 265		\$ 265
Distributions to member	(533)		(533)
Other comprehensive income (loss)	(2)		(2)
<b>December 31, 2011 - Successor (a)</b>	<u>\$ 3,741</u>	<u>\$</u>	<u>\$ 3,741</u>
Net income	\$ 219		\$ 219
Distributions to member	(155)		(155)
Other comprehensive income (loss)	(19)		(19)
<b>December 31, 2012 - Successor (a)</b>	<u>\$ 3,786</u>	<u>\$</u>	<u>\$ 3,786</u>

(a) See "General - Comprehensive Income" in Note I for disclosure of balances of each component of AOCI.

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**STATEMENTS OF INCOME**  
**Louisville Gas and Electric Company**  
*(Millions of Dollars)*

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended December 31, 2010
<b>Operating Revenues</b>				
Retail and wholesale	\$ 1,247	\$ 1,281	\$ 233	\$ 978
Electric revenue from affiliate	77	83	21	79
<b>Total Operating Revenues</b>	<b>1,324</b>	<b>1,364</b>	<b>254</b>	<b>1,057</b>
<b>Operating Expenses</b>				
Operation				
Fuel	374	350	60	306
Energy purchases	163	209	61	142
Energy purchases from affiliate	12	36	2	13
Other operation and maintenance	363	363	67	281
Depreciation	152	147	23	115
Taxes, other than income	23	18	1	12
<b>Total Operating Expenses</b>	<b>1,087</b>	<b>1,123</b>	<b>214</b>	<b>869</b>
<b>Operating Income</b>	<b>237</b>	<b>241</b>	<b>40</b>	<b>188</b>
Other Income (Expense) - net	(3)	(2)	(3)	17
Interest Expense	42	44	7	16
Interest Expense with Affiliate			1	22
<b>Income Before Income Taxes</b>	<b>192</b>	<b>195</b>	<b>29</b>	<b>167</b>
Income Taxes	69	71	10	58
<b>Net Income</b>	<b>\$ 123</b>	<b>\$ 124</b>	<b>\$ 19</b>	<b>\$ 109</b>

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**STATEMENTS OF COMPREHENSIVE INCOME**

**Louisville Gas and Electric Company**

(Millions of Dollars)

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Net income</b>	\$ 123	\$ 124	\$ 19	\$ 109
<b>Other comprehensive income (loss):</b>				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Qualifying derivatives, net of tax of \$0, \$0, \$0, (\$7)				10
<b>Total other comprehensive income (loss)</b>				10
<b>Comprehensive income</b>	<b>\$ 123</b>	<b>\$ 124</b>	<b>\$ 19</b>	<b>\$ 119</b>

*The accompanying Notes to the Financial Statements are an integral part of the financial statements.*

**STATEMENTS OF CASH FLOWS**  
**Louisville Gas and Electric Company**  
(Millions of Dollars)

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Cash Flows from Operating Activities</b>				
Net income	\$ 123	\$ 124	\$ 19	\$ 109
Adjustments to reconcile net income to net cash provided by (used in) operating activities				
Depreciation	152	147	23	115
Amortization	11	12	2	
Defined benefit plans - expense	18	21	4	20
Deferred income taxes and investment tax credits	69	51	13	21
Unrealized (gains) losses on derivatives				14
Regulatory asset for previously recorded losses on interest rate swaps				(22)
Other	(13)	1	2	2
Change in current assets and current liabilities				
Accounts receivable	(2)	25	(27)	(2)
Accounts payable		(24)	17	
Accounts payable to affiliates	(3)	6	(31)	23
Unbilled revenues	(7)	16	(38)	22
Fuel, materials and supplies		20	10	(22)
Taxes	(7)	3		
Other	(7)	(7)	(2)	(47)
Other operating activities				
Defined benefit plans - funding	(27)	(70)	(1)	(25)
Other assets	(21)	(7)		(5)
Other liabilities	22	7	1	(14)
Net cash provided by (used in) operating activities	<u>308</u>	<u>325</u>	<u>(8)</u>	<u>189</u>
<b>Cash Flows from Investing Activities</b>				
Expenditures for property, plant and equipment	(286)	(196)	(65)	(155)
Proceeds from the sale of assets to affiliate				48
Proceeds from the sale of other investments		163		
Net (increase) decrease in restricted cash and cash equivalents	(3)	(9)	2	
Net cash provided by (used in) investing activities	<u>(289)</u>	<u>(42)</u>	<u>(63)</u>	<u>(107)</u>
<b>Cash Flows from Financing Activities</b>				
Net increase (decrease) in notes payable with affiliates		(12)	(130)	(28)
Issuance of long-term debt with affiliate			485	
Retirement of long-term debt with affiliate			(485)	
Issuance of long-term debt			531	
Net increase (decrease) in short-term debt	55	(163)	163	
Repayment to E.ON AG affiliates			(485)	
Debt issuance and credit facility costs	(2)	(2)	(10)	
Payment of common stock dividends to parent	(75)	(83)		(55)
Net cash provided by (used in) financing activities	<u>(22)</u>	<u>(260)</u>	<u>69</u>	<u>(83)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(3)</u>	<u>23</u>	<u>(2)</u>	<u>(1)</u>
Cash and Cash Equivalents at Beginning of Period	25	2	4	5
Cash and Cash Equivalents at End of Period	<u>\$ 22</u>	<u>\$ 25</u>	<u>\$ 2</u>	<u>\$ 4</u>
<b>Supplemental Disclosures of Cash Flow Information</b>				
Cash paid (received) during the period for:				
Interest - net of amount capitalized	\$ 39	\$ 40	\$ 11	\$ 39
Income taxes - net	\$ 5	\$ 20	\$ (8)	\$ 60

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**BALANCE SHEETS AT DECEMBER 31,**  
**Louisville Gas and Electric Company**  
*(Millions of Dollars, shares in thousands)*

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 22	\$ 25
Accounts receivable (less reserve: 2012, \$1; 2011, \$2)		
Customer	59	60
Other	8	9
Unbilled revenues	72	65
Accounts receivable from affiliates	14	11
Fuel, materials and supplies	142	142
Prepayments	7	7
Price risk management from affiliates	7	
Income taxes receivable	8	4
Deferred income taxes		2
Regulatory assets	19	9
Other current assets	1	
<b>Total Current Assets</b>	<u>359</u>	<u>334</u>
<b>Property, Plant and Equipment</b>		
Regulated utility plant	3,187	2,956
Less: accumulated depreciation - regulated utility plant	220	116
Regulated utility plant, net	<u>2,967</u>	<u>2,840</u>
Construction work in progress	259	215
<b>Property, Plant and Equipment, net</b>	<u>3,226</u>	<u>3,055</u>
<b>Other Noncurrent Assets</b>		
Regulatory assets	400	403
Goodwill	389	389
Other intangibles	144	166
Other noncurrent assets	44	40
<b>Total Other Noncurrent Assets</b>	<u>977</u>	<u>998</u>
<b>Total Assets</b>	<u>\$ 4,562</u>	<u>\$ 4,387</u>

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**BALANCE SHEETS AT DECEMBER 31,**  
**Louisville Gas and Electric Company**  
*(Millions of Dollars, shares in thousands)*

	<u>2012</u>	<u>2011</u>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	\$ 55	
Accounts payable	117	\$ 94
Accounts payable to affiliates	23	26
Customer deposits	23	22
Taxes	2	13
Regulatory liabilities	4	10
Interest	5	6
Salaries and benefits	18	14
Deferred income taxes	4	
Other current liabilities	17	14
<b>Total Current Liabilities</b>	<u>268</u>	<u>199</u>
<b>Long-term Debt</b>	<u>1,112</u>	<u>1,112</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	544	475
Investment tax credits	40	43
Accrued pension obligations	102	95
Asset retirement obligations	56	55
Regulatory liabilities	471	478
Price risk management liabilities	53	55
Other deferred credits and noncurrent liabilities	106	113
<b>Total Deferred Credits and Other Noncurrent Liabilities</b>	<u>1,372</u>	<u>1,314</u>
<b>Commitments and Contingent Liabilities (Notes 6 and 15)</b>		
<b>Stockholder's Equity</b>		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,278	1,278
Earnings reinvested	108	60
<b>Total Equity</b>	<u>1,810</u>	<u>1,762</u>
<b>Total Liabilities and Equity</b>	<u>\$ 4,562</u>	<u>\$ 4,387</u>

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at December 31, 2012 and December 31, 2011.

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*



**STATEMENTS OF EQUITY**  
**Louisville Gas and Electric Company**  
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
<b>December 31, 2009 - Predecessor (b)</b>	21,294	\$ 424	\$ 84	\$ 755	\$ (10)	\$ 1,253
Net income				109		109
Cash dividends declared on common stock				(55)		(55)
Other comprehensive income (loss)					10	10
<b>October 31, 2010 - Predecessor</b>	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 84</u>	<u>\$ 809</u>	<u>\$</u>	<u>\$ 1,317</u>
Effect of PPL acquisition			\$ 1,194	\$ (809)		\$ 385
Net income				19		19
<b>December 31, 2010 - Successor</b>	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,278</u>	<u>\$ 19</u>	<u>\$</u>	<u>\$ 1,721</u>
Net income				\$ 124		\$ 124
Cash dividends declared on common stock				(83)		(83)
<b>December 31, 2011 - Successor</b>	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,278</u>	<u>\$ 60</u>	<u>\$</u>	<u>\$ 1,762</u>
Net income				\$ 123		\$ 123
Cash dividends declared on common stock				(75)		(75)
<b>December 31, 2012 - Successor</b>	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,278</u>	<u>\$ 108</u>	<u>\$</u>	<u>\$ 1,810</u>

- (a) Shares in thousands. All common shares of LG&E stock are owned by LKE.  
(b) See "General - Comprehensive Income" in Note 1 for disclosure of balances of each component of AOCI.

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**STATEMENTS OF INCOME**  
**Kentucky Utilities Company**  
(Millions of Dollars)

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Operating Revenues</b>				
Retail and wholesale	\$ 1,512	\$ 1,512	\$ 261	\$ 1,235
Electric revenue from affiliate	12	36	2	13
<b>Total Operating Revenues</b>	<b>1,524</b>	<b>1,548</b>	<b>263</b>	<b>1,248</b>
<b>Operating Expenses</b>				
Operation				
Fuel	498	516	78	417
Energy purchases	32	29	7	68
Energy purchases from affiliate	77	83	21	79
Other operation and maintenance	384	362	65	271
Depreciation	193	186	26	119
Taxes, other than income	23	19	1	9
<b>Total Operating Expenses</b>	<b>1,207</b>	<b>1,195</b>	<b>198</b>	<b>963</b>
<b>Operating Income</b>	<b>317</b>	<b>353</b>	<b>65</b>	<b>285</b>
Other Income (Expense) - net	(8)	(1)		1
Other-Than-Temporary Impairments	25			
Interest Expense	69	70	8	6
Interest Expense with Affiliate			2	62
<b>Income Before Income Taxes</b>	<b>215</b>	<b>282</b>	<b>55</b>	<b>218</b>
Income Taxes	78	104	20	78
<b>Net Income</b>	<b>\$ 137</b>	<b>\$ 178</b>	<b>\$ 35</b>	<b>\$ 140</b>

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**STATEMENTS OF COMPREHENSIVE INCOME**  
**Kentucky Utilities Company**  
*(Millions of Dollars)*

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Net income</b>	\$ 137	\$ 178	\$ 35	\$ 140
<b>Other comprehensive income (loss):</b>				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Equity investees' other comprehensive income (loss), net of tax of (\$1), \$0, \$0, \$1	1			(2)
<b>Total other comprehensive income (loss)</b>	1			(2)
<b>Comprehensive income</b>	\$ 138	\$ 178	\$ 35	\$ 138

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**STATEMENTS OF CASH FLOWS**
**Kentucky Utilities Company**
*(Millions of Dollars)*

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Cash Flows from Operating Activities</b>				
Net income	\$ 137	\$ 178	\$ 35	\$ 140
Adjustments to reconcile net income to net cash provided by (used in) operating activities				
Depreciation	193	186	26	119
Amortization	14	13	2	
Defined benefit plans - expense	11	14	3	13
Deferred income taxes and investment tax credits	99	108	4	23
Impairment of assets	25			
Other	10	(10)	12	(3)
Change in current assets and current liabilities				
Accounts receivable	(17)	22	(12)	13
Accounts payable	1	2	9	(17)
Accounts payable to affiliates		(12)	(41)	46
Unbilled revenues	(3)	8	(32)	19
Fuel, materials and supplies	7	(5)	5	(6)
Taxes	15	(14)	14	
Other	6	(3)	6	10
Other operating activities				
Defined benefit plans - funding	(21)	(50)	(2)	(18)
Other assets	(3)	(2)		15
Other liabilities	26	9	1	(10)
Net cash provided by (used in) operating activities	500	444	30	344
<b>Cash Flows from Investing Activities</b>				
Expenditures for property, plant and equipment	(480)	(279)	(89)	(292)
Purchases of assets from affiliate				(48)
Net cash provided by (used in) investing activities	(480)	(279)	(89)	(340)
<b>Cash Flows from Financing Activities</b>				
Issuance of short-term debt with affiliate			33	
Retirement of short-term debt with affiliate			(33)	
Net increase (decrease) in notes payable with affiliates		(10)	(83)	48
Issuance of long-term debt with affiliate			1,298	
Retirement of long-term debt with affiliate			(1,298)	
Issuance of long-term debt			1,489	
Net increase (decrease) in short-term debt	70			
Repayment to E.ON AG affiliates			(1,331)	
Debt issuance and credit facility costs		(3)	(17)	
Payment of common stock dividends to parent	(100)	(124)		(50)
Net cash provided by (used in) financing activities	(30)	(137)	58	(2)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(10)</b>	<b>28</b>	<b>(1)</b>	<b>2</b>
Cash and Cash Equivalents at Beginning of Period	31	3	4	2
Cash and Cash Equivalents at End of Period	\$ 21	\$ 31	\$ 3	\$ 4
<b>Supplemental Disclosures of Cash Flow Information</b>				
Cash paid (received) during the period for:				
Interest - net of amount capitalized	\$ 62	\$ 60	\$ 22	\$ 62
Income taxes - net	\$ (39)	\$ 16	\$ (12)	\$ 74

The accompanying Notes to Financial Statements are an integral part of the financial statements.

**BALANCE SHEETS AT DECEMBER 31,**  
**Kentucky Utilities Company**  
*(Millions of Dollars, shares in thousands)*

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 21	\$ 31
Accounts receivable (less reserve: 2012, \$2; 2011, \$2)		
Customer	74	69
Other	11	9
Unbilled revenues	84	81
Accounts receivable from affiliates	7	
Fuel, materials and supplies	134	141
Prepayments	10	7
Price risk management assets from affiliates	7	
Income taxes receivable	2	5
Deferred income taxes	3	5
Other current assets	3	3
<b>Total Current Assets</b>	<u>356</u>	<u>351</u>
<b>Investments</b>		31
<b>Property, Plant and Equipment</b>		
Regulated utility plant	4,886	4,563
Less: accumulated depreciation - regulated utility plant	299	161
Regulated utility plant, net	<u>4,587</u>	<u>4,402</u>
Other, net	1	
Construction work in progress	490	340
<b>Property, Plant and Equipment, net</b>	<u>5,078</u>	<u>4,742</u>
<b>Other Noncurrent Assets</b>		
Regulatory assets	230	217
Goodwill	607	607
Other intangibles	127	148
Other noncurrent assets	57	60
<b>Total Other Noncurrent Assets</b>	<u>1,021</u>	<u>1,032</u>
<b>Total Assets</b>	<u>\$ 6,455</u>	<u>\$ 6,156</u>

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**BALANCE SHEETS AT DECEMBER 31,**  
**Kentucky Utilities Company**  
*(Millions of Dollars, shares in thousands)*

	<u>2012</u>	<u>2011</u>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	\$ 70	
Accounts payable	147	\$ 112
Accounts payable to affiliates	33	33
Customer deposits	25	23
Taxes	26	11
Regulatory liabilities	5	10
Interest	10	11
Salaries and benefits	17	15
Other current liabilities	16	13
<b>Total Current Liabilities</b>	<u>349</u>	<u>228</u>
<b>Long-term Debt</b>	<u>1,842</u>	<u>1,842</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	587	484
Investment tax credits	98	101
Accrued pension obligations	104	83
Asset retirement obligations	69	61
Regulatory liabilities	531	525
Other deferred credits and noncurrent liabilities	92	87
<b>Total Deferred Credits and Other Noncurrent Liabilities</b>	<u>1,481</u>	<u>1,341</u>
<b>Commitments and Contingent Liabilities (Notes 6 and 15)</b>		
<b>Stockholder's Equity</b>		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,348	2,348
Accumulated other comprehensive income (loss)	1	
Earnings reinvested	126	89
<b>Total Equity</b>	<u>2,783</u>	<u>2,745</u>
<b>Total Liabilities and Equity</b>	<u>\$ 6,455</u>	<u>\$ 6,156</u>

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at December 31, 2012 and December 31, 2011.

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

**STATEMENTS OF EQUITY**  
**Kentucky Utilities Company**  
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
<b>December 31, 2009 - Predecessor</b>	37,818	\$ 308	\$ 316	\$ 1,328		\$ 1,952
Net income				140		140
Cash dividends declared on common stock				(50)		(50)
Other comprehensive income (loss)					\$ (2)	(2)
<b>October 31, 2010 - Predecessor (b)</b>	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 316</u>	<u>\$ 1,418</u>	<u>\$ (2)</u>	<u>\$ 2,040</u>
Effect of PPL acquisition			\$ 2,032	\$ (1,418)	\$ 2	\$ 616
Net income				35		35
<b>December 31, 2010 - Successor</b>	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,348</u>	<u>\$ 35</u>	<u>\$</u>	<u>\$ 2,691</u>
Net income				\$ 178		\$ 178
Cash dividends declared on common stock				(124)		(124)
<b>December 31, 2011 - Successor</b>	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,348</u>	<u>\$ 89</u>	<u>\$</u>	<u>\$ 2,745</u>
Net income				\$ 137		\$ 137
Cash dividends declared on common stock				(100)		(100)
Other comprehensive income (loss)					\$ 1	1
<b>December 31, 2012 - Successor (b)</b>	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,348</u>	<u>\$ 126</u>	<u>\$ 1</u>	<u>\$ 2,783</u>

- (a) Shares in thousands. All common shares of KU stock are owned by LKE.  
(b) See "General - Comprehensive Income" in Note 1 for disclosure of balances of each component of AOCI.

*The accompanying Notes to Financial Statements are an integral part of the financial statements.*

## **COMBINED NOTES TO FINANCIAL STATEMENTS**

### **1. Summary of Significant Accounting Policies**

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

#### **General**

Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

#### **Business and Consolidation**

*(PPL)*

PPL is an energy and utility holding company that, through its subsidiaries, is primarily engaged in: 1) the regulated generation, transmission, distribution and sale of electricity and the regulated distribution and sale of natural gas, primarily in Kentucky; 2) the regulated distribution of electricity in the U.K.; 3) the regulated transmission, distribution and sale of electricity in Pennsylvania; and 4) the competitive generation and marketing of electricity in portions of the northeastern and northwestern U.S. Headquartered in Allentown, PA, PPL's principal subsidiaries are LKE (including its principal subsidiaries, LG&E and KU), PPL Global, PPL Electric and PPL Energy Supply (including its principal subsidiaries, PPL EnergyPlus and PPL Generation). PPL's corporate level financing subsidiary is PPL Capital Funding.

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently referred to as WPD Midlands), from subsidiaries of E.ON AG. WPD Midlands' operating results are included in PPL's results of operations for the full year of 2012, but as PPL is consolidating WPD Midlands on a one-month lag, eight months of operating results are included in PPL's results of operations for 2011 with no comparable amounts for 2010.

On November 1, 2010, PPL acquired all of the limited liability company interests of E.ON U.S. LLC from a wholly owned subsidiary of E.ON AG. Upon completion of the acquisition, E.ON U.S. LLC was renamed LG&E and KU Energy LLC. LKE's operating results are included in PPL's results of operations for the full years of 2012 and 2011, while 2010 includes LKE's operating results for the two months ended December 31, 2010.

See Note 10 for additional information regarding the acquisitions of WPD Midlands and LKE.

*(PPL and PPL Energy Supply)*

In April 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the Ironwood Acquisition. See Note 10 for additional information.

*(PPL, LKE, LG&E and KU)*

LKE is a holding company with cost-based rate-regulated utility operations through its subsidiaries, LG&E and KU, and is subject to PUHCA. LG&E and KU are engaged in the regulated generation, transmission, distribution and sale of electricity. LG&E also engages in the regulated distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia (under the Old Dominion Power name) and in Tennessee.

*(LKE, LG&E and KU)*

LKE's, LG&E's and KU's Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010 and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, and the cost bases 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 periods are not comparable to the Predecessor periods; however, the core operations of LKE, LG&E and KU have not changed as a result of the acquisition.



*(PPL and PPL Energy Supply)*

PPL Generation owns and operates a portfolio of competitive domestic power generating assets. These power plants are located in Pennsylvania and Montana and use well-diversified fuel sources including coal, uranium, natural gas, oil and water. PPL EnergyPlus sells electricity produced by PPL Generation subsidiaries, participates in wholesale market load-following auctions, and markets various energy products and commodities such as: capacity, transmission, FTRs, coal, natural gas, oil, uranium, emission allowances, RECs and other commodities in competitive wholesale and competitive retail markets, primarily in the northeastern and northwestern U.S.

*(PPL Energy Supply)*

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global, representing all of the outstanding membership interest of PPL Global, to PPL Energy Supply's parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011. See Note 9 for additional information.

*(PPL, PPL Energy Supply and LKE)*

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income includes the activities of various businesses that were sold or distributed. See Note 9 for additional information. The Statements of Cash Flows do not separately report the cash flows of the Discontinued Operations, except for the LKE Predecessor period, which separately discloses these cash flows within operating, investing and financing activities, consistent with LKE's pre-acquisition accounting policy.

*(PPL and PPL Electric)*

PPL Electric is a cost-based rate-regulated subsidiary of PPL. PPL Electric's principal business is the regulated transmission and distribution of electricity to serve retail customers in its franchised territory in eastern and central Pennsylvania and the regulated supply of electricity to retail customers in that territory as a PLR.

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

The financial statements of the Registrants include each company's own accounts as well as the accounts of all entities in which the company has a controlling financial interest. Entities for which a controlling financial interest is not demonstrated through voting interests are evaluated based on accounting guidance for VIEs. The Registrants consolidate a VIE when they are determined to have a controlling interest in the VIE, and thus are the primary beneficiary of the entity. For PPL and PPL Energy Supply, see Note 22 for information regarding a consolidated VIE. Investments in entities in which a company has the ability to exercise significant influence but does not have a controlling financial interest are accounted for under the equity method. All other investments are carried at cost or fair value. All significant intercompany transactions have been eliminated. Any noncontrolling interests are reflected in the financial statements.

The financial statements of PPL, PPL Energy Supply, LKE, LG&E and KU include their share of any undivided interests in jointly owned facilities, as well as their share of the related operating costs of those facilities. See Note 14 for additional information.

*(PPL)*

PPL consolidates WPD, including WPD Midlands, on a one-month lag. Material intervening events, such as debt issuances that occur in the lag period, are recognized in the current period financial statements. Events that are significant but not material are disclosed.

## Regulation

*(PPL, PPL Electric, LKE, LG&E and KU)*

PPL Electric, LG&E and KU are cost-based rate-regulated utilities for which rates are set by regulators to enable PPL Electric, LG&E and KU to recover the costs of providing electric or gas service, as applicable, and to provide a reasonable return to shareholders. Rates are generally established based on a historical test period adjusted to exclude unusual or nonrecurring items. As a result, the financial statements are subject to the accounting for certain types of regulation as prescribed by GAAP and reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery of underlying costs is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise currently be charged to expense. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and 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 or the applicable state regulatory commissions. See Note 6 for additional details regarding regulatory matters.

*(PPL)*

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. Electricity distribution revenues are set by Ofgem every five years through price control reviews that are not directly based on cost recovery. The price control formula that governs WPD's allowed revenue is designed to provide economic incentives to minimize operating, capital and financing costs. As a result, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities.

## Accounting Records *(PPL, PPL Electric, LKE, LG&E and KU)*

The system of accounts for domestic regulated entities is maintained in accordance with the Uniform System of Accounts prescribed by the FERC and adopted by the applicable state regulatory commissions.

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

## Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of 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.

## Loss Accruals

Potential losses are accrued when (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." The Registrants continuously assess potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events. Loss accruals for environmental remediation are discounted when appropriate.

The accrual of contingencies that might result in gains is not recorded, unless realization is assured.

## Changes in Classification

The classification of certain amounts in the 2011 and 2010 financial statements have been changed to conform to the current presentation. The changes in classification did not affect the Registrants' net income or equity.

Comprehensive Income (PPL, PPL Energy Supply, LKE, LG&E and KU)

Comprehensive income, which includes net income and OCI, is shown on the Statements of Comprehensive Income.

AOCI, which is presented on the Balance Sheets of PPL and included in Member's equity on the Balance Sheets of PPL Energy Supply and LKE, consisted of the following after-tax gains (losses).

	Foreign currency translation adjustments	Unrealized gains (losses)			Defined benefit plans			Total
		Available- for-sale securities	Qualifying derivatives	Equity Investees' AOCI	Prior service costs	Actuarial gain (loss)	Transition asset (obligation)	
<b>PPL</b>								
December 31, 2009	\$ (136)	\$ 62	\$ 602	\$ (2)	\$ (61)	\$ (993)	\$ (9)	\$ (537)
OCI	(59)	24	93		29	(39)	10	58
December 31, 2010	<u>\$ (195)</u>	<u>\$ 86</u>	<u>\$ 695</u>	<u>\$ (2)</u>	<u>\$ (32)</u>	<u>\$ (1,032)</u>	<u>\$ 1</u>	<u>\$ (479)</u>
OCI	(48)	2	(168)	3	7	(105)		(309)
December 31, 2011	<u>\$ (243)</u>	<u>\$ 88</u>	<u>\$ 527</u>	<u>\$ 1</u>	<u>\$ (25)</u>	<u>\$ (1,137)</u>	<u>\$ 1</u>	<u>\$ (788)</u>
OCI	94	22	(395)	2	11	(886)		(1,152)
December 31, 2012	<u>\$ (149)</u>	<u>\$ 110</u>	<u>\$ 132</u>	<u>\$ 3</u>	<u>\$ (14)</u>	<u>\$ (2,023)</u>	<u>\$ 1</u>	<u>\$ (1,940)</u>
<b>PPL Energy Supply</b>								
December 31, 2009	\$ (136)	\$ 62	\$ 573	\$ (2)	\$ (44)	\$ (930)	\$ (7)	\$ (484)
OCI	(59)	24	159		21	(23)	7	129
December 31, 2010	<u>\$ (195)</u>	<u>\$ 86</u>	<u>\$ 732</u>	<u>\$ (2)</u>	<u>\$ (23)</u>	<u>\$ (953)</u>		<u>\$ (355)</u>
OCI		2	(86)	3	2	(18)		(97)
Distribution of membership Interest in PPL Global (a)	195		(41)		5	780		939
December 31, 2011	<u>\$</u>	<u>\$ 88</u>	<u>\$ 605</u>	<u>\$ 1</u>	<u>\$ (16)</u>	<u>\$ (191)</u>		<u>\$ 487</u>
OCI		22	(395)		6	(72)		(439)
December 31, 2012	<u>\$</u>	<u>\$ 110</u>	<u>\$ 210</u>	<u>\$ 1</u>	<u>\$ (10)</u>	<u>\$ (263)</u>		<u>\$ 48</u>

(a) See Note 9 for additional information.

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
<b>LKE</b>						
December 31, 2009 - Predecessor	\$ 11	\$ (6)		\$ (12)	\$ (36)	\$ (43)
Disposal of discontinued operations	(11)					(11)
OCI		10	(2)	1	(19)	(10)
October 31, 2010 - Predecessor	<u>\$</u>	<u>\$ 4</u>	<u>\$ (2)</u>	<u>\$ (11)</u>	<u>\$ (55)</u>	<u>\$ (64)</u>
Effect of PPL acquisition		(4)	2	11	55	64
OCI					6	6
December 31, 2010 - Successor	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 6</u>	<u>\$ 6</u>
OCI				(2)		(2)
December 31, 2011 - Successor	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (2)</u>	<u>\$ 6</u>	<u>\$ 4</u>
OCI			1		(20)	(19)
December 31, 2012 - Successor	<u>\$</u>	<u>\$</u>	<u>\$ 1</u>	<u>\$ (2)</u>	<u>\$ (14)</u>	<u>\$ (15)</u>

LG&E had an AOCI balance that was a loss of \$10 million at December 31, 2009 (a Predecessor period). LG&E had no AOCI balances at December 31, 2010, 2011 or 2012 (Successor periods). During the ten months ended October 31, 2010 (a Predecessor period), LG&E had \$10 million of gains on qualifying derivatives that were recorded in OCI.

KU had no AOCI balances at December 31, 2009 (a Predecessor period), 2010 or 2011 (Successor periods). KU had an AOCI balance that was a gain of \$1 million at December 31, 2012 (a Successor period) related to an equity investee's AOCI. KU recorded \$2 million of losses related to an equity investee's OCI during the ten months ended October 31, 2010 (a Predecessor period), which were eliminated with the effect of the PPL acquisition.

## Earnings Per Share (PPL)

EPS is computed using the two-class method, which is an earnings allocation method for computing EPS that treats a participating security as having rights to earnings that would otherwise have been available to common shareowners. Share-based payment awards that provide recipients a non-forfeitable right to dividends or dividend equivalents are considered participating securities.

## Price Risk Management

*(PPL, PPL Energy Supply, LKE, LG&E and KU)*

Energy and energy-related contracts are used to hedge the variability of expected cash flows associated with the generating units and marketing activities, as well as for trading purposes. Interest rate contracts are used to hedge exposures to changes in the fair value of debt instruments and to hedge exposures to variability in expected cash flows associated with existing floating-rate debt instruments or forecasted fixed-rate issuances of debt. Foreign currency exchange contracts are used to hedge foreign currency exchange exposures, primarily associated with PPL's investments in U.K. subsidiaries. Similar derivatives may receive different accounting treatment, depending on management's intended use and documentation.

Certain energy and energy-related contracts meet the definition of a derivative, while others do not meet the definition of a derivative because they lack a notional amount or a net settlement provision. In cases where there is no net settlement provision, markets are periodically assessed to determine whether market mechanisms have evolved that would facilitate net settlement. Certain derivative energy contracts have been excluded from the requirements of derivative accounting treatment because they meet the definition of NPNS. These contracts are accounted for using accrual accounting. All other contracts that have been classified as derivative contracts are reflected on the balance sheet at their fair value. These contracts are recorded as "Price risk management assets" and "Price risk management liabilities" on the Balance Sheets. The portion of derivative positions that deliver within a year are included in "Current Assets" and "Current Liabilities," while the portion of derivative positions that deliver beyond a year are recorded in "Other Noncurrent Assets" and "Deferred Credits and Other Noncurrent Liabilities."

Energy and energy-related contracts are assigned a strategy and accounting classification. Processes exist that allow for subsequent review and validation of the contract information. These strategies are discussed in more detail in Note 19. The accounting department provides the traders and the risk management department with guidelines on appropriate accounting classifications for various contract types and strategies. Some examples of these guidelines include, but are not limited to:

- Physical coal, limestone, lime, uranium, electric transmission, gas transportation, gas storage and renewable energy credit contracts are not derivatives due to the lack of net settlement provisions.
- Only contracts where physical delivery is deemed probable throughout the entire term of the contract can qualify for NPNS.
- Physical transactions that permit cash settlement and financial transactions do not qualify for NPNS because physical delivery cannot be asserted; however, these transactions can receive cash flow hedge treatment if they lock in the future cash flows for energy-related commodities.
- Certain purchased option contracts or net purchased option collars may receive hedge accounting treatment. Those that are not eligible are recorded at fair value through earnings.
- Derivative transactions that do not qualify for NPNS or hedge accounting treatment are recorded at fair value through earnings.

A similar process is also followed by the treasury department as it relates to interest rate and foreign currency derivatives. Examples of accounting guidelines provided to the treasury department staff include, but are not limited to:

- Transactions to lock in an interest rate prior to a debt issuance can be designated as cash flow hedges, to the extent the forecasted debt issuances remain probable of occurring.
- Cross-currency transactions to hedge interest and principal repayments can be designated as cash flow hedges.
- Transactions entered into to hedge fluctuations in the fair value of existing debt can be designated as fair value hedges.
- Transactions entered into to hedge the value of a net investment of foreign operations can be designated as net investment hedges.

- Derivative transactions that do not qualify for hedge accounting treatment are marked to fair value through earnings. These transactions generally include foreign currency swaps and options to hedge GBP earnings translation risk associated with PPL's U.K. subsidiaries that report their financial statements in GBP. As such, these transactions reduce earnings volatility due solely to changes in foreign currency exchange rates.
- Derivative transactions may be marked to fair value through regulatory assets/liabilities if approved by the appropriate regulatory body. These transactions generally include the effect of interest rate swaps that are included in customer rates.

Cash inflows and outflows related to derivative instruments are included as a component of operating, investing or financing activities on the Statements of Cash Flows, depending on the underlying nature of the hedged items.

PPL and its subsidiaries have elected not to offset net derivative positions against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL Energy Supply reflects its net realized and unrealized gains and losses associated with all derivatives that are held for trading purposes in "Net energy trading margins" on the Statements of Income.

See Notes 18 and 19 for additional information on derivatives.

*(PPL and PPL Electric)*

To meet its obligation as a PLR to its customers, PPL Electric has entered into certain contracts that meet the definition of a derivative. However, these contracts qualify for NPNS. See Notes 18 and 19 for additional information.

**Revenue**

Utility Revenue (PPL)

For the years ended December 31, the Statements of Income "Utility" line item contains rate-regulated revenue from the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Domestic electric and gas revenue (a)	\$ 4,519	\$ 4,674	\$ 2,941
U.K. electric revenue (b)	2,289	1,618	727
Total	<u>\$ 6,808</u>	<u>\$ 6,292</u>	<u>\$ 3,668</u>

- (a) Represents revenue from regulated generation, transmission and/or distribution in Pennsylvania, Kentucky, Virginia and Tennessee, including regulated wholesale revenue. 2010 includes two months of revenue for LKE.
- (b) Represents electric distribution revenue from the operation of WPD's distribution networks. 2011 includes eight months of revenue for WPD Midlands.

Revenue Recognition

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Operating revenues, except for certain energy and energy-related contracts that meet the definition of derivative instruments and "Energy-related businesses," 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. Unbilled wholesale energy revenues are recorded at month-end to reflect estimated amounts until actual dollars and MWhs are confirmed and invoiced. Any difference between estimated and actual revenues is adjusted the following month.

Certain PPL subsidiaries participate primarily in the PJM RTO, as well as in other RTOs and ISOs. In PJM, PPL EnergyPlus is a marketer, a load-serving entity and a seller for PPL Energy Supply's generation subsidiaries. A function of interchange accounting is to match participants' MWh entitlements (generation plus scheduled bilateral purchases) against their MWh obligations (load plus scheduled bilateral sales) during every hour of every day. If the net result during any given hour is an entitlement, the participant is credited with a spot-market sale to the RTO at the respective market price for that hour; if the net result is an obligation, the participant is charged with a spot-market purchase at the respective market price for that hour. PPL Energy Supply records the hourly net sales in its Statements of Income as "Wholesale energy marketing" if in a net sales position and "Energy purchases" if in a net purchase position.

*(PPL)*

WPD's revenue is primarily from charges to suppliers to use its distribution system to deliver electricity to the end-user. WPD's allowed revenue is not dependent on volume delivered over the five-year price control period. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the allowed revenue for a given period. Under recoveries are recovered and recorded in the next regulatory year. Over recoveries are reflected in the current period as a liability and are not included in revenue.

*(PPL and PPL Energy Supply)*

PPL Energy Supply records non-derivative energy marketing activity in the period when the energy is delivered. Generally, sales contracts held for non-trading purposes are reported gross on the Statements of Income within "Wholesale energy marketing" and "Unregulated retail electric and gas." However, non-trading physical sales and purchases of electricity at major market delivery points (which is any delivery point with liquid pricing available, such as the pricing hub for PJM West), are netted and reported in the Statements of Income within "Wholesale energy marketing" or "Energy purchases," depending on the net hourly position. Certain energy and energy-related contracts that meet the definition of derivative instruments are recorded at fair value with subsequent changes in fair value recognized as revenue or expense (see Note 19), unless hedge accounting is applied. If derivatives meet cash flow hedging criteria, changes in fair value are recorded in AOCI. Derivative and non-derivative contracts that are designated as proprietary trading activities are reported net on the Statements of Income within "Net energy trading margins."

"Energy-related businesses" revenue primarily includes revenue from the mechanical contracting and engineering subsidiaries. The mechanical contracting and engineering subsidiaries record revenue from construction contracts on the percentage-of-completion method of accounting, measured by the actual cost incurred to date as a percentage of the estimated total cost for each contract. Accordingly, costs and estimated earnings in excess of billings on uncompleted contracts are recorded within "Unbilled revenues" on the Balance Sheets, and billings in excess of costs and estimated earnings on uncompleted contracts are recorded within "Other current liabilities" on the Balance Sheets. The amount of costs and estimated earnings in excess of billings was \$12 million and \$15 million at December 31, 2012 and 2011, and the amount of billings in excess of costs and estimated earnings was \$70 million and \$59 million at December 31, 2012 and 2011.

#### **Accounts Receivable**

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Accounts receivable are reported on the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. See Note 10 for information related to the acquisitions of WPD Midlands and LKE.

*(PPL, PPL Energy Supply and PPL Electric)*

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative suppliers (including PPL EnergyPlus) at a nominal discount, which reflects a provision for uncollectible accounts. The alternative suppliers have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. PPL Electric receives a nominal fee for administering its program. During 2012, 2011 and 2010, PPL Electric purchased \$848 million, \$875 million and \$617 million of accounts receivable from unaffiliated third parties. During 2012, 2011 and 2010, PPL Electric purchased \$313 million, \$264 million and \$215 million of accounts receivable from PPL EnergyPlus.

Allowance for Doubtful Accounts (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Accounts receivable collectability is evaluated using a combination of factors, including past due status based on contractual terms, trends in write-offs, the age of the receivable, counterparty creditworthiness and economic conditions. Specific events, such as bankruptcies, are also considered. Adjustments to the allowance for doubtful accounts are made when necessary based on the results of analysis, the aging of receivables and historical and industry trends.

Accounts receivable are written off in the period in which the receivable is deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when it is known they will be received.

The changes in the allowance for doubtful accounts were:

	Balance at Beginning of Period	Additions		Deductions (a)	Balance at End of Period
		Charged to Income	Charged to Other Accounts		
<b>PPL</b>					
2012	\$ 54	\$ 55 (c)		\$ 45	\$ 64
2011	55	65 (c)		66 (d)	54
2010	37	42 (b)	\$ 7 (b) (e)	31	55 (b)
<b>PPL Energy Supply</b>					
2012	\$ 15	\$ 12 (c)		\$ 4	\$ 23
2011	20	14 (c)		19 (d)	15
2010	21	1		2	20
<b>PPL Electric</b>					
2012	\$ 17	\$ 32		\$ 31	\$ 18
2011	17	33		33	17
2010	16	30		29	17
<b>LKE</b>					
2012 - Successor	\$ 17	\$ 9		\$ 7	\$ 19
2011 - Successor	17	15		15	17
2010 - Successor		10	\$ 7 (e)		17
2010 - Predecessor	4	10		10	4
<b>LG&amp;E</b>					
2012 - Successor	\$ 2	\$ 2		\$ 3	\$ 1
2011 - Successor	2	5		5	2
2010 - Successor		1	\$ 2 (e)	1	2
2010 - Predecessor	2	4		4	2
<b>KU</b>					
2012 - Successor	\$ 2	\$ 4		\$ 4	\$ 2
2011 - Successor	6	6		10	2
2010 - Successor		1	\$ 6 (e)	1	6
2010 - Predecessor	3	6		6	3

(a) Primarily related to uncollectible accounts written off.

(b) Includes amounts associated with LKE activity since the November 1, 2010 acquisition date. See Note 10 for additional information related to the acquisition of LKE.

(c) Includes amounts related to the SMGT bankruptcy. See Note 15 for additional information.

(d) Includes amounts related to the June 2011, FERC approved settlement agreement between PPL and the California ISO related to the sales made to the California ISO during the period October 2000 through June 2001 that were not paid to PPL subsidiaries. Therefore, the receivable and the related allowance for doubtful accounts were reversed and the settlement recorded.

(e) Primarily related to capital projects, thus the provision was recorded as an adjustment to construction work in progress.

Cash (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Cash Equivalents

All highly liquid debt instruments purchased with original maturities of three months or less are considered to be cash equivalents.

## Restricted Cash and Cash Equivalents

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 and cash equivalents. The change in restricted cash and cash equivalents is reported as an investing activity on the Statements of Cash Flows. On the Balance Sheets, the current portion of restricted cash and cash equivalents is shown as "Restricted cash and cash equivalents" for PPL and PPL Energy Supply and included in "Other current assets" for PPL Electric, LKE, LG&E and KU while the noncurrent portion is included in "Other noncurrent assets" for all Registrants. At December 31, the balances of restricted cash and cash equivalents included the following.

	PPL		PPL Energy Supply		PPL Electric		LKE		LG&E	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Margin deposits posted to counterparties	\$ 43	\$ 137	\$ 43	\$ 137						
Cash collateral posted to counterparties	32	29					\$ 32	\$ 29	\$ 32	\$ 29
Low carbon network fund (a)	14	9								
Captive insurance reserves (b)	6	6								
Funds deposited with a trustee (c)	13	12			\$ 13	\$ 12				
Ironwood debt service reserves	17		17							
Other	10	16	3	8		1				
<b>Total</b>	<b>\$ 135</b>	<b>\$ 209</b>	<b>\$ 63</b>	<b>\$ 145</b>	<b>\$ 13</b>	<b>\$ 13</b>	<b>\$ 32</b>	<b>\$ 29</b>	<b>\$ 32</b>	<b>\$ 29</b>

- (a) Funds received by WPD, which are to be spent on approved initiatives to support a low carbon environment.  
(b) Funds required by law to be held by WPD's captive insurance company to meet claims.  
(c) Funds deposited with a trustee to defease PPL Electric's 1945 First Mortgage Bonds.

## Fair Value Measurements (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The Registrants value certain financial and nonfinancial assets and liabilities at fair value. Generally, the most significant fair value measurements relate to price risk management assets and liabilities, investments in securities including investments in the NDT funds and defined benefit plans, and cash and cash equivalents. PPL and its subsidiaries use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) 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 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.

The Registrants classify fair value measurements within one of three levels in the fair value hierarchy. The 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** - quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- **Level 2** - inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for substantially the full term of the asset or liability.
- **Level 3** - unobservable inputs that management believes are predicated on the assumptions market participants would use to measure the asset or liability at fair value.

Assessing the significance of a particular input requires judgment that considers factors specific to the asset or liability. As such, the Registrants' assessment of the significance of a particular input may affect how the assets and liabilities are classified within the fair value hierarchy.



## Investments

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Generally, the original maturity date of an investment and management's intent and ability to sell an investment prior to its original maturity determine the classification of investments as either short-term or long-term. Investments that would otherwise be classified as short-term, but are restricted as to withdrawal or use for other than current operations or are clearly designated for expenditure in the acquisition or construction of noncurrent assets or for the liquidation of long-term debts, are classified as long-term.

### Short-term Investments

Short-term investments generally include certain deposits as well as securities that are considered highly liquid or provide for periodic reset of interest rates. Investments with original maturities greater than three months and less than a year, as well as investments with original maturities of greater than a year that management has the ability and intent to sell within a year, are included in "Short-term investments" or "Other current assets" on the Balance Sheets.

### Investments in Debt and Equity Securities

Investments in debt securities are classified as held-to-maturity and measured at amortized cost when there is an intent and ability to hold the securities to maturity. Debt and equity securities held principally to capitalize on fluctuations in their value with the intention of selling them in the near-term are classified as trading. All other investments in debt and equity securities are classified as available-for-sale. Both trading and available-for-sale securities are carried at fair value. The specific identification method is used to calculate realized gains and losses on debt and equity securities. Any unrealized gains and losses on trading securities are included in earnings.

The criteria for determining whether a decline in fair value of a debt security is other than temporary and whether the other-than-temporary impairment is recognized in earnings or reported in OCI require that when a debt security is in an unrealized loss position and:

- there is an intent or a requirement to sell the security before recovery, the other-than-temporary impairment is recognized currently in earnings; or
- there is no intent or requirement to sell the security before recovery, the portion of the other-than-temporary impairment that is considered a credit loss is recognized currently in earnings and the remainder of the other-than-temporary impairment is reported in OCI, net of tax; or
- there is no intent or requirement to sell the security before recovery and there is no credit loss, the unrealized loss is reported in OCI, net of tax.

Unrealized gains and losses on available-for-sale equity securities are reported, net of tax, in OCI. When an equity security's decline in fair value below amortized cost is determined to be an other-than-temporary impairment, the unrealized loss is recognized currently in earnings. See Notes 18 and 23 for additional information on investments in debt and equity securities.

### Equity Method Investment (PPL, LKE and KU)

Investments in entities over which PPL, LKE and KU have the ability to exercise significant influence, but not control, are accounted for using the equity method of accounting and are reported in "Other Investments" on PPL's Balance Sheet and in "Investments" on LKE's and KU's Balance Sheets. In accordance with the accounting guidance for equity method investments, the recoverability of the investment is periodically assessed. If an identified event or change in circumstances requires an impairment evaluation, the fair value of the investment is assessed. The difference between the carrying amount of the investment and its estimated fair value is recognized as an impairment loss when the loss in value is deemed other-than-temporary and such loss is included in "Other-Than-Temporary Impairments" on the Statements of Income.

KU owns 20% of the common stock of EEI, which is accounted for as an equity method investment. KU's direct exposure to loss as a result of its involvement with EEI is generally limited to the value of its investment. During 2012, KU recorded gains (losses) of \$(8) million from its share of EEI's operating results. In December 2012, KU concluded that an other-than-temporary decline in the value of its investment in EEI had occurred. KU recorded an impairment charge of \$25 million (\$15 million, after-tax) which reduced the investment balance to zero, the estimated fair value at December 31, 2012. See Note 18 for additional information.

### Cost Method Investment (LKE, LG&E and KU)

LG&E and KU each have an investment in OVEC, which is accounted for using the cost method. The investment is recorded in "Investments" on the LKE and KU Balance Sheets, in "Other noncurrent assets" on the LG&E Balance Sheets and in "Other investments" on the PPL Balance Sheets. LG&E and KU and ten other electric utilities are equity owners of OVEC. OVEC's power is currently supplied to LG&E and KU and 11 other companies affiliated with the various owners. LG&E and KU own 5.63% and 2.5% of OVEC's common stock. Pursuant to a power purchase agreement, LG&E and KU are contractually entitled to their ownership percentage of OVEC's output, which is approximately 134 MW for LG&E and approximately 60 MW for KU.

LG&E's and KU's combined investment in OVEC is not significant. The direct exposure to loss as a result of LG&E's and KU's involvement with OVEC is generally limited to the value of their investments; however, LG&E and KU may be conditionally responsible for a pro-rata share of certain OVEC obligations. As part of PPL's acquisition of LKE, the value of the power purchase contract was recorded as an intangible asset with an offsetting regulatory liability, both of which are being amortized using the units-of-production method until March 2026, the expiration date of the agreement. See Notes 15 and 20 for additional discussion on the power purchase agreement.

### **Long-Lived and Intangible Assets**

#### Property, Plant and Equipment

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

PP&E is recorded at original cost, unless impaired. PP&E acquired in a business combination is recorded at fair value at the time of acquisition. If impaired, the asset is written down to fair value at that time, which becomes the new cost basis of the asset. Original cost includes material, labor, contractor costs, certain overheads and financing costs, where applicable. The cost of repairs and minor replacements are charged to expense as incurred. The Registrants record costs associated with planned major maintenance projects in the period in which the costs are incurred. No costs associated with planned major maintenance projects are accrued in advance of the period in which the work is performed. LG&E and KU accrue costs of removal net of estimated salvage value through depreciation, which is included in the calculation of customer rates over the assets' depreciable lives in accordance with regulatory practices. Cost of removal amounts accrued through depreciation rates are accumulated as a regulatory liability until the removal costs are incurred. See "Asset Retirement Obligations" below and Note 6 for additional information.

*(PPL and PPL Energy Supply)*

The original cost for the PP&E acquired in the Ironwood Acquisition is its fair value on April 13, 2012. See Note 10 for additional information on the acquisition.

*(PPL)*

The original cost for the PP&E acquired in the WPD Midlands acquisition is its fair value on April 1, 2011, which approximated RAV as of the acquisition date. See Note 10 for additional information on the acquisition.

*(PPL, PPL Electric, LKE and KU)*

AFUDC is capitalized as part of the construction costs for cost-based rate-regulated projects for which a return on such costs is recovered after the project is placed in service. The debt component of AFUDC is credited to "Interest Expense" and the equity component is credited to "Other Income (Expense) - net" on the Statements of Income. LKE and KU have not recorded significant AFUDC as a return has been provided during the construction period for most projects.

*(PPL and PPL Energy Supply)*

Nuclear fuel-related costs, including fuel, conversion, enrichment, fabrication and assemblies, are capitalized as PP&E. Such costs are amortized as the fuel is spent using the units-of-production method and included in "Fuel" on the Statements of Income. PPL Energy Supply capitalizes interest costs as part of construction costs.

Capitalized interest, excluding AFUDC for PPL, is as follows.

	PPL	PPL Energy Supply
2012	\$ 53	\$ 47
2011	51	47
2010	30	33

### Depreciation

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Depreciation is recorded over the estimated useful lives of property using various methods including the straight-line, composite and group methods. When a component of PP&E that was depreciated under the composite or group method is retired, the original cost is charged to accumulated depreciation. When all or a significant portion of an operating unit that was depreciated under the composite or group method is retired or sold, the property and the related accumulated depreciation account is reduced and any gain or loss is included in income, unless otherwise required by regulators.

Following are the weighted-average rates of depreciation at December 31.

	2012					
	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Regulated utility plant	3.12		2.57	4.39	4.91	4.06
Non-regulated PP&E - Generation	3.05	3.05				
	2011					
	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Regulated utility plant	3.03		2.49	4.54	5.11	4.17
Non-regulated PP&E - Generation	2.88	2.88				

*(PPL, LKE, LG&E and KU)*

The KPSC approved new lower depreciation rates for LG&E and KU as part of the rate-case settlement agreement reached in November 2012. The new rates became effective January 1, 2013 and will result in lower depreciation of approximately \$19 million (\$9 million for LG&E and \$10 million for KU) in 2013, exclusive of net additions to PP&E.

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

### Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price paid over the fair value of the identifiable net assets acquired in a business combination.

Other acquired intangible assets are initially measured based on their fair value. Intangibles that have finite useful lives are amortized over their useful lives based upon the pattern in which the economic benefits of the intangible assets are consumed or otherwise used. Costs incurred to obtain an initial license and renew or extend terms of licenses are capitalized as intangible assets.

When determining the useful life of an intangible asset, including intangible assets that are renewed or extended, PPL and its subsidiaries consider the expected use of the asset; the expected useful life of other assets to which the useful life of the intangible asset may relate; legal, regulatory, or contractual provisions that may limit the useful life; the company's historical experience as evidence of its ability to support renewal or extension; the effects of obsolescence, demand, competition, and other economic factors; and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

PPL and PPL Energy Supply account for RECs as intangible assets. PPL and PPL Energy Supply buy and/or sell RECs and also create RECs through owned renewable energy generation facilities. In any period, PPL and PPL Energy Supply can be a net purchaser or seller of RECs depending on their contractual obligations to purchase or deliver RECs and the production of RECs from their renewable energy generation facilities. The carrying value of RECs created from their renewable energy generation facilities is initially recorded at zero value and purchased RECs are initially recorded based on their purchase price. When RECs are consumed to satisfy an obligation to deliver RECs to meet a state's Renewable Portfolio Standard Obligation or when RECs are sold to third parties, they are removed from the Balance Sheet at their weighted-average carrying value. Since the economic benefits of RECs are not diminished until they are consumed, RECs are not amortized; rather, they are expensed when consumed or a gain or loss is recognized when sold. Such expense is included in "Energy purchases" on the Statements of Income. Gains and losses on the sale of RECs are included in "Other operation and maintenance" on the Statements of Income.

PPL, PPL Energy Supply, LKE, LG&E and KU account for emission allowances as intangible assets. PPL, PPL Energy Supply, LKE, LG&E and KU are allocated emission allowances by states based on their generation facilities' historical emissions experience, and have purchased emission allowances generally when it is expected that additional allowances will be needed. The carrying value of allocated emission allowances is initially recorded at zero value and purchased allowances are initially recorded based on their purchase price. When consumed or sold, emission allowances are removed from the Balance Sheet at their weighted-average carrying value. Since the economic benefits of emission allowances are not diminished until they are consumed, emission allowances are not amortized; rather, they are expensed when consumed or a gain or loss is recognized when sold. Such expense is included in "Fuel" on the Statements of Income. Gains and losses on the sale of emission allowances are included in "Other operation and maintenance" on the Statements of Income.

#### Asset Impairment (Excluding Investments)

The Registrants review long-lived assets that are subject to depreciation or amortization, including finite-lived intangibles, for impairment when events or circumstances indicate carrying amounts may not be recoverable. See Note 18 for a discussion of impairments related to certain intangible assets.

A long-lived asset classified as held and used is impaired when the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If impaired, the asset's carrying value is written down to its fair value. See Note 15 for a discussion of the Corette coal-fired plant in Montana which was determined to not be impaired.

A long-lived asset classified as held for sale is impaired when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If impaired, the asset's (disposal group's) carrying value is written down to its fair value less cost to sell. See Notes 9 and 18 for a discussion of impairment charges recorded associated with long-lived assets classified as held for sale.

PPL, PPL Energy Supply, LKE, LG&E and KU review goodwill for impairment at the reporting unit level annually or more frequently when events or circumstances indicate that the carrying amount of a reporting unit may be greater than the unit's fair value. Additionally, goodwill must be tested for impairment in circumstances when a portion of goodwill has been allocated to a business to be disposed of. PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's reporting units are at the operating segment level. If the carrying amount of the reporting unit, including goodwill, exceeds its fair value, the implied fair value of goodwill must be calculated in the same manner as goodwill in a business combination. The fair value of a reporting unit is allocated to all assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, goodwill is written down to its implied fair value.

The goodwill recognized upon the acquisition of LKE, although entirely recorded at LG&E and KU, was assigned for impairment testing by PPL to its reporting units expected to benefit from the acquisition, which were the Kentucky Regulated segment and the Supply segment. The goodwill recognized upon the acquisition of WPD Midlands was assigned for impairment testing by PPL to its U.K. Regulated segment. See Note 10 for additional information regarding the acquisition.

PPL, PPL Energy Supply, LKE, LG&E and KU tested the goodwill of all of their reporting units for impairment in the fourth quarter of 2012 and no impairment was recognized.

### Asset Retirement Obligations

PPL and its subsidiaries record liabilities to reflect various legal obligations associated with the retirement of long-lived assets. Initially, this obligation is measured at fair value and offset with an increase in the value of the capitalized asset, which is depreciated over the asset's useful life. Until the obligation is settled, the liability is increased to reflect changes in the obligation due to the passage of time through the recognition of accretion expense classified within "Other operation and maintenance" on the Statements of Income. The accretion and depreciation related to LG&E's and KU's AROs are offset with a regulatory credit on the income statement, such that there is no earnings impact. The regulatory asset created by the regulatory credit is relieved when the ARO is settled.

Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is amortized over the remaining life of the associated long-lived asset. See Note 21 for additional information on AROs.

### **Compensation and Benefits**

#### Defined Benefits (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Certain PPL subsidiaries sponsor various defined benefit pension and other postretirement plans. An asset or liability is recorded to recognize the funded status of all defined benefit plans with an offsetting entry to OCI or, for LG&E, KU and PPL Electric, to regulatory assets or 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 a market-related value of plan assets, which is calculated by rolling forward the prior year market-related value with contributions, disbursements and long-term expected return on investments. One-fifth of the difference between the actual value and the expected value is added (or subtracted if negative) to the expected value to determine the new market-related value.

PPL uses an accelerated amortization method for the recognition of gains and losses for its defined benefit pension plans. Under the accelerated method, actuarial gains and losses in excess of 30% of the plan's projected benefit obligation are amortized on a straight-line basis over one-half of the expected average remaining service of active plan participants. Actuarial gains and losses in excess of 10% of the greater of the plan's projected benefit obligation or the market-related value of plan assets and less than 30% of the plan's projected benefit obligation are amortized on a straight-line basis over the expected average remaining service period of active plan participants.

See Note 13 for a discussion of defined benefits.

#### Stock-Based Compensation

##### *(PPL, PPL Energy Supply, PPL Electric and LKE)*

PPL has several stock-based compensation plans for purposes of granting stock options, restricted stock, restricted stock units and performance units to certain employees as well as stock units and restricted stock units to directors. PPL grants most stock-based awards in the first quarter of each year. PPL and its subsidiaries recognize compensation expense for stock-based awards based on the fair value method. Stock options that vest in installments are valued as a single award. PPL grants stock options with an exercise price that is not less than the fair value of PPL's common stock on the date of grant. See Note 12 for a discussion of stock-based compensation. All awards are recorded as equity or a liability on the Balance Sheets. Stock-based compensation is primarily included in "Other operation and maintenance" on the Statements of Income. Stock-based compensation expense for PPL Energy Supply, PPL Electric and LKE includes an allocation of PPL Services' expense.

### **Other**

#### Debt Issuance Costs (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Debt issuance costs are deferred and amortized over the term of the related debt using the interest method or another method, generally straight-line, if the results obtained are not materially different than those that would result from the interest method.

## Income Taxes

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

PPL and its domestic subsidiaries file a consolidated U.S. federal income tax return. Prior to PPL's acquisition of LKE, LKE and its subsidiaries were included in E.ON US Investments Corp.'s consolidated U.S. federal income tax return.

Significant management judgment is required in developing the Registrants' 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 also required to determine the amount of benefit to be recognized in relation to an uncertain tax position. The Registrants use a two-step process to evaluate tax positions. 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 the Registrants in future periods.

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.

The Registrants record valuation allowances to reduce deferred tax assets to the amounts that are more likely than not to be realized. The Registrants consider 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 the Registrants determine that they are 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 the Registrants determine that they are 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 Registrants defer investment tax credits when the credits are utilized and amortize the deferred amounts over the average lives of the related assets.

The Registrants recognize interest and penalties in "Income Taxes" on their Statements of Income.

See Note 5 for additional discussion regarding income taxes.

*(PPL, PPL Electric, LKE, LG&E and KU)*

The provision for PPL, PPL Electric, LKE, LG&E and KU's deferred income taxes for regulated assets 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 the amount that otherwise would be recorded under GAAP is deferred and included on the Balance Sheet in noncurrent "Regulatory assets" or "Regulatory liabilities."

*(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

The income tax provision for PPL Energy Supply, PPL Electric, LKE, LG&E and KU is calculated in accordance with an intercompany tax sharing agreement which provides that taxable income be calculated as if PPL Energy Supply, PPL Electric, LKE, LG&E, KU and any domestic subsidiaries each filed a separate return. Tax benefits are not shared between companies. The entity that generates a tax benefit is the entity that is entitled to the tax benefit. The effect of PPL filing a consolidated tax return is taken into account in the settlement of current taxes and the recognition of deferred taxes. At December 31, the following intercompany tax receivables (payables) were recorded.

	<u>2012</u>		<u>2011</u>	
PPL Energy Supply	\$	(38)	\$	(50)
PPL Electric		22		22
LKE		(12)		3
LG&E		5		4
KU		(15)		5

Taxes, Other Than Income (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The Registrants present sales taxes in "Other current liabilities" and PPL presents value-added taxes in "Taxes" on the Balance Sheets. These taxes are not reflected on the Statements of Income. See Note 5 for details on taxes included in "Taxes, other than income" on the Statements of Income.

Leases

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The Registrants evaluate whether arrangements entered into contain leases for accounting purposes. See Note 11 for a discussion of arrangements under which PPL Energy Supply, LG&E and KU are lessees for accounting purposes.

Fuel, Materials and Supplies

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Fuel, natural gas stored underground and materials and supplies are valued at the lower of cost or market using the average cost method. Fuel costs for electric generation are charged to expense as used. For LG&E, natural gas supply costs are charged to expense as delivered to the distribution system. See Note 6 for further discussion of the fuel adjustment clause and gas supply clause.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

"Fuel, materials and supplies" on the Balance Sheets consisted of the following at December 31.

	<u>PPL</u>		<u>PPL Energy Supply</u>		<u>LKE</u>		<u>LG&amp;E</u>		<u>KU</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Fuel	\$ 284	\$ 246	\$ 135	\$ 96	\$ 149	\$ 150	\$ 61	\$ 53	\$ 88	\$ 97
Natural gas stored underground (a)	50	73	8	20	42	53	42	53		
Materials and supplies	339	335	184	182	85	80	39	36	46	44
	<u>\$ 673</u>	<u>\$ 654</u>	<u>\$ 327</u>	<u>\$ 298</u>	<u>\$ 276</u>	<u>\$ 283</u>	<u>\$ 142</u>	<u>\$ 142</u>	<u>\$ 134</u>	<u>\$ 141</u>

(a) The majority of LKE's and LG&E's natural gas stored underground is held to serve native load. The majority of PPL Energy Supply's natural gas stored underground is available for resale.

Guarantees (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Generally, the initial measurement of a guarantee liability is the fair value of the guarantee at its inception. However, there are certain guarantees excluded from the scope of accounting guidance and other guarantees that are not subject to the initial recognition and measurement provisions of accounting guidance that only require disclosure. See Note 15 for further discussion of recorded and unrecorded guarantees.

Treasury Stock (PPL and PPL Electric)

PPL and PPL Electric restore all shares of common stock acquired to authorized but unissued shares of common stock upon acquisition.

Foreign Currency Translation and Transactions (PPL)

WPD's functional currency is the GBP, which is the local currency in the U.K. As such, assets and liabilities are translated to U.S. dollars at the exchange rates on the date of consolidation and related revenues and expenses are translated at average exchange rates prevailing during the period included in PPL's results of operations. Adjustments resulting from foreign currency translation are recorded in OCI.

Gains or losses relating to foreign currency transactions are recognized in "Other Income (Expense) - net" on the Statements of Income. See Note 17 for additional information.

#### **New Accounting Guidance Adopted (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)**

##### **Fair Value Measurements**

Effective January 1, 2012, the Registrants prospectively adopted accounting guidance that was issued to clarify existing fair value measurement guidance and to enhance fair value disclosures. The additional disclosures required by this guidance include quantitative information about significant unobservable inputs used for Level 3 measurements, qualitative information about the sensitivity of recurring Level 3 measurements, information about any transfers between Levels 1 and 2 of the fair value hierarchy, information about when the current use of a non-financial asset is different from the highest and best use, and the fair value hierarchy classification for assets and liabilities whose fair value is disclosed only in the notes to the financial statements.

The adoption of this standard resulted in additional disclosures but did not have a significant impact on the Registrants. See Note 18 for additional disclosures required by this guidance.

##### **Testing Goodwill for Impairment**

Effective January 1, 2012, the Registrants prospectively adopted accounting guidance which allows an entity to elect the option to first make a qualitative evaluation about the likelihood of an impairment of goodwill. If, based on this assessment, the entity determines it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step goodwill impairment test is not necessary. However, the first step of the impairment test is required if an entity concludes it is more likely than not that the fair value of a reporting unit is less than the carrying amount based on the qualitative assessment.

The adoption of this standard did not have a significant impact on the Registrants.

## **2. Segment and Related Information**

### *(PPL)*

Since the acquisition of LKE on November 1, 2010, PPL is organized into four segments: Kentucky Regulated, U.K. Regulated (name change in 2012 from International Regulated to more specifically reflect the focus of the segment), Pennsylvania Regulated and Supply. Other than the name change for the U.K. Regulated segment, there were no other changes to this segment. PPL's segments are split between its regulated and competitive businesses with its regulated businesses further segmented by geographic location.

The Kentucky Regulated segment consists primarily of LKE's regulated electric generation, transmission and distribution operations, primarily in Kentucky. This segment also includes LKE's regulated distribution and sale of natural gas in Kentucky. In addition, the Kentucky Regulated segment is allocated certain financing costs. See Note 10 for additional information regarding the acquisition.

The U.K. Regulated segment primarily consists of the regulated electric distribution operations in the U.K. This includes the operating results and assets of WPD Midlands since the April 1, 2011 acquisition date, recorded on a one-month lag. The U.K. Regulated segment is also allocated certain WPD Midlands acquisition-related costs and financing costs. See Note 10 for additional information regarding the acquisition.

The Pennsylvania Regulated segment includes the regulated electric transmission and distribution operations of PPL Electric.

The Supply segment primarily consists of the domestic energy marketing and trading activities, as well as the competitive generation operations of PPL Energy Supply.

The results of operations of several facilities and businesses have been classified as Discontinued Operations on the Statements of Income. See Note 9 for additional information on these discontinued operations. Therefore, with the exception of "Net Income Attributable to PPL Shareowners" the operating results from these facilities and businesses have been excluded from the income statement data tables below.



"Corporate and Other" represents costs incurred at the corporate level that have not been allocated or assigned to the segments, which is presented to reconcile segment information to PPL's consolidated results. For 2012 and 2011, there were no significant costs in this category. For 2010, these costs represent LKE acquisition-related costs including advisory, accounting and legal fees, certain internal costs and 2010 Bridge Facility costs.

Beginning in 2013, PPL anticipates more costs to be included in the Corporate and Other category primarily due to an anticipated increase in the use of financing issued by PPL Capital Funding not directly attributable to a particular segment. PPL's recent growth in rate-regulated businesses provides the organization with an enhanced corporate level financing alternative, through PPL Capital Funding, that further enables PPL to support targeted credit profiles cost effectively across all of PPL's rated companies. As a result, PPL plans to further utilize PPL Capital Funding in addition to continued direct financing by the operating companies, as appropriate. The financing costs associated primarily with PPL Capital Funding's future securities issuances are not expected to be directly assignable or allocable to any segment and generally will be reflected in Corporate and Other beginning in 2013.

Financial data for the segments are:

<b>Income Statement Data</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Revenues from external customers by product			
Kentucky Regulated			
Utility service (a)	\$ 2,759	\$ 2,793	\$ 493
U.K. Regulated			
Utility service (a)	2,289	1,618	727
Energy-related businesses	47	35	34
Total	<u>2,336</u>	<u>1,653</u>	<u>761</u>
Pennsylvania Regulated			
Utility service (a)	1,760	1,881	2,448
Supply			
Energy (b)	4,970	5,938	4,444
Energy-related businesses	461	472	375
Total	<u>5,431</u>	<u>6,410</u>	<u>4,819</u>
Total	<u>12,286</u>	<u>12,737</u>	<u>8,521</u>
Intersegment electric revenues			
Pennsylvania Regulated	3	11	7
Supply (c)	79	26	320
Depreciation			
Kentucky Regulated	346	334	49
U.K. Regulated	279	218	117
Pennsylvania Regulated	160	146	136
Supply	315	262	254
Total	<u>1,100</u>	<u>960</u>	<u>556</u>
Amortization (d)			
Kentucky Regulated	27	27	—
U.K. Regulated	15	83	13
Pennsylvania Regulated	18	7	(22)
Supply	126	137	148
Corporate and Other	—	—	74
Total	<u>186</u>	<u>254</u>	<u>213</u>
Unrealized (gains) losses on derivatives and other hedging activities (b)			
Kentucky Regulated	—	(2)	1
Supply	27	(312)	541
Total	<u>27</u>	<u>(314)</u>	<u>542</u>
Interest income			
U.K. Regulated	3	4	2
Pennsylvania Regulated	1	1	4
Supply	1	2	2
Total	<u>5</u>	<u>7</u>	<u>8</u>
Interest Expense			
Kentucky Regulated	219	217	55
U.K. Regulated	421	391	135
Pennsylvania Regulated	99	98	99
Supply	222	192	224
Corporate and Other	—	—	80
Total	<u>961</u>	<u>898</u>	<u>593</u>

	2012	2011	2010
<b>Income from Continuing Operations Before Income Taxes</b>			
Kentucky Regulated	263	349	40
U.K. Regulated	953	358	261
Pennsylvania Regulated	204	257	192
Supply (b)	662	1,237	860
Corporate and Other			(114)
<b>Total</b>	<b>2,082</b>	<b>2,201</b>	<b>1,239</b>
<b>Income Taxes (c)</b>			
Kentucky Regulated	80	127	16
U.K. Regulated	150	33	
Pennsylvania Regulated	68	68	57
Supply	247	463	228
Corporate and Other			(38)
<b>Total</b>	<b>545</b>	<b>691</b>	<b>263</b>
<b>Deferred income taxes and investment tax credits (f)</b>			
Kentucky Regulated	136	218	51
U.K. Regulated	26	(39)	17
Pennsylvania Regulated	114	106	198
Supply	150	299	(15)
<b>Total</b>	<b>426</b>	<b>584</b>	<b>251</b>
<b>Net Income Attributable to PPL Shareowners</b>			
Kentucky Regulated	177	221	26
U.K. Regulated	803	325	261
Pennsylvania Regulated	132	173	115
Supply (b)	414	776	612
Corporate and Other			(76)
<b>Total</b>	<b>\$ 1,526</b>	<b>\$ 1,495</b>	<b>\$ 938</b>
<b>Cash Flow Data</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Expenditures for long-lived assets</b>			
Kentucky Regulated	\$ 768	\$ 465	\$ 152
U.K. Regulated	1,016	862	281
Pennsylvania Regulated	633	490	411
Supply	736	739	795
<b>Total</b>	<b>\$ 3,153</b>	<b>\$ 2,556</b>	<b>\$ 1,639</b>
<b>Balance Sheet Data</b>	<b>As of December 31,</b>		
	<b>2012</b>	<b>2011</b>	
<b>Total Assets</b>			
Kentucky Regulated		\$ 10,670	\$ 10,229
U.K. Regulated		14,073	13,364
Pennsylvania Regulated		6,023	5,610
Supply		12,868	13,445
<b>Total</b>		<b>\$ 43,634</b>	<b>\$ 42,648</b>
<b>Geographic Data</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Revenues from external customers</b>			
U.S.	\$ 9,950	\$ 11,084	\$ 7,760
U.K.	2,336	1,653	761
<b>Total</b>	<b>\$ 12,286</b>	<b>\$ 12,737</b>	<b>\$ 8,521</b>
<b>Long-Lived Assets</b>	<b>As of December 31,</b>		
	<b>2012</b>	<b>2011</b>	
U.S.		\$ 20,776	\$ 19,129
U.K.		9,951	8,996
<b>Total</b>		<b>\$ 30,727</b>	<b>\$ 28,125</b>

(a) See Note 1 for additional information on Utility Revenue.

(b) Includes unrealized gains and losses from economic activity. See Note 19 for additional information.

(c) See "PLR Contracts/Purchase of Accounts Receivable" and "NUG Purchases" in Note 16 for a discussion of the basis of accounting between reportable segments.

(d) Represents non-cash expense items that include amortization of nuclear fuel, regulatory assets, debt discounts and premiums, debt issuance costs, emission allowances and RECs.

(e) Represents both current and deferred income taxes, including investment tax credits.

(f) Represents a non-cash expense item that is also included in "Income Taxes."

*(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

PPL Energy Supply, PPL Electric, LKE, LG&E and KU each operate within a single reportable segment.

### **3. Preferred Securities**

*(PPL)*

PPL classifies preferred securities of subsidiaries as "Noncontrolling interests" on the Balance Sheets and related dividend requirements of \$4 million for 2012, \$16 million for 2011 and \$17 million for 2010 have been included in "Net Income Attributable to Noncontrolling Interests" on the Statements of Income. In June 2012, PPL Electric redeemed all of its Preference Stock at par value, without premium (\$250 million in the aggregate).

#### **Preferred Stock**

PPL is authorized to issue up to 10 million shares of preferred stock. No PPL preferred stock was issued or outstanding in 2012, 2011, or 2010.

*(PPL Electric)*

PPL Electric is authorized to issue up to 629,936 shares of 4-1/2% Preferred Stock and 10 million shares of series preferred stock. In April 2010, PPL Electric redeemed all of its outstanding preferred stock (247,524 shares of 4-1/2% Preferred Stock and 257,665 shares of four series of preferred stock), with a par value in the aggregate of \$51 million, for \$54 million including accumulated dividends.

*(LG&E)*

LG&E is authorized to issue up to 1,720,000 shares of preferred stock at a \$25 par value and 6,750,000 shares of preferred stock without par value. LG&E had no preferred stock issued or outstanding in 2012, 2011 or 2010.

*(KU)*

KU is authorized to issue up to 5,300,000 shares of preferred stock without par value. KU had no preferred stock issued or outstanding in 2012, 2011 or 2010.

#### **Preference Stock**

*(PPL Electric)*

PPL Electric is authorized to issue up to 10 million shares of Preference Stock and had 2.5 million shares of 6.25% Series Preference Stock (Preference Shares) issued and outstanding at December 31, 2011 and 2010. In June 2012, PPL Electric redeemed all 2.5 million shares of its outstanding Preference Shares, par value of \$100 per share. The price paid for the redemption was the par value, without premium (\$250 million in the aggregate).

The Preference Shares were held by a bank that acted as depository for 10 million depository shares, each of which represented a one-quarter interest in a Preference Share. Holders of the depository shares were entitled to all proportional rights and preferences of the Preference Shares, including dividend, voting, redemption and liquidation rights, exercised through the bank acting as a depository. The Preference Shares ranked senior to PPL Electric's common stock but had no voting rights, except as provided by law, and they had a liquidation preference of \$100 per share (equivalent to \$25 per depository share).

*(KU)*

KU is authorized to issue up to 2,000,000 shares of preference stock without par value. KU had no preference stock issued or outstanding in 2012, 2011 or 2010.

#### 4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of shares outstanding that are increased for additional shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the treasury stock method. In 2012, 2011 and 2010, these securities included stock options and performance units granted under incentive compensation plans and the Purchase Contracts associated with the 2011 and 2010 Equity Units. For 2012, these securities also included the PPL common stock forward sale agreements. See Note 7 for additional information on the forward sale agreements. The forward sale agreements were dilutive under the treasury stock method for 2012 because the average stock price of PPL's common shares exceeded the forward sale price indicated in the forward sale agreements.

The Purchase Contracts are dilutive under the treasury stock method if the average VWAP of PPL common stock for a certain period exceeds approximately \$30.99 and \$28.80 for the 2011 and 2010 Purchase Contracts. The 2010 Purchase Contracts were dilutive for 2012 and 2011. Subject to antidilution adjustments at December 31, 2012, the maximum number of shares issuable to settle the Purchase Contracts was 93.8 million shares, including 86.6 million shares that could be issued under standard provisions of the Purchase Contracts and 7.2 million shares that could be issued under make-whole provisions in the event of early settlement upon a Fundamental Change. See Note 7 for additional information on the 2011 and 2010 Equity Units.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended December 31 used in the EPS calculation are:

	2012	2011	2010
<b>Income (Numerator)</b>			
Income from continuing operations after income taxes attributable to PPL shareowners	\$ 1,532	\$ 1,493	\$ 955
Less amounts allocated to participating securities	8	6	4
Less issuance costs on subsidiary's preferred securities redeemed	6		
Income from continuing operations after income taxes available to PPL common shareowners	<u>\$ 1,518</u>	<u>\$ 1,487</u>	<u>\$ 951</u>
Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners	<u>\$ (6)</u>	<u>\$ 2</u>	<u>\$ (17)</u>
Net income attributable to PPL shareowners	\$ 1,526	\$ 1,495	\$ 938
Less amounts allocated to participating securities	8	6	4
Less issuance costs on subsidiary's preferred securities redeemed	6		
Net income available to PPL common shareowners	<u>\$ 1,512</u>	<u>\$ 1,489</u>	<u>\$ 934</u>
<b>Shares of Common Stock (Denominator)</b>			
Weighted-average shares - Basic EPS	580,276	550,395	431,345
Add incremental non-participating securities:			
Stock options and performance units	563	400	224
2010 Purchase Contracts	195	157	
Forward sale agreements	592		
Weighted-average shares - Diluted EPS	<u>581,626</u>	<u>550,952</u>	<u>431,569</u>
<b>Basic EPS</b>			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	\$ 2.62	\$ 2.70	\$ 2.21
Income (loss) from discontinued operations (net of income taxes)	(0.01)	0.01	(0.04)
Net Income	<u>\$ 2.61</u>	<u>\$ 2.71</u>	<u>\$ 2.17</u>
<b>Diluted EPS</b>			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	\$ 2.61	\$ 2.70	\$ 2.20
Income (loss) from discontinued operations (net of income taxes)	(0.01)		(0.03)
Net Income	<u>\$ 2.60</u>	<u>\$ 2.70</u>	<u>\$ 2.17</u>

During 2012, PPL issued 936,218 shares of common stock related to the exercise of stock options, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors under its stock-based compensation plans. In addition, PPL issued 279,945 and 2,326,917 shares of common stock related to its ESOP and DRIP during 2012. See Note 12 for a discussion of PPL's stock-based compensation plans.

The following stock options to purchase PPL common stock and performance units were excluded from the computations of diluted EPS for the years ended December 31 because the effect would have been antidilutive.

<i>(Shares in thousands)</i>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Stock options	5,293	5,084	4,936
Performance units	58	2	45

## 5. Income and Other Taxes

*(PPL)*

"Income from Continuing Operations Before Income Taxes" included the following components:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Domestic income	\$ 994	\$ 1,715	\$ 952
Foreign income	1,088	486	287
Total	<u>\$ 2,082</u>	<u>\$ 2,201</u>	<u>\$ 1,239</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating loss and tax credit carryforwards. The provision for PPL's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles of the applicable jurisdiction. See Notes 1 and 6 for additional information.

Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. and certain foreign jurisdictions in which PPL's operations have historically been profitable.

Significant components of PPL's deferred income tax assets and liabilities were as follows:

	<u>2012</u>	<u>2011</u>
<b>Deferred Tax Assets</b>		
Deferred investment tax credits	\$ 130	\$ 113
Regulatory obligations	124	149
Accrued pension costs	276	325
Federal loss carryforwards	524	305
State loss carryforwards	305	272
Federal and state tax credit carryforwards	287	240
Foreign capital loss carryforwards	525	578
Foreign loss carryforwards	6	7
Foreign - pensions	254	74
Foreign - regulatory obligations	27	67
Foreign - other	16	21
Contributions in aid of construction	134	133
Domestic - other	239	229
Valuation allowances	(706)	(724)
Total deferred tax assets	<u>2,141</u>	<u>1,789</u>
<b>Deferred Tax Liabilities</b>		
Domestic plant - net	3,967	3,465
Taxes recoverable through future rates	141	137
Unrealized gain on qualifying derivatives	122	331
Other regulatory assets	319	234
Reacquired debt costs	40	93
Foreign plant - net	937	975
Foreign - other	66	22
Domestic - other	66	103
Total deferred tax liabilities	<u>5,592</u>	<u>5,360</u>
Net deferred tax liability	<u>\$ 3,451</u>	<u>\$ 3,571</u>

At December 31, PPL had the following loss and tax credit carryforwards.

	2012	Expiration
Loss carryforwards		
Federal net operating losses	\$ 1,481	2028-2032
Federal charitable contributions	19	2016-2017
State net operating losses	5,099	2013-2032
State capital losses	138	2013-2016
Foreign net operating losses	27	Indefinite
Foreign capital losses	2,282	Indefinite
Credit carryforwards		
Federal investment tax credit	233	2025-2032
Federal alternative minimum tax credit	20	Indefinite
Federal foreign tax credit	1	2017-2022
Federal - other	30	2016-2032
State - other	4	2022

Valuation allowances have been established for the amount that, more likely than not, will not be realized. The changes in deferred tax valuation allowances were:

	Balance at Beginning of Period	Additions		Deductions	Balance at End of Period
		Charged to Income	Charged to Other Accounts		
2012	\$ 724	\$ 18	\$ 10	\$ 46 (a)	\$ 706
2011	464	190	112 (b)	42 (c)	724
2010	312	221	6	75 (d)	464

- (a) The reduction of the U.K. statutory income tax rate resulted in a reduction in deferred tax assets and the corresponding valuation allowances. See "Reconciliation of Income Tax Expense" below for more information on the impact of the U.K. Finance Act of 2012.
- (b) Primarily related to a \$101 million valuation allowance that was recorded against certain deferred tax assets as a result of the 2011 acquisition of WPD Midlands. See Note 10 for additional information on the acquisition.
- (c) The reduction of the U.K. statutory income tax rate resulted in a \$35 million reduction in deferred tax assets and the corresponding valuation allowances. See "Reconciliation of Income Tax Expense" below for more information on the impact of the U.K. Finance Act of 2011.
- (d) Resulting from the projected revenue increase in connection with the expiration of the Pennsylvania generation rate caps in 2010, the valuation allowance related to state net operating loss carryforwards over the remaining carryforward period was reduced by \$72 million.

PPL Global does not pay or record U.S. income taxes on the undistributed earnings of WPD, with the exception of certain financing entities, as management has determined that the earnings are indefinitely reinvested. Historically, dividends paid by WPD have been distributions from current year's earnings. WPD's long-term working capital forecasts and capital expenditure projections for the foreseeable future require reinvestment of WPD's undistributed earnings, and WPD would have to issue debt or access credit facilities to fund any distributions in excess of current earnings. Additionally, U.S. long-term working capital forecasts and capital expenditure projections for the foreseeable future do not require or contemplate distributions from WPD in excess of some portion of future WPD earnings. The cumulative undistributed earnings are included in "Earnings Reinvested" on the Balance Sheets. The amounts considered indefinitely reinvested at December 31, 2012 and 2011 were \$2.0 billion and \$1.2 billion. If the WPD undistributed earnings were remitted as dividends, PPL Global could be subject to additional U.S. taxes, net of allowable foreign tax credits. It is not practicable to estimate the amount of additional taxes that could be payable on these foreign earnings.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2012	2011	2010
<b>Income Tax Expense (Benefit)</b>			
Current - Federal		\$ 54	\$ (51)
Current - State	\$ (2)	(20)	43
Current - Foreign	121	73	20
Total Current Expense (Benefit)	119	107	12
Deferred - Federal	553	558	358
Deferred - State	103	127	(82)
Deferred - Foreign	35	(23)	(9)
Total Deferred Expense (Benefit), excluding operating loss carryforwards	691	662	267
Investment tax credit, net - Federal	(10)	(10)	(5)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(195)	(30)	6
Deferred - State	(60)	(38)	(17)
Total Tax Benefit of Operating Loss Carryforwards	(255)	(68)	(11)
Total income taxes from continuing operations (a)	<u>\$ 545</u>	<u>\$ 691</u>	<u>\$ 263</u>
Total income tax expense - Federal	\$ 348	\$ 572	\$ 308
Total income tax expense (benefit) - State	41	69	(56)
Total income tax expense - Foreign	156	50	11
Total income taxes from continuing operations (a)	<u>\$ 545</u>	<u>\$ 691</u>	<u>\$ 263</u>

(a) Excludes current and deferred federal and state tax expense (benefit) recorded to Discontinued Operations of \$(4) million in 2012, \$2 million in 2011 and \$(6) million in 2010. Excludes realized tax expense (benefits) related to stock-based compensation, recorded as a decrease (increase) to additional paid-in capital of \$(1) million in 2012, \$3 million in 2011 and an insignificant amount in 2010. Excludes tax benefits related to the issuance costs of the Purchase Contracts, recorded as an increase to additional paid-in capital of an insignificant amount in 2012, \$5 million in 2011 and \$10 million in 2010, offset by an insignificant amount of related valuation allowances for state deferred taxes in 2012 and 2011. Also excludes federal, state, and foreign tax expense (benefit) recorded to OCI of \$(526) million in 2012, \$(137) million in 2011 and \$83 million in 2010, and related valuation allowances for state deferred taxes of an insignificant amount in 2012 and \$3 million in 2011.

	2012	2011	2010
<b>Reconciliation of Income Tax Expense</b>			
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	\$ 729	\$ 770	\$ 434
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	27	63	36
State valuation allowance adjustments (a)	13	36	(65)
Impact of lower U.K. income tax rates (b)	(123)	(41)	(20)
U.S. income tax on foreign earnings - net of foreign tax credit (c)	43	(14)	34
Federal and state tax reserves adjustments (d)	(1)	39	(60)
Foreign tax reserves adjustments (e)	(5)	(141)	
Federal and state income tax return adjustments (a) (f)	16	(17)	(3)
Foreign income tax return adjustments	(6)		
Domestic manufacturing deduction (f) (g)			(11)
Health Care Reform (h)			8
Foreign losses resulting from restructuring (e)			(261)
Enactment of the U.K.'s Finance Acts (b)	(75)	(69)	(18)
Federal income tax credits (i)	(12)	(13)	(12)
Depreciation not normalized (a)	(11)	(20)	(3)
Foreign valuation allowance adjustments (e)		147	215
State deferred tax rate change (j)	(19)	(26)	
Net operating loss carryforward adjustments (k)	(9)		
Intercompany interest on U.K. financing entities (l)	(13)	(12)	
Other	(9)	(11)	(11)
Total increase (decrease)	(184)	(79)	(171)
Total income taxes from continuing operations	<u>\$ 545</u>	<u>\$ 691</u>	<u>\$ 263</u>
Effective income tax rate	26.2%	31.4%	21.2%

(a) During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. The guidance allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. Due to the decrease in projected taxable income related to bonus depreciation and a decrease in projected future taxable income, PPL recorded \$43 million in state deferred income tax expense related to deferred tax valuation allowances during 2011.

Additionally, the 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation. The federal provision for 100% bonus depreciation generally applies to property placed into service before January 1, 2012. The placed-in-service deadline is extended to January 1, 2013 for property that has a cost in excess of \$1 million, has a production period longer than one year and has a tax life of at least ten years. PPL's tax deduction for 100% bonus regulated tax depreciation was significantly lower in 2012 than in 2011.

Pennsylvania H.B. 1531, enacted in October 2009, increased the net operating loss limitation to 20% of taxable income for tax years beginning in 2010. Based on the projected revenue increase related to the expiration of the generation rate caps in 2010, PPL recorded a \$72 million state deferred income tax benefit related to the reversal of deferred tax valuation allowances related to the future projections of taxable income over the remaining carryforward period of the net operating losses.

- (b) The U.K.'s Finance Act of 2012, enacted in July 2012, reduced the U.K. statutory income tax rate from 25% to 24% retroactive to April 1, 2012 and from 24% to 23% effective April 1, 2013. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during 2012 related to both rate decreases.

The U.K.'s Finance Act of 2011, enacted in July 2011, reduced the U.K. statutory income tax rate from 27% to 26% retroactive to April 1, 2011 and from 26% to 25% effective April 1, 2012. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during 2011 related to both rate decreases.

The U.K.'s Finance Act of 2010, enacted in July 2010, reduced the U.K. statutory income tax rate from 28% to 27% effective April 1, 2011. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during 2010.

- (c) During 2012, PPL recorded a \$23 million adjustment to federal income tax expense related to the recalculation of 2010 U.K. earnings and profits and \$19 million of U.S. income tax expense on foreign earnings of certain U.K. financing entities not indefinitely reinvested.

During 2011, PPL recorded a \$28 million federal income tax benefit related to U.K. pension contributions.

During 2010, PPL recorded additional U.S. income tax expense primarily resulting from increased taxable dividends.

- (d) In 1997, the U.K. imposed a Windfall Profits Tax (WPT) on privatized utilities, including WPD. PPL filed its federal income tax returns for years subsequent to its 1997 and 1998 claims for refund on the basis that the U.K. WPT was creditable. In September 2010, the U.S. Tax Court (Tax Court) ruled in PPL's favor in a dispute with the IRS, concluding that the U.K. WPT is a creditable tax for U.S. tax purposes. As a result, and with the finalization of other issues, PPL recorded a \$42 million tax benefit in 2010. In January 2011, the IRS appealed the Tax Court's decision to the U.S. Court of Appeals for the Third Circuit (Third Circuit). In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision, holding that the U.K. WPT is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a \$39 million expense in 2011. In February 2012, PPL filed a petition for rehearing of the Third Circuit's opinion. In March 2012, the Third Circuit denied PPL's petition. In June 2012, the U.S. Court of Appeals for the Fifth Circuit issued a contrary opinion in an identical case involving another company. In July 2012, PPL filed a petition for a writ of certiorari seeking U.S. Supreme Court review of the Third Circuit's opinion. The Supreme Court granted PPL's petition on October 29, 2012, and oral argument was held on February 20, 2013. PPL expects the case to be decided before the end of the Supreme Court's current term in June 2013 and cannot predict the outcome of this matter.

In July 2010, the Tax Court ruled in PPL's favor in a dispute with the IRS, concluding that street lighting assets are depreciable for tax purposes over seven years. As a result, PPL recorded a \$7 million tax benefit to federal and state income tax reserves and related deferred income taxes. The IRS did not appeal this decision.

PPL recorded a tax benefit of \$6 million during 2012 and 2011 and \$7 million during 2010 to federal and state income tax reserves related to stranded cost securitization.

- (e) During 2012, PPL recorded a foreign tax benefit following resolution of a U.K. tax issue related to interest expense.

During 2011, WPD reached an agreement with HMRC related to the amount of the capital losses that resulted from prior years' restructuring in the U.K. and recorded a \$147 million foreign tax benefit for the reversal of tax reserves related to the capital losses. Additionally, WPD recorded a \$147 million valuation allowance for the amount of capital losses that, more likely than not, will not be utilized.

During 2010, PPL recorded a \$261 million foreign tax benefit in conjunction with losses resulting from restructuring in the U.K. A portion of these losses offset tax on a deferred gain from a prior year sale of WPD's supply business. WPD recorded a \$215 million valuation allowance for the amount of capital losses that, more likely than not, will not be utilized.

- (f) During 2012, PPL recorded federal and state income tax expense related to the filing of the 2011 federal and state income tax returns. Of this amount, \$5 million relates to the reversal of prior years' state income tax benefits related to regulated depreciation. PPL changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year. In August 2011, the IRS issued guidance regarding the use and evaluation of statistical samples and sampling estimates for network assets. The IRS guidance provided a safe harbor method of determining whether the repair expenditures for electric transmission and distribution property can be currently deducted for tax purposes. PPL adopted the safe harbor method with the filing of its 2011 federal income tax return.

During 2011, PPL recorded federal and state tax benefits related to the filing of the 2010 federal and state income tax returns. Of this amount, \$7 million in tax benefits related to an additional domestic manufacturing deduction resulting from revised bonus depreciation amounts and \$3 million in tax benefits related to the flow-through impact of Pennsylvania regulated state tax depreciation.

- (g) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation eliminated the tax benefits related to domestic manufacturing deductions in 2012 and 2011.
- (h) 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 prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL recorded deferred income tax expense during 2010. See Note 13 for additional information.
- (i) During 2012, 2011 and 2010, PPL recorded a deferred tax benefit related to investment tax credits on progress expenditures related to hydroelectric plant expansions. See Note 8 for additional information.
- (j) In 2011, PPL completed the sale of certain non-core generation facilities. See Note 9 for additional information. Due to changes in state apportionment resulting in reductions in the future estimated state tax rate, PPL recorded deferred tax benefits related to its December 31, 2012 and 2011 state deferred tax liabilities.
- (k) During 2012, PPL recorded adjustments to deferred taxes related to net operating loss carryforwards of LKE based on income tax return adjustments.
- (l) During 2012 and 2011, PPL recorded foreign income tax benefits related to interest expense on intercompany loans for which there was no domestic income tax expense.



	2012	2011	2010
<b>Taxes, other than income</b>			
State gross receipts	\$ 135	\$ 140	\$ 145
State utility realty	2	(9)	5
State capital stock	7	18	6
Foreign property (a)	147	113	52
Domestic property and other (b)	75	64	30
Total	<u>\$ 366</u>	<u>\$ 326</u>	<u>\$ 238</u>

(a) The increase between 2011 and 2010 is due primarily to the acquisition of WPD Midlands on April 1, 2011. See Note 10 for additional information.

(b) The increase between 2011 and 2010 is due primarily to the acquisition of LKE on November 1, 2010. See Note 10 for additional information.

*(PPL Energy Supply)*

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating loss and tax credit carryforwards.

Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. jurisdictions in which PPL Energy Supply's operations have historically been profitable.

Significant components of PPL Energy Supply's deferred income tax assets and liabilities were as follows:

	2012	2011
<b>Deferred Tax Assets</b>		
Deferred investment tax credits	\$ 75	\$ 55
Accrued pension costs	94	100
Federal loss carryforwards	51	1
Federal tax credit carryforwards	113	58
State loss carryforwards	79	78
Other	68	80
Valuation allowances	(74)	(72)
Total deferred tax assets	<u>406</u>	<u>300</u>
<b>Deferred Tax Liabilities</b>		
Plant - net	1,579	1,407
Unrealized gain on qualifying derivatives	173	380
Other	44	51
Total deferred tax liabilities	<u>1,796</u>	<u>1,838</u>
Net deferred tax liability	<u>\$ 1,390</u>	<u>\$ 1,538</u>

At December 31, PPL Energy Supply had the following loss and tax credit carryforwards.

	2012	Expiration
<b>Loss carryforwards</b>		
Federal net operating losses	\$ 143	2031-2032
Federal charitable contributions	3	2016
State net operating losses	1,202	2013-2032
<b>Credit carryforwards</b>		
Federal investment tax credit	108	2031-2032
Federal - other	5	2031-2032

Valuation allowances have been established for the amount that, more likely than not, will not be realized. The changes in deferred tax valuation allowances were:

	Balance at Beginning of Period	Additions		Deductions	Balance at End of Period
		Charged to Income	Charged to Other Accounts		
2012	\$ 72	\$ 2			\$ 74
2011	408	22		\$ 358 (a)	72
2010	255	205		52 (b)	408

(a) During 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Funding. See Note 9 for additional information.

(b) Resulting from the projected revenue increase in connection with the expiration of the Pennsylvania generation rate caps in 2010, the valuation allowance related to state net operating loss carryforwards over the remaining carryforward period was reduced by \$52 million.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income (Loss) from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2012	2011	2010
<b>Income Tax Expense (Benefit)</b>			
Current - Federal	\$ 89	\$ 139	\$ 208
Current - State	22	(12)	78
Total Current Expense (Benefit)	111	127	286
Deferred - Federal	193	251	66
Deferred - State	10	70	(89)
Total Deferred Expense (Benefit), excluding operating loss carryforwards	203	321	(23)
Investment tax credit, net - federal	(2)	(3)	(2)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(48)		
Deferred - State	(1)		
Total Tax Benefit of Operating Loss Carryforwards	(49)		
Total income taxes from continuing operations (a)	<u>\$ 263</u>	<u>\$ 445</u>	<u>\$ 261</u>
Total income tax expense - Federal	\$ 232	\$ 387	\$ 272
Total income tax expense (benefit) - State	31	58	(11)
Total income taxes from continuing operations (a)	<u>\$ 263</u>	<u>\$ 445</u>	<u>\$ 261</u>

- (a) Excludes current and deferred federal, state and foreign tax expense (benefit) recorded to Discontinued Operations of \$3 million in 2011 and \$(5) million in 2010. Also, excludes federal, state and foreign tax expense (benefit) recorded to OCI of \$(267) million in 2012, \$(83) million in 2011 and \$132 million in 2010. The deferred tax benefit of operating loss carryforwards was insignificant for 2011 and 2010.

	2012	2011	2010
<b>Reconciliation of Income Tax Expense</b>			
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	\$ 258	\$ 424	\$ 308
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	33	60	41
State valuation allowance adjustments (a)	2	22	(52)
State deferred tax rate change (b)	(19)	(26)	
Federal and state tax reserves adjustments	(2)	2	(11)
Domestic manufacturing deduction (c) (d)			(11)
Federal and state income tax return adjustments (d)	4	(22)	(6)
Health Care Reform (e)			5
Federal income tax credits (f)	(12)	(12)	(12)
Other	(1)	(3)	(1)
Total increase (decrease)	5	21	(47)
Total income taxes from continuing operations	<u>\$ 263</u>	<u>\$ 445</u>	<u>\$ 261</u>
Effective income tax rate	35.6%	36.7%	29.6%

- (a) During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. The guidance allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for Federal income tax purposes. Due to the decrease in projected taxable income related to bonus depreciation and a decrease in projected future taxable income, PPL Energy Supply recorded \$22 million in state deferred income tax expense related to deferred tax valuation allowances during 2011.

Pennsylvania H.B. 1531, enacted in October 2009, increased the net operating loss limitation to 20% of taxable income for tax years beginning in 2010. Based on the projected revenue increase related to the expiration of the generation rate caps, PPL Energy Supply recorded a \$52 million state deferred income tax benefit related to the reversal of deferred tax valuation allowances over the remaining carry forward period of the net operating losses during 2010.

- (b) In 2011, PPL Energy Supply completed the sale of certain non-core generation facilities. See Note 9 for additional information. Due to changes in state apportionment resulting in reductions in the future estimated state tax rate, PPL Energy Supply recorded deferred tax benefits related to its December 31, 2012 and 2011 state deferred tax liabilities.
- (c) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation deduction eliminated the tax benefits related to domestic manufacturing deductions in 2012 and 2011.
- (d) During 2011, PPL recorded federal and state tax benefits related to the filing of the 2010 federal and state income tax returns. Of this amount, \$7 million in tax benefits related to an additional domestic manufacturing deduction resulting from revised bonus depreciation amounts.
- (e) 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 prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL Energy Supply recorded deferred income tax expense during 2010. See Note 13 for additional information.
- (f) During 2012, 2011 and 2010, PPL Energy Supply recorded a deferred tax benefit related to investment tax credits on progress expenditures related to hydroelectric plant expansions. See Note 8 for additional information.

	2012	2011	2010
<b>Taxes, other than income</b>			
State gross receipts	\$ 35	\$ 31	\$ 15
State capital stock	5	12	4
Property and other	29	28	27
Total	<u>\$ 69</u>	<u>\$ 71</u>	<u>\$ 46</u>

(PPL Electric)

The provision for PPL Electric's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the PUC and the FERC. 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 in "Regulatory assets" or "Regulated liabilities" on the Balance Sheets.

Significant components of PPL Electric's deferred income tax assets and liabilities were as follows:

	2012	2011
<b>Deferred Tax Assets</b>		
Accrued pension costs	\$ 81	\$ 93
Contributions in aid of construction	106	104
Regulatory obligations	24	28
State loss carryforwards	39	26
Federal loss carryforwards	81	3
Other	46	29
Total deferred tax assets	<u>377</u>	<u>283</u>
<b>Deferred Tax Liabilities</b>		
Electric utility plant - net	1,229	1,078
Taxes recoverable through future rates	122	120
Reacquired debt costs	27	32
Other regulatory assets	174	127
Other	12	16
Total deferred tax liabilities	<u>1,564</u>	<u>1,373</u>
Net deferred tax liability	<u>\$ 1,187</u>	<u>\$ 1,090</u>

At December 31, PPL Electric had the following loss carryforwards.

	2012	Expiration
<b>Loss carryforwards</b>		
Federal net operating losses	\$ 229	2031-2032
Federal charitable contributions	2	2016
State net operating losses	597	2030-2032

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2012	2011	2010
<b>Income Tax Expense (Benefit)</b>			
Current - Federal	\$ (28)	\$ (25)	\$ (127)
Current - State	(18)	(13)	(14)
Total Current Expense (Benefit)	<u>(46)</u>	<u>(38)</u>	<u>(141)</u>
Deferred - Federal	162	123	184
Deferred - State	42	25	27
Total Deferred Expense (Benefit), excluding operating loss carryforwards	<u>204</u>	<u>148</u>	<u>211</u>
Investment tax credit, net - Federal	(1)	(2)	(2)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(72)	(12)	6
Deferred - State	(17)	(28)	(17)
Total Tax Benefit of Operating Loss Carryforwards	<u>(89)</u>	<u>(40)</u>	<u>(11)</u>
Total income tax expense	<u>\$ 68</u>	<u>\$ 68</u>	<u>\$ 57</u>
Total income tax expense - Federal	\$ 61	\$ 84	\$ 61
Total income tax expense (benefit) - State	7	(16)	(4)
Total income tax expense	<u>\$ 68</u>	<u>\$ 68</u>	<u>\$ 57</u>

	2012	2011	2010
<b>Reconciliation of Income Taxes</b>			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 71	\$ 90	\$ 67
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	9	12	9
Amortization of investment tax credit	(1)	(2)	(2)
Federal and state tax reserves adjustments (a)	(8)	(9)	(12)
Federal and state income tax return adjustments (b) (c)	7	(4)	(1)
Depreciation not normalized (c)	(8)	(17)	(3)
Other	(2)	(2)	(1)
Total increase (decrease)	(3)	(22)	(10)
Total income tax expense	\$ 68	\$ 68	\$ 57
Effective income tax rate	33.3%	26.5%	29.7%

(a) In July 2010, the U.S. Tax Court ruled in PPL Electric's favor in a dispute with the IRS, concluding that street lighting assets are depreciable for tax purposes over seven years. As a result, PPL Electric recorded a \$7 million tax benefit to federal and state income tax reserves and related deferred income taxes. The IRS did not appeal this decision.

PPL Electric recorded a tax benefit of \$6 million during 2012 and 2011 and \$7 million during 2010 to federal and state income tax reserves related to stranded cost securitization.

(b) PPL Electric changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year. In August 2011, the IRS issued guidance regarding the use and evaluation of statistical samples and sampling estimates for network assets. The IRS guidance provided a safe harbor method of determining whether the repair expenditures for electric transmission and distribution property can be currently deducted for tax purposes. PPL Electric adopted the safe harbor method with the filing of its 2011 federal income tax return and recorded a \$5 million adjustment to federal and state income tax expense resulting from the reversal of prior years' state income tax benefits related to regulated depreciation.

During 2011, PPL Electric recorded a \$5 million federal and state income tax benefit as a result of filing its 2010 federal and state income tax returns. Of this amount, \$3 million in tax benefits related to the flow-through impact of Pennsylvania regulated 100% bonus tax depreciation.

(c) During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. The guidance allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. The 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation. The federal provision for 100% bonus depreciation generally applies to property placed into service before January 1, 2012. The placed-in-service deadline is extended to January 1, 2013 for property that has a cost in excess of \$1 million, has a production period longer than one year and has a tax life of at least ten years. PPL Electric's tax deduction for 100% bonus depreciation was significantly lower in 2012 than in 2011.

	2012	2011	2010
<b>Taxes, other than Income</b>			
State gross receipts	\$ 101	\$ 109	\$ 130
State utility realty (a)	2	(10)	5
State capital stock	1	4	2
Property and other	1	1	1
Total	\$ 105	\$ 104	\$ 138

(a) 2011 includes PURTA tax that was refunded to PPL Electric customers in 2011.

### (LKE)

The provision for LKE's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC, TRA and the FERC. 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 in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of LKE's deferred income tax assets and liabilities were as follows:

	2012	2011
<b>Deferred Tax Assets</b>		
Net operating loss carryforward	\$ 376	\$ 318
Federal tax credit carryforwards	170	170
Regulatory liabilities	99	124
Accrued pension costs	42	67
State capital loss carryforward	5	5
Income taxes due to customers	26	30
Deferred investment tax credits	54	56
Other	41	30
Valuation allowances	(5)	(5)
Total deferred tax assets	808	795

	2012	2011
<b>Deferred Tax Liabilities</b>		
Plant - net	1,171	986
Regulatory assets	152	180
Other	13	25
Total deferred tax liabilities	<u>1,336</u>	<u>1,191</u>
Net deferred tax liability	<u>\$ 528</u>	<u>\$ 396</u>

LKE expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, LKE had the following loss and tax credit carryforwards.

	2012	Expiration
<b>Loss carryforwards</b>		
Federal net operating losses	\$ 948	2028-2032
State net operating losses	1,173	2028-2032
State capital losses	119	2013-2016
<b>Credit carryforwards</b>		
Federal investment tax credit	125	2025-2028
Federal alternative minimum tax credit	20	Indefinite
Federal - other	25	2016-2032
State - other	4	2022

Changes in deferred tax valuation allowances were:

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
2012	\$ 5			\$ 5
2011	6		\$ 1 (a)	5
2010	7	\$ 6 (b)	7 (c)	6

(a) Primarily related to the expiration of state capital loss carryforwards.

(b) A valuation allowance was recorded against deferred tax assets for state capital loss carryforwards.

(c) Related to release of a valuation allowance associated with federal capital loss carryforwards due to the LKE acquisition by PPL.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income (Loss) from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Income Tax Expense (Benefit)</b>				
Current - Federal	\$ (32)	\$ (71)	\$ (31)	\$ 33
Current - State	2	6	4	11
Total Current Expense (Benefit)	<u>(30)</u>	<u>(65)</u>	<u>(27)</u>	<u>44</u>
Deferred - Federal	185	208	52	62
Deferred - State	15	16	1	5
Total Deferred Expense, excluding operating loss carryforwards	<u>200</u>	<u>224</u>	<u>53</u>	<u>67</u>
Investment tax credit, net - Federal	(6)	(6)	(1)	(2)
Tax benefit of operating loss carryforwards				
Deferred - Federal	(46)			
Deferred - State	(12)			
Total Tax Benefit of Operating Loss Carryforwards	<u>(58)</u>			
Total income tax expense from continuing operations (a)	<u>\$ 106</u>	<u>\$ 153</u>	<u>\$ 25</u>	<u>\$ 109</u>
Total income tax expense - Federal	\$ 101	\$ 131	\$ 20	\$ 93
Total income tax expense - State	5	22	5	16
Total income tax expense from continuing operations (a)	<u>\$ 106</u>	<u>\$ 153</u>	<u>\$ 25</u>	<u>\$ 109</u>

(a) Excludes current and deferred federal and state tax expense (benefit) recorded to Discontinued Operations of \$(4) million in 2012, \$(1) million in 2011, \$1 million for the two month period ended December 31, 2010 and \$(1) million for the ten month period ended October 31, 2010. Also, excludes deferred federal and state tax expense (benefit) recorded to OCI of \$(12) million in 2012, \$(1) million in 2011, \$3 million for the two month period ended December 31, 2010 and \$(7) million for the ten month period ended October 31, 2010.

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Reconciliation of Income Taxes</b>				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 116	\$ 147	\$ 25	\$ 105
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	6	15	2	9
Amortization of investment tax credit	(6)	(5)		(2)
Net operating loss carryforward (a)	(9)			
Other	(1)	(4)	(2)	(3)
Total increase (decrease)	(10)	6		4
Total income tax expense from continuing operations	\$ 106	\$ 153	\$ 25	\$ 109
Effective income tax rate	32.0%	36.5%	35.7%	36.3%

(a) During 2012, LKE recorded adjustments to deferred taxes related to net operating loss carryforwards based on income tax return adjustments.

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Taxes, other than Income</b>				
Property and other	\$ 46	\$ 37	\$ 2	\$ 21
Total	\$ 46	\$ 37	\$ 2	\$ 21

(LG&E)

The provision for LG&E's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC and the FERC. 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 in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of LG&E's deferred income tax assets and liabilities were as follows:

	2012	2011
<b>Deferred Tax Assets</b>		
Regulatory liabilities	\$ 54	\$ 65
Deferred investment tax credits	16	17
Income taxes due to customers	21	23
Other	9	10
Total deferred tax assets	100	115
<b>Deferred Tax Liabilities</b>		
Plant - net	526	462
Regulatory assets	86	98
Accrued pension costs	27	19
Other	9	9
Total deferred tax liabilities	648	588
Net deferred tax liability	\$ 548	\$ 473

LG&E expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2012, LG&E had \$22 million of state net operating loss carryforwards that expire in 2030.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Income Tax Expense (Benefit)</b>				
Current - Federal	\$ (2)	\$ 12	\$ (4)	\$ 32
Current - State	3	8	1	5
Total Current Expense (Benefit)	1	20	(3)	37
Deferred - Federal	65	52	12	21
Deferred - State	6	2	1	2
Total Deferred Expense	71	54	13	23
Investment tax credit, net - Federal	(3)	(3)		(2)
Total income tax expense (a)	\$ 69	\$ 71	\$ 10	\$ 58
Total income tax expense - Federal	\$ 60	\$ 61	\$ 8	\$ 51
Total income tax expense - State	9	10	2	7
Total income tax expense (a)	\$ 69	\$ 71	\$ 10	\$ 58

(a) Excludes deferred federal and state tax expense recorded to OCI of \$7 million for the ten month period ended October 31, 2010.

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Reconciliation of Income Taxes</b>				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 67	\$ 68	\$ 10	\$ 58
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	5	7	1	4
Other	(3)	(4)	(1)	(4)
Total increase (decrease)	2	3		
Total income tax expense	\$ 69	\$ 71	\$ 10	\$ 58
Effective income tax rate	35.9%	36.4%	34.5%	34.7%

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Taxes, other than income</b>				
Property and other	\$ 23	\$ 18	\$ 1	\$ 12
Total	\$ 23	\$ 18	\$ 1	\$ 12

(KU)

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 KPSC, VSCC, TRA and the FERC. 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 in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of KU's deferred income tax assets and liabilities were as follows:

	2012	2011
<b>Deferred Tax Assets</b>		
Regulatory liabilities	\$ 45	\$ 58
Deferred investment tax credits	38	39
Net operating loss carryforward	20	
Income taxes due to customers	5	7
Accrued pension costs	(5)	9
Other	7	6
Total deferred tax assets	110	119

	2012	2011
<b>Deferred Tax Liabilities</b>		
Plant - net	623	500
Regulatory assets	65	82
Other	5	16
Total deferred tax liabilities	693	598
Net deferred tax liability	<u>\$ 583</u>	<u>\$ 479</u>

KU expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2012, KU had \$56 million of federal net operating loss carryforwards that expire in 2032.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Income Tax Expense (Benefit)</b>				
Current - Federal	\$ (20)	\$ (8)	\$ 13	\$ 46
Current - State	(1)	4	3	9
Total Current Expense (Benefit)	(21)	(4)	16	55
Deferred - Federal	111	101	4	20
Deferred - State	11	10	—	3
Total Deferred Expense, excluding operating loss carryforwards	122	111	4	23
Investment tax credit, net - Federal	(3)	(3)	—	—
Tax benefit of operating loss carryforwards	—	—	—	—
Deferred - Federal	(20)	—	—	—
Total Tax Benefit of Operating Loss Carryforwards	(20)	—	—	—
Total income tax expense (a)	<u>\$ 78</u>	<u>\$ 104</u>	<u>\$ 20</u>	<u>\$ 78</u>
Total income tax expense - Federal	\$ 68	\$ 90	\$ 17	\$ 66
Total income tax expense - State	10	14	3	12
Total income tax expense (a)	<u>\$ 78</u>	<u>\$ 104</u>	<u>\$ 20</u>	<u>\$ 78</u>

(a) Excludes deferred federal and state tax (benefit) recorded to OCI of \$1 million in 2012 and \$(1) million for the ten month period ended October 31, 2010.

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Reconciliation of Income Taxes</b>				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 75	\$ 99	\$ 19	\$ 77
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	6	9	2	8
Other	(3)	(4)	(1)	(7)
Total increase (decrease)	3	5	1	1
Total income tax expense	<u>\$ 78</u>	<u>\$ 104</u>	<u>\$ 20</u>	<u>\$ 78</u>
Effective income tax rate	36.3%	36.9%	36.4%	35.8%

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Taxes, other than income</b>				
Property and other	\$ 23	\$ 19	\$ 1	\$ 9
Total	<u>\$ 23</u>	<u>\$ 19</u>	<u>\$ 1</u>	<u>\$ 9</u>



**Unrecognized Tax Benefits (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)**

Changes to unrecognized tax benefits were as follows:

	2012	2011
<b>PPL</b>		
Beginning of period	\$ 145	\$ 251
Additions based on tax positions of prior years	15	40
Reductions based on tax positions of prior years	(61)	(160)
Additions based on tax positions related to the current year	7	25
Reductions based on tax positions related to the current year	(3)	(4)
Settlements	(2)	
Lapse of applicable statute of limitation	(9)	(10)
Effects of foreign currency translation		3
End of period	<u>\$ 92</u>	<u>\$ 145</u>
<b>PPL Energy Supply</b>		
Beginning of period	\$ 28	\$ 183
Additions based on tax positions of prior years	4	1
Reductions based on tax positions of prior years	(2)	
Reductions based on tax positions related to the current year		(1)
Derecognize unrecognized tax benefits (a)		(155)
End of period	<u>\$ 30</u>	<u>\$ 28</u>
<b>PPL Electric</b>		
Beginning of period	\$ 73	\$ 62
Reductions based on tax positions of prior years	(43)	
Additions based on tax positions related to the current year	5	22
Reductions based on tax positions related to the current year		(1)
Lapse of applicable statute of limitation	(9)	(10)
End of period	<u>\$ 26</u>	<u>\$ 73</u>

(a) Represents unrecognized tax benefits derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 9 for additional information on the distribution.

LKE's, LG&E's and KU's unrecognized tax benefits and changes in those unrecognized tax benefits are insignificant at December 31, 2012 and December 31, 2011.

At December 31, 2012, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase or decrease by the following amounts. For LKE, LG&E and KU, no significant changes in unrecognized tax benefits are projected over the next 12 months.

	Increase	Decrease
PPL	\$ 10	\$ 90
PPL Energy Supply	1	30
PPL Electric	11	25

These potential changes could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the creditability of foreign taxes, the timing and utilization of foreign tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. 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 limitation.

At December 31, the total unrecognized tax benefits and related indirect effects that, if recognized, would decrease the effective tax rate were as follows. The amounts for LKE, LG&E and KU were insignificant.

	2012	2011
PPL	\$ 38	\$ 41
PPL Energy Supply	13	13
PPL Electric	3	8

At December 31, the following receivable (payable) balances were recorded for interest related to tax positions. The amounts for LKE, LG&E and KU were insignificant.

	<u>2012</u>	<u>2011</u>
PPL	\$ (16)	\$ (20)
PPL Energy Supply	17	2
PPL Electric	1	8

The following interest expense (benefit) was recognized in income taxes. The amounts for LKE, LG&E and KU were insignificant.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
PPL	\$ (4)	\$ 27	\$ (39)
PPL Energy Supply	(4)	6	(30)
PPL Electric	(4)	(5)	(8)

PPL or its subsidiaries file tax returns in five major tax jurisdictions. The income tax provisions for PPL Energy Supply, PPL Electric, LKE, LG&E and KU are calculated in accordance with an intercompany tax sharing agreement which provides that taxable income be calculated as if each domestic subsidiary filed a separate consolidated return. Based on this tax sharing agreement, PPL Energy Supply or its subsidiaries indirectly or directly file tax returns in three major tax jurisdictions, PPL Electric or its subsidiaries indirectly or directly file tax returns in two major tax jurisdictions, and LKE, LG&E and KU or their subsidiaries indirectly or directly file tax returns in two major tax jurisdictions. With few exceptions, at December 31, 2012, these jurisdictions, as well as the tax years that are no longer subject to examination, were as follows:

	<u>PPL</u>					
	<u>PPL</u>	<u>Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&amp;E</u>	<u>KU</u>
U.S. (federal) (a)	1997 and prior	1997 and prior	1997 and prior	10/31/2010 and prior	10/31/2010 and prior	10/31/2010 and prior
Pennsylvania (state)	2008 and prior	2008 and prior	2008 and prior			
Kentucky (state)	2008 and prior			2010 and prior	2010 and prior	2010 and prior
Montana (state)	2008 and prior	2008 and prior				
U.K. (foreign)	2010 and prior					

(a) For LKE, LG&E and KU 2009, as well as the ten month period ending October 31, 2010, remain open under the standard three year statute of limitations; however, the IRS has completed its audit of these periods under the Compliance Assurance Process, effectively closing them to audit adjustments. No issues remain outstanding.

#### Other (PPL and PPL Energy Supply)

PPL changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year for Pennsylvania operations. PPL made the same change for its Montana operations for tax year 2009. In 2011, the IRS issued guidance on repair expenditures related to network assets providing a safe harbor method of determining whether the repair expenditures can be currently deducted for tax purposes. The IRS has not yet issued guidance to provide a safe harbor method related to generation property. The IRS may assert and ultimately conclude that PPL's deduction for generation-related expenditures should be disallowed in whole or in part. PPL believes that it has established an adequate reserve for this contingency.

#### Tax Legislation (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

On January 2, 2013, H.R. 8, The American Taxpayer Relief Act of 2012, was signed into law. The most significant extension of tax relief under this Act applicable to PPL is the extension of bonus depreciation. This provision extends the current 50% expensing provision for qualifying property purchased and placed in service before January 1, 2014 (before January 1, 2015 for certain longer-lived and transportation assets). PPL is still evaluating the changes. However, PPL does not expect that the changes related to this legislation will have a material impact on income tax expense.

## 6. Utility Rate Regulation

### Regulatory Assets and Liabilities

*(PPL, PPL Electric, LKE, LG&E and KU)*

As discussed in Note 1 and summarized below, PPL, PPL Electric, LKE, LG&E and KU reflect the effects of regulatory actions in the financial statements for their cost-based rate-regulated utility operations. Regulatory assets and liabilities are classified as current if, upon initial recognition, the entire amount related to that item will be recovered or refunded within a year of the balance sheet date. As such, the primary items classified as current are related to rate mechanisms that periodically adjust to account for over- or under-collections.

*(PPL, LKE, LG&E and KU)*

LG&E is subject to the jurisdiction of the KPSC and FERC, and KU is subject to the jurisdiction of the KPSC, FERC, VSCC and TRA.

LG&E's and KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and short-term debt) including certain adjustments to exclude non-regulated investments and costs recovered separately through other rate mechanisms. As such, LG&E and KU earn a return on the net cash invested in regulatory assets and regulatory liabilities.

As a result of purchase accounting requirements, certain fair value amounts related to contracts that had favorable or unfavorable terms relative to market were recorded on the Balance Sheets with an offsetting regulatory asset or liability. LG&E and KU recover in customer rates the cost of coal contracts, power purchases and emission allowances. As a result, management believes the regulatory assets and liabilities created to offset the fair value amounts at LKE's acquisition date meet the recognition criteria established by existing accounting guidance and eliminate any rate making impact of the fair value adjustments. LG&E's and KU's customer rates will continue to reflect the original contracted prices for these contracts.

*(PPL, LKE and KU)*

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities, except the leveled fuel factor, are excluded from the return on rate base utilized in the calculation of Virginia base rates; therefore, no return is earned on the related assets.

KU's rates to municipal customers for wholesale requirements are calculated based on annual updates to a rate formula that utilizes a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates; therefore, no return is earned on the related assets.

*(PPL and PPL Electric)*

PPL Electric's distribution base rates are calculated based on a return on rate base (net utility plant plus a cash working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). PPL Electric's transmission revenues are billed in accordance with a FERC tariff that allows for recovery of transmission costs incurred, a return on transmission-related plant and an automatic annual update. See "Transmission Formula Rate" below for additional information on this tariff. All regulatory assets and liabilities are excluded from distribution and transmission return on investment calculations; therefore, generally no return is earned on PPL Electric's regulatory assets.

*(PPL, PPL Electric, LKE, LG&E and KU)*

The following tables provide information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric	
	2012	2011	2012	2011
<b>Current Regulatory Assets:</b>				
Gas supply clause	\$ 11	\$ 6		
Fuel adjustment clause	6	3		
Other	2			
<b>Total current regulatory assets</b>	<b>\$ 19</b>	<b>\$ 9</b>		
<b>Noncurrent Regulatory Assets:</b>				
Defined benefit plans	\$ 730	\$ 615	\$ 362	\$ 276
Taxes recoverable through future rates	293	289	293	289
Storm costs	168	154	59	31
Unamortized loss on debt	96	110	65	77
Interest rate swaps	67	69		
Accumulated cost of removal of utility plant	71	53	71	53
Coal contracts (a)	4	11		
AROs	26	18		
Other	28	30	3	3
<b>Total noncurrent regulatory assets</b>	<b>\$ 1,483</b>	<b>\$ 1,349</b>	<b>\$ 853</b>	<b>\$ 729</b>
<b>Current Regulatory Liabilities:</b>				
Generation supply charge	\$ 27	\$ 42	\$ 27	\$ 42
ECR	4	7		
Gas supply clause	4	6		
Transmission service charge	6	2	6	2
Transmission formula rate		5		5
Universal Service Rider	17	1	17	1
Other	3	10	2	3
<b>Total current regulatory liabilities</b>	<b>\$ 61</b>	<b>\$ 73</b>	<b>\$ 52</b>	<b>\$ 53</b>
<b>Noncurrent Regulatory Liabilities:</b>				
Accumulated cost of removal of utility plant	\$ 679	\$ 651		
Coal contracts (a)	141	180		
Power purchase agreement - OVEC (a)	108	116		
Net deferred tax assets	34	39		
Act 129 compliance rider	8	7	\$ 8	\$ 7
Defined benefit plans	17	9		
Interest rate swaps	14			
Other	9	8		
<b>Total noncurrent regulatory liabilities</b>	<b>\$ 1,010</b>	<b>\$ 1,010</b>	<b>\$ 8</b>	<b>\$ 7</b>

	LKE		LG&E		KU	
	2012	2011	2012	2011	2012	2011
<b>Current Regulatory Assets:</b>						
Gas supply clause	\$ 11	\$ 6	\$ 11	\$ 6		
Fuel adjustment clause	6	3	6	3		
Other	2		2			
<b>Total current regulatory assets</b>	<b>\$ 19</b>	<b>\$ 9</b>	<b>\$ 19</b>	<b>\$ 9</b>		
<b>Noncurrent Regulatory Assets:</b>						
Defined benefit plans	\$ 368	\$ 339	\$ 232	\$ 225	\$ 136	\$ 114
Storm costs	109	123	59	66	50	57
Unamortized loss on debt	31	33	20	21	11	12
Interest rate swaps	67	69	67	69		
Coal contracts (a)	4	11	2	5	2	6
AROs	26	18	15	11	11	7
Other	25	27	5	6	20	21
<b>Total noncurrent regulatory assets</b>	<b>\$ 630</b>	<b>\$ 620</b>	<b>\$ 400</b>	<b>\$ 403</b>	<b>\$ 230</b>	<b>\$ 217</b>
<b>Current Regulatory Liabilities:</b>						
ECR	\$ 4	\$ 7			\$ 4	\$ 7
Gas supply clause	4	6	4	6		
Other	1	7		4	1	3
<b>Total current regulatory liabilities</b>	<b>\$ 9</b>	<b>\$ 20</b>	<b>\$ 4</b>	<b>\$ 10</b>	<b>\$ 5</b>	<b>\$ 10</b>

	LKE		LG&E		KU	
	2012	2011	2012	2011	2012	2011
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	\$ 679	\$ 651	\$ 297	\$ 286	\$ 382	\$ 365
Coal contracts (a)	141	180	61	78	80	102
Power purchase agreement - OVEC (a)	108	116	75	80	33	36
Net deferred tax assets	34	39	28	31	6	8
Defined benefit plans	17	9			17	9
Interest rate swaps	14		7		7	
Other	9	8	3	3	6	5
Total noncurrent regulatory liabilities	\$ 1,002	\$ 1,003	\$ 471	\$ 478	\$ 531	\$ 525

(a) These regulatory assets and liabilities were recorded as offsets to certain intangible assets and liabilities that were recorded at fair value upon the acquisition of LKE.

Following is an overview of selected regulatory assets and liabilities detailed in the preceding tables. Specific developments with respect to certain of these regulatory assets and liabilities are discussed in "Regulatory Matters."

#### (PPL and PPL Electric)

##### Generation Supply Charge

The generation supply charge is a cost recovery mechanism that permits PPL Electric to recover costs incurred to provide generation supply to PLR customers who receive basic generation supply service. The recovery includes charges for generation supply (energy and capacity and ancillary services), as well as administration of the acquisition process. In addition, the generation supply charge contains a reconciliation mechanism whereby any over- or under-recovery from prior quarters is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent quarter.

##### Universal Service Rider (USR)

PPL Electric's distribution rates permit recovery of applicable costs associated with the universal service programs provided to PPL Electric's residential customers. Universal service programs include low-income programs, such as OnTrack and Winter Relief Assistance Program (WRAP). OnTrack is a special payment program for low-income households within the federal poverty level who have difficulty paying their electric bills. This program is funded by residential customers and administered by community-based organizations. Customers who participate in OnTrack receive assistance in the form of reduced payment arrangements, protection against termination of electric service and referrals to other community programs and services. The WRAP program reduces electric bills and improves living comfort for low-income customers by providing services such as weatherization measures and energy education services. The USR is applied to distribution charges for each customer who receives distribution service under PPL Electric's residential service rate schedules. The USR contains a reconciliation mechanism whereby any over- or under-recovery from the current year is refunded to or recovered from residential customers through the adjustment factor determined for the subsequent year.

##### Taxes Recoverable through Future Rates

Taxes recoverable through future rates represent the portion of future income taxes that will be recovered through future rates based upon established regulatory practices. Accordingly, this regulatory asset is recognized when the offsetting deferred tax liability is recognized. For general-purpose financial reporting, this regulatory asset and the deferred tax liability are not offset; rather, each is displayed separately. This regulatory asset is expected to be recovered over the period that the underlying book-tax timing differences reverse and the actual cash taxes are incurred.

##### Act 129 Compliance Rider

In compliance with Pennsylvania's Act 129 of 2008 and implementing regulations, PPL Electric's energy efficiency and conservation plan was approved by a PUC order in October 2009. The order allows PPL Electric to recover the maximum \$250 million cost of the program ratably over the life of the plan, from January 1, 2010 through May 31, 2013. The plan includes programs intended to reduce electricity consumption. The recoverable costs include direct and indirect charges, including design and development costs, general and administrative costs and applicable state evaluator costs. The rates are applied to customers who receive distribution service through the Act 129 Compliance Rider. The actual program costs are reconcilable, and any over- or under-recovery from customers will be refunded or recovered at the end of the program. See below under "Regulatory Matters - Pennsylvania Activities" for additional information on Act 129.

### Transmission Service Charge (TSC)

PPL Electric is charged by PJM for transmission service-related costs applicable to its PLR customers. PPL Electric passes these costs on to customers, who receive basic generation supply service through the PUC-approved TSC cost recovery mechanism. The TSC contains a reconciliation mechanism whereby any over- or under-recovery from customers is either refunded to, or recovered from, customers through the adjustment factor determined for the subsequent year.

### Transmission Formula Rates

PPL Electric's transmission revenues are billed in accordance with a FERC-approved open access transmission tariff that utilizes a formula-based rate recovery mechanism. The formula rate is based on prior year expenditures and forecasted current calendar year transmission plant additions. An adjustment to the prior year expenditures is recorded as a regulatory asset or liability.

*(PPL, PPL Electric, LKE, LG&E and KU)*

### Defined Benefit Plans

Recoverable costs of defined benefit plans represent the portion of unrecognized transition obligation, prior service cost and net actuarial losses that will be recovered in defined benefit plans expense through future base rates based upon established regulatory practices and are amortized over the average service lives of plan participants. These regulatory assets and liabilities are adjusted at least annually or whenever the funded status of defined benefit plans is re-measured. Of the regulatory asset and liability balances recorded, costs of \$60 million for PPL, \$22 million for PPL Electric, \$38 million for LKE, \$24 million for LG&E and \$14 million for KU are expected to be amortized into net periodic defined benefit costs in 2013.

### Storm Costs

PPL Electric, LG&E and KU have the ability to request from the PUC, KPSC and VSCC the authority to treat expenses related to specific extraordinary storms as a regulatory asset and defer and amortize such costs for regulatory accounting and reporting purposes. Once such authority is granted, PPL Electric, LG&E and KU can request recovery of those expenses in a base rate case.

### Unamortized Loss on Debt

Unamortized loss on reacquired debt represents losses on long-term debt reacquired or redeemed that have been deferred and will be amortized and recovered over either the original life of the extinguished debt or the life of the replacement debt (in the case of refinancing). Such costs are being amortized through 2029 for PPL Electric. Such costs are being amortized through 2035 for LG&E and 2036 for PPL, LKE and KU.

### Accumulated Cost of Removal of Utility Plant

LG&E and KU accrue for costs of removal through depreciation expense with an offsetting credit to a regulatory liability. The regulatory liability is relieved as costs are incurred. See Note 1 for additional information.

PPL Electric does not accrue for costs of removal. When costs of removal are incurred, PPL Electric records the deferral of costs as a regulatory asset. Such deferral is included in rates and amortized over the subsequent five-year period.

*(PPL, LKE, LG&E and KU)*

### ECR

Kentucky law permits LG&E and KU to recover the costs, including a return of operating expenses and a return of and on capital invested, of complying with the Clean Air Act and those federal, state or local environmental requirements which apply to coal combustion wastes and by-products from coal-fired electric generating facilities. The KPSC 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. The ECR regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism and is typically recovered within 12 months. LG&E and KU are authorized to receive a 10.63% and 10.10% return on projects associated with the 2009 and 2011 compliance plans. As a result of the settlement agreement in the 2012

rate case, beginning in 2013, LG&E and KU will receive a 10.25% return on all ECR projects included in the 2009 and 2011 compliance plans.

#### Coal Contracts

As a result of purchase accounting associated with PPL's acquisition of LKE, LG&E's and KU's coal contracts were recorded at fair value on the Balance Sheets with offsets to regulatory assets for those contracts with unfavorable terms relative to current market prices and offsets to regulatory liabilities for those contracts with favorable terms relative to current market prices. These regulatory assets and liabilities are being amortized over the same terms as the related contracts, which expire at various times through 2016.

#### Gas Supply Clause

LG&E's natural gas rates contain a gas supply clause, whereby the expected cost of natural gas supply and variances between actual and expected costs from prior periods are adjusted quarterly in LG&E's rates, subject to approval by the KPSC. The gas supply clause includes a separate natural gas procurement incentive mechanism, a performance-based rate, which allows LG&E's rates to be adjusted annually to share variances between actual costs and market indices between the shareholders and the customers during each performance-based rate year (12 months ending October 31). The regulatory assets or liabilities represent the total amounts that have been under- or over-recovered due to timing or adjustments to the mechanisms and are recovered within 18 months.

#### Fuel Adjustment Clauses

LG&E's and KU's retail electric rates contain a fuel adjustment clause, whereby variances in the cost of fuel for electric generation, including transportation costs, from the costs embedded in base rates are adjusted in LG&E's and KU's rates. The KPSC 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, to the extent appropriate, reestablish the fuel charge included in base rates.

KU also employs a levelized fuel factor 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 under- or over-recovery of fuel expenses from the prior year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months.

#### Interest Rate Swaps

*(PPL, LKE and LG&E)*

Because realized amounts associated with LG&E's interest rate swaps, including a terminated swap contract, are recoverable through rates based on an order from the KPSC, LG&E's unrealized gains and losses are recorded as a regulatory asset or liability until they are realized as interest expense. Interest expense from existing swaps is realized and recovered over the terms of the associated debt, which matures through 2033. Amortization of the gain/loss related to the terminated swap contract is recovered through 2035, as approved by the KPSC.

*(LKE and LG&E)*

In the third quarter of 2010, LG&E recorded a pre-tax gain to reverse previously recorded losses of \$21 million and \$9 million to reflect the reclassification of its ineffective swaps and terminated swap to regulatory assets based on an order from the KPSC in the 2010 rate case whereby the cost of LG&E's terminated swap was allowed to be recovered in base rates. Previously, gains and losses on interest rate swaps designated as effective cash flow hedges were recorded within OCI and common equity. The gains and losses on the ineffective portion of interest rate swaps designated as cash flow hedges were recorded to earnings monthly, as was the entire change in the market value of the ineffective swaps.

*(PPL, LKE, LG&E and KU)*

In November 2012, LG&E and KU entered into forward-starting interest rate swaps with PPL that hedge the interest payments on new debt that is expected to be issued in 2013. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties. LG&E and KU believe that realized gains and losses from the swaps are probable of recovery through regulated rates; as such, the fair value of these derivatives have been reclassified from AOCI to regulatory assets or liabilities. The gains and losses will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt. See Note 19 for additional information related to the forward-starting interest rate swaps.

#### AROs

As discussed in Note 1, the accretion and depreciation related to LG&E's and KU's AROs are offset with a regulatory credit on the income statement, such that there is no earnings impact. When an asset with an ARO is retired, the related ARO regulatory asset created by the regulatory credit is offset against the associated regulatory liability, PP&E and ARO liability.

#### Power Purchase Agreement - OVEC

As a result of purchase accounting associated with PPL's acquisition of LKE, the fair values of the OVEC power purchase agreement were recorded on the balance sheets of LKE, LG&E and KU with offsets to regulatory liabilities. The regulatory liabilities are being amortized using the units-of-production method until March 2026, the expiration date of the agreement at the date of the acquisition.

#### Regulatory Liability associated with Net Deferred Tax Assets

LG&E's and KU's regulatory liabilities associated with net deferred tax assets represent the future revenue impact from the reversal of deferred income taxes required primarily for unamortized investment tax credits. These regulatory liabilities are recognized when the offsetting deferred tax assets are recognized. For general-purpose financial reporting, these regulatory liabilities and the deferred tax assets are not offset; rather, each is displayed separately.

#### **Regulatory Matters**

##### Kentucky Activities

*(PPL, LKE, LG&E and KU)*

##### *Rate Case Proceedings*

In June 2012, LG&E and KU filed requests with the KPSC for increases in annual base electric rates of approximately \$62 million at LG&E and approximately \$82 million at KU and an increase in annual base gas rates of approximately \$17 million at LG&E. In November 2012, LG&E and KU along with all of the parties filed a unanimous settlement agreement. Among other things, the settlement provided for increases in annual base electric rates of \$34 million at LG&E and \$51 million at KU and an increase in annual base gas rates of \$15 million at LG&E. The settlement agreement also included revised depreciation rates that result in reduced annual electric depreciation expense of approximately \$9 million for LG&E and approximately \$10 million for KU. The settlement agreement included an authorized return on equity at LG&E and KU of 10.25%. On December 20, 2012, the KPSC issued orders approving the provisions in the settlement agreement. The new rates became effective on January 1, 2013. In addition to the increased base rates, the KPSC approved a gas line tracker mechanism for LG&E to provide for recovery of costs associated with LG&E's gas main replacement program, gas service lines and risers.

##### *Independent Transmission Operators*

In September 2012, LG&E and KU completed the transition of their independent transmission operator contractual arrangements from Southwest Power Pool, Inc. to TransServ International, Inc. This change had previously received approvals of the FERC and the KPSC.



*(PPL, LKE and LG&E)*

#### *CPCN Filing*

In October 2012, LG&E filed an application with the KPSC to construct a new wet scrubber to serve Unit 3 at the Mill Creek Generating Station. The application partially modifies the existing authority granted by the KPSC in 2011, which authorized LG&E to build two new scrubbers to serve Mill Creek Units 1 and 2 and another to serve Mill Creek Unit 4. Additionally, authority was granted allowing the Mill Creek Unit 3 to be served by the existing Unit 4 scrubber. The CPCN sought approval to construct a new wet scrubber on Mill Creek Unit 3 instead of utilizing the Unit 4 scrubber. In February 2013, LG&E received the requested KPSC approval to construct a new wet scrubber to serve Unit 3 at the Mill Creek Generating Station.

#### *Storm Costs*

In August 2011, a strong storm hit LG&E's service area causing significant damage and widespread outages for approximately 139,000 customers. LG&E filed an application with the KPSC in September 2011, requesting approval of a regulatory asset recorded to defer, for future recovery, \$8 million in incremental operation and maintenance expenses related to the storm restoration. An order was received in December 2011 granting the request. On December 20, 2012, the KPSC in the approval of the unanimous rate case settlement agreement, authorized regulatory asset recovery effective January 1, 2013, over a five year period.

#### Pennsylvania Activities *(PPL and PPL Electric)*

##### *Rate Case Proceeding*

In March 2012, PPL Electric filed a request with the PUC to increase distribution rates by approximately \$105 million, effective January 1, 2013. In its December 28, 2012 final order, the PUC approved a 10.4% return on equity and a total distribution revenue increase of about \$71 million. The approved rates became effective January 1, 2013.

Also, in its December 28, 2012 final order, the PUC directed PPL Electric to file a proposed Storm Damage Expense Rider within 90 days following the order. PPL Electric plans to file a proposed Storm Damage Expense Rider with the PUC and, as part of that filing, request recovery of the \$28 million of qualifying storm costs incurred as a result of the October 2012 landfall of Hurricane Sandy. See "Storm Costs" below for additional information regarding Hurricane Sandy.

##### *ACT 129*

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet specified goals for reduction in customer electricity usage and peak demand by specified dates. EDCs not meeting the requirements of Act 129 are exposed to significant penalties.

Under Act 129, EDCs must file an energy efficiency and conservation plan (EE&C Plan) with the PUC and contract with conservation service providers to implement all or a portion of the EE&C Plan. Act 129 requires EDCs to reduce overall electricity consumption by 1.0% by May 2011 and, by May 2013, reduce overall electricity consumption by 3.0% and reduce peak demand by 4.5%. The peak demand reduction must occur for the 100 hours of highest demand, which is determined by actual demand reduction during the June 2012 through September 2012 period. EDCs will be able to recover the costs (capped at 2.0% of the EDC's 2006 revenue) of implementing their EE&C Plans. In October 2009, the PUC approved PPL Electric's EE&C Plan, and in March 2012 confirmed that PPL Electric met the 2011 requirement. PPL Electric will determine if it met the peak demand reduction target and the May 2013 energy reduction target after it completes the final program evaluation on November 5, 2013.

Act 129 requires the PUC to evaluate the costs and benefits of the EE&C program by November 30, 2013 and adopt additional reductions if the benefits of the program exceed the costs. In August 2012, after receiving input from stakeholders, the PUC issued a Final Implementation Order establishing a three-year Phase II program, ending May 31, 2016, with individual consumption reduction targets for each EDC. PPL Electric's reduction target is 2.1%. The PUC did not establish demand reduction targets for the Phase II program. PPL Electric filed its Phase II EE&C Plan with the PUC on November 15, 2012 and the PUC is expected to issue its decision in March 2013. Act 129 also requires the Default Service Provider (DSP) to provide electric generation supply service to customers pursuant to a PUC-approved default service procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20

years), with long-term contracts limited to 25% of load unless otherwise approved by the PUC. The DSP will be able to recover the costs associated with a competitive procurement plan.

The PUC has approved PPL Electric's procurement plan for the period January 1, 2011 through May 31, 2013, and PPL Electric concluded all competitive solicitations to procure power for its PLR obligations under that plan.

The PUC has directed all EDCs to file default service procurement plans for the period June 1, 2013 through May 31, 2015. PPL Electric filed its plan in May 2012. In that plan, PPL Electric proposed a process to obtain supply for its default service customers and a number of initiatives designed to encourage more customers to purchase electricity from the competitive retail market. In its January 24, 2013 final order, the PUC approved PPL Electric's plan with modifications and directed PPL Electric to establish collaborative processes to address several retail competition issues.

#### *Smart Meter Rider*

Act 129 also requires installation of smart meters for new construction, upon the request of consumers and at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs will be able to recover the costs of providing smart metering technology. In August 2009, PPL Electric filed its proposed smart meter technology procurement and installation plan with the PUC. All of PPL Electric's metered customers currently have smart meters installed at their service locations. PPL Electric's current advanced metering technology generally satisfies the requirements of Act 129 and does not need to be replaced. In June 2010, the PUC entered its order approving PPL Electric's smart meter plan with several modifications. In compliance with the order, in the third quarter of 2010, PPL Electric submitted a revised plan with a cost estimate of \$38 million to be incurred over a five-year period, beginning in 2009, and filed its Section 1307(e) cost recovery mechanism, the Smart Meter Rider (SMR) to recover these costs beginning January 1, 2011. In December 2010, the PUC approved PPL Electric's SMR which reflects the costs of its smart meter program plus a return on its Smart Meter investments. The SMR, which became effective January 1, 2011, contains a reconciliation mechanism whereby any over- or under-recovery from customers is either refunded to or collected from customers in the subsequent year. In August 2011, PPL Electric filed with the PUC an annual report describing the actions it was taking under its Smart Meter plan in 2011 and its planned actions for 2012. PPL Electric also submitted revised SMR charges which became effective January 1, 2012. In August 2012, PPL Electric filed with the PUC an annual report describing the actions it was taking under its Smart Meter plan in 2012 and its planned actions for 2013. PPL Electric also submitted revised SMR charges which became effective January 1, 2013.

#### *PUC Investigation of Retail Electricity Market*

In April 2011, the PUC opened an investigation of Pennsylvania's retail electricity market to be conducted in two phases. Phase one addressed the status of the existing retail market and explored potential changes. Questions issued by the PUC for this phase of the investigation focused primarily on default service issues. Phase two was initiated in July 2011 to develop specific proposals for changes to the retail market and default service model. In December 2011, the PUC issued a final order providing guidance to EDCs on the design of their next default service procurement plan filings. In December 2011, the PUC also issued a tentative order proposing an intermediate work plan to address issues raised in the investigation. In March 2012, the PUC entered a final order on the intermediate work plan, issued three possible models for the default service "end state" and held a hearing regarding those three models. In September 2012, the PUC issued a Secretarial Letter setting forth an "RMI End State Proposal" for discussion. The PUC issued a tentative implementation order in early November 2012, following which parties had 30 days to provide comment. PPL Electric and PPL EnergyPlus filed joint comments. A final implementation order was issued on February 15, 2013. Although the final implementation order contains provisions that will require numerous modifications to PPL Electric's current default service model for retail customers, those modifications are not expected to have a material adverse effect on PPL Electric's results of operations.

#### *Legislation - Regulatory Procedures and Mechanisms*

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms - the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it begins a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets. In August 2012, the PUC issued a Final Implementation Order adopting procedures, guidelines and a model tariff for the implementation of Act 11. Act 11 requires utilities to file an LTIP as a prerequisite to filing for recovery through the DSIC. The LTIP is mandated to be a five- to ten-year plan describing projects eligible for inclusion in the DSIC. In September 2012, PPL Electric filed its LTIP describing projects eligible for inclusion in the DSIC. The PUC approved the LTIP on January 10, 2013 and PPL Electric filed a petition requesting permission to establish a DSIC on January 15, 2013, with rates proposed to be effective beginning May 1, 2013.

## *Storm Costs*

During 2012, PPL Electric experienced several PUC-reportable storms, including Hurricane Sandy, resulting in total restoration costs of \$81 million, of which \$61 million were initially recorded in "Other operation and maintenance" on the Statement of Income. In particular, in late October 2012, PPL Electric experienced widespread significant damage to its distribution network from Hurricane Sandy resulting in total restoration costs of \$66 million, of which \$50 million were initially recorded in "Other operation and maintenance" on the Statement of Income. Although PPL Electric had storm insurance coverage, the costs incurred from Hurricane Sandy exceeded the policy limits. Probable insurance recoveries recorded during 2012 were \$18.25 million, of which \$14 million were included in "Other operation and maintenance" on the Statement of Income. PPL Electric recorded a regulatory asset of \$28 million in December 2012 (offset to "Other operation and maintenance" on the Statement of Income). In February 2013, PPL Electric received an order from the PUC granting permission to defer qualifying storm costs in excess of insurance recoveries associated with Hurricane Sandy. See "Rate Case Proceeding" above for information regarding PPL Electric's plan to file a proposed Storm Damage Expense Rider with the PUC.

PPL Electric experienced several PUC-reportable storms during 2011 including Hurricane Irene and a late October snow storm. Total restoration costs were \$84 million, of which \$54 million were initially recorded in "Other operation and maintenance" on the Statement of Income. Although PPL Electric had storm insurance coverage with a PPL affiliate, the costs associated with the unusually high number of PUC-reportable storms exceeded policy limits. Probable insurance recoveries recorded during 2011 were \$26.5 million, of which \$16 million were included in "Other operation and maintenance" on the Statements of Income. In December 2011, PPL Electric received orders from the PUC granting permission to defer qualifying storm costs in excess of insurance recoveries associated with Hurricane Irene and a late October 2011 snowstorm. PPL Electric recorded a regulatory asset of \$25 million in December 2011 (offset to "Other operation and maintenance" on the Statement of Income). The PUC granted PPL Electric's recovery of the 2011 storm costs in its final order in the 2012 rate case. Recovery began in January 2013 and will continue over a five year period.

## Federal Matters

### *FERC Formula Rates (PPL and PPL Electric)*

Transmission rates are regulated by the FERC. PPL Electric's transmission revenues are billed in accordance with a FERC-approved PJM open access transmission tariff that utilizes a formula-based rate recovery mechanism.

PPL Electric has initiated its formula rate 2012, 2011 and 2010 Annual Updates. Each update has been subsequently challenged by a group of municipal customers, which challenges have been opposed by PPL Electric. In August 2011, the FERC issued an order substantially rejecting the 2010 formal challenge and the municipal customers filed a request for rehearing of that order. In September 2012, the FERC issued an order setting for evidentiary hearings and settlement judge procedures a number of issues raised in the 2010 and 2011 formal challenges. Settlement conferences were held in late 2012 and early 2013. In February 2013, the FERC set for evidentiary hearings and settlement judge procedures a number of issues in the 2012 formal challenge and consolidated that challenge with the 2010 and 2011 challenges. PPL Electric anticipates that there will be additional settlement conferences held in 2013. PPL and PPL Electric cannot predict the outcome of the foregoing proceedings, which remain pending before the FERC.

In March 2012, PPL Electric filed a request with the FERC seeking recovery of its regulatory asset related to the deferred state tax liability that existed at the time of the transition from the flow-through treatment of state income taxes to full normalization. This change in tax treatment occurred in 2008 as a result of prior FERC initiatives that transferred regulatory jurisdiction of certain transmission assets from the PUC to FERC. At December 31, 2012 and 2011, \$52 million and \$53 million respectively, are classified as taxes recoverable through future rates and included on the Balance Sheets in "Other Noncurrent Assets - Regulatory assets." In May 2012, the FERC issued an order approving PPL Electric's request to recover the deferred tax regulatory asset over a 34-year period beginning June 1, 2012.

## U.K. Activities (PPL)

### *Ofgem Review of Line Loss Calculation*

WPD had a \$94 million liability recorded at December 31, 2012, compared with \$170 million at December 31, 2011, related to the close-out of line losses for the prior price control period, DPCR4. Ofgem is currently consulting on the methodology to be used by all network operators to calculate the final line loss incentive/penalty for the DPCR4. In October 2011, Ofgem issued a consultation paper citing two potential changes to the methodology, both of which would result in a reduction of the liability. In March 2012, Ofgem issued a decision regarding the preferred methodology. In July 2012, Ofgem issued a

consultation paper regarding certain aspects of the preferred methodology as it relates to the DPCR4 line loss incentive/penalty and a proposal to delay the target date for making a final decision until April 2013. In October 2012, a license modification was issued to allow Ofgem to publish the final decisions on these matters by April 2013. In November 2012, Ofgem issued an additional consultation on the final DPCR4 line loss close-out that published values for each DNO and further indicated the preferred methodology that would replace the methodology under WPD's licenses. Based on applying the preferred methodology for DPCR4, the liability was reduced by \$79 million, with a credit recorded in "Utility" on the Statement of Income, to reflect what WPD expects to be the final close-out settlement under Ofgem's preferred methodology. This consultation also confirmed the final decisions will be published by April 2013. In February 2013, Ofgem issued additional consultation proposing to delay the April 2013 decision date. PPL cannot predict when this matter will be resolved.

Ofgem also stated in the November 2012 consultation that the line loss incentive implemented at the last rate review will be withdrawn and no incentive will apply for the DPCR5 period. That decision resulted in the elimination of the DPCR5 liability of \$11 million, with a credit recorded in "Utility" on the Statement of Income.

### European Market Infrastructure Regulation

Regulation No. 648/2012 of the European Parliament and of the Council, commonly referred to as the European Market Infrastructure Regulation (EMIR), entered into force on August 16, 2012 and the European Commission adopted most of the Regulatory Technical Standards without modification in December 2012. The EMIR establishes certain transaction clearing and other recordkeeping requirements for parties to over-the-counter derivatives transactions. Included in the derivative transactions that are subject to EMIR are certain interest rate and currency derivative contracts utilized by WPD. Generally, WPD is expected to qualify under the EMIR as a non-financial counterparty to the transactions in which it engages and further to qualify for certain exemptions that will relieve WPD from the mandatory clearing obligations imposed by the EMIR. Although the EMIR will potentially impose significant additional recordkeeping requirements on WPD, the effect of the EMIR is not currently expected to have a significant adverse impact on WPD's financial condition or results of operation.

## 7. Financing Activities

### Credit Arrangements and Short-term Debt

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The Registrants maintain credit facilities to enhance liquidity, provide credit support, and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities of PPL Energy Supply, PPL Electric, LG&E and KU also apply to PPL and the credit facilities of LG&E and KU also apply to LKE. The following credit facilities were in place at:

	December 31, 2012				December 31, 2011		
	Expiration Date	Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backup	Unused Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backup
<b>PPL</b>							
<i>WPD Credit Facilities</i>							
PPL WW Syndicated Credit Facility (b) (c) (f)	Jan. 2013	£ 150	£ 106	n/a	£ 44	£ 111	n/a
WPD (South West) Syndicated Credit Facility (c) (f)	Jan. 2017	245		n/a	245		n/a
WPD (East Midlands) Syndicated Credit Facility (c) (d) (f)	Apr. 2016	300			300	£	70
WPD (West Midlands) Syndicated Credit Facility (c) (d) (f)	Apr. 2016	300			300		71
Uncommitted Credit Facilities		84		£ 4	80		3
Total WPD Credit Facilities (e)		<u>£ 1,079</u>	<u>£ 106</u>	<u>£ 4</u>	<u>£ 969</u>	<u>£ 111</u>	<u>£ 144</u>
<b>PPL Energy Supply</b>							
Syndicated Credit Facility (f) (g) (h)	Nov. 2017	\$ 3,000		\$ 499	\$ 2,501		\$ 541
Letter of Credit Facility (k)	Mar. 2013	200	n/a	132	68	n/a	89
Uncommitted Credit Facilities (h)		200	n/a	40	160	n/a	n/a
Total PPL Energy Supply Credit Facilities		<u>\$ 3,400</u>		<u>\$ 671</u>	<u>\$ 2,729</u>		<u>\$ 630</u>

	December 31, 2012				December 31, 2011		
	Expiration Date	Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backup	Unused Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backup
<b>PPL Electric</b>							
Syndicated Credit Facility (f) (h)	Oct. 2017	\$ 300		\$ 1	\$ 299		\$ 1
Asset-backed Credit Facility (i)	Sept 2013	100		n/a	100		n/a
<b>Total PPL Electric Credit Facilities</b>		<b>\$ 400</b>		<b>\$ 1</b>	<b>\$ 399</b>		<b>\$ 1</b>
<b>LG&amp;E</b>							
Syndicated Credit Facility (f) (h)	Nov. 2017	\$ 500		55	\$ 445		
<b>KU</b>							
Syndicated Credit Facility (f) (h)	Nov. 2017	\$ 400		\$ 70	\$ 330		
Letter of Credit Facility (f) (h) (j)	Apr. 2014	198		198		n/a	\$ 198
<b>Total KU Credit Facilities</b>		<b>\$ 598</b>		<b>\$ 268</b>	<b>\$ 330</b>		<b>\$ 198</b>

- (a) Amounts borrowed are recorded as "Short-term debt" on the Balance Sheets.
- (b) In December 2012, the PPL WW credit facility was subsequently replaced with a credit facility expiring in December 2016 and the capacity was increased to £210 million.
- (c) The facilities contain financial covenants that require the company to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.
- (d) Under these facilities, WPD (East Midlands) and WPD (West Midlands) each have the ability to request the lenders to issue up to £80 million of letters of credit in lieu of borrowing.
- (e) The total amounts borrowed at December 31, 2012 and 2011 were USD-denominated borrowings of \$171 million and \$178 million, which equated to £106 million and £111 million at the time of the borrowings. The interest rates at December 31, 2012 and 2011 were 0.8452% and 1.05%. At December 31, 2012, the unused capacity of WPD's credit facilities was approximately \$1.6 billion.
- (f) Each company pays customary fees under its respective facility and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.
- (g) In October 2010, PPL Energy Supply borrowed \$3.2 billion under this facility in order to enable a subsidiary to make loans to certain affiliates to provide interim financing of amounts required by PPL to partially fund PPL's acquisition of LKE. Such borrowing bore interest at 2.26% and was refinanced primarily through the issuance of long-term debt by LKE, LG&E and KU and the use of internal funds. This borrowing and related payments were included in "Net increase (decrease) in short-term debt" on the Statement of Cash Flows.

PPL Energy Supply incurred an aggregate of \$41 million of fees in 2010 in connection with establishing this facility. Such fees were initially deferred and amortized through December 2014. In connection with the reduction in the capacity from \$4 billion to \$3 billion in December 2010, PPL Energy Supply wrote off \$10 million, \$6 million after tax, of deferred fees, which was reflected in "Interest Expense" in the Statement of Income.

- (h) The facilities contain a financial covenant requiring debt to total capitalization not to exceed 65% for PPL Energy Supply and 70% for PPL Electric, LG&E and KU, as calculated in accordance with the facilities and other customary covenants. Additionally, as it relates to the syndicated credit facilities and subject to certain conditions, PPL Energy Supply may request that its facility's capacity be increased by up to \$500 million and PPL Electric and KU each may request up to a \$100 million increase in its facility's capacity.
- (i) PPL Electric participates in an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary has pledged these assets to secure loans from a commercial paper conduit sponsored by a financial institution.
- At December 31, 2012 and December 31, 2011, \$238 million and \$251 million of accounts receivable and \$106 million and \$98 million of unbilled revenue were pledged by the subsidiary under the credit agreement related to PPL Electric's and the subsidiary's participation in the asset-backed commercial paper program. Based on the accounts receivable and unbilled revenue pledged at December 31, 2012, the amount available for borrowing under the facility was \$100 million. PPL Electric's sale to its subsidiary of the accounts receivable and unbilled revenue is an absolute sale of assets, and PPL Electric does not retain an interest in these assets. However, for financial reporting purposes, the subsidiary's financial results are consolidated in PPL Electric's financial statements. PPL Electric performs certain record-keeping and cash collection functions with respect to the assets in return for a servicing fee from the subsidiary.
- (j) KU's letter of credit facility agreement allows for certain payments under the letter of credit facility to be converted to loans rather than requiring immediate payment.
- (k) In February 2013, PPL Energy Supply extended the expiration date of the agreement to March 2014 and, effective April 2013, the capacity will be reduced to \$150 million.

*(PPL and PPL Energy Supply)*

PPL Energy Supply maintains a \$500 million Facility Agreement expiring June 2017, whereby PPL Energy Supply has the ability to request up to \$500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At December 31, 2012, PPL Energy Supply has not requested any capacity for the issuance of letters of credit under this arrangement.

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an \$800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees, which had an aggregate carrying value of \$2.7 billion at December 31, 2012. The facility expires in November 2017, but is subject to automatic one-year renewals under certain conditions. There were no secured obligations outstanding under this facility at December 31, 2012.

In April 2012, PPL Energy Supply increased the capacity of its commercial paper program from \$500 million to \$750 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At December 31, 2012 and 2011, PPL Energy Supply had \$356 million and \$400 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at weighted-average interest rates of 0.50% and 0.53%.

*(PPL and PPL Electric)*

In May 2012, PPL Electric increased the capacity of its commercial paper program from \$200 million to \$300 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility. PPL Electric had no commercial paper outstanding at December 31, 2012.

*(PPL, LKE, LG&E and KU)*

In February 2012, LG&E and KU each established a commercial paper program for up to \$250 million to provide an additional financing source to fund their short-term liquidity needs. Commercial paper issuances are supported by LG&E's and KU's Syndicated Credit Facilities. At December 31, 2012, LG&E had \$55 million of commercial paper outstanding at a weighted-average interest rate of 0.42% and KU had \$70 million of commercial paper outstanding at a weighted-average interest rate of 0.42%, included in "Short-term debt" on the Balance Sheet.

*(PPL Energy Supply, LKE, LG&E and KU)*

See Note 16 for discussion of intercompany borrowings.

#### **2011 Bridge Facility (PPL)**

In March 2011, concurrently and in connection with entering into the agreement to acquire WPD Midlands, PPL Capital Funding and PPL WEM, as borrowers, and PPL, as guarantor, entered into a 364-day unsecured £3.6 billion bridge facility to (i) fund the acquisition and (ii) pay certain fees and expenses in connection with the acquisition. During 2011, PPL incurred \$44 million of fees in connection with establishing the 2011 Bridge Facility, which is reflected in "Interest Expense" on the Statement of Income. On April 1, 2011, concurrent with the closing of the WPD Midlands acquisition, PPL Capital Funding borrowed an aggregate of £1.75 billion and PPL WEM borrowed £1.85 billion under the 2011 Bridge Facility. Borrowings bore interest at approximately 2.62%, determined by one-month LIBOR rates plus a spread, based on PPL Capital Funding's senior unsecured debt rating and the length of time from the date of the acquisition closing that borrowings were outstanding. See Note 10 for additional information on the acquisition.

In accordance with the terms of the 2011 Bridge Facility, PPL Capital Funding's borrowings of £1.75 billion were repaid with approximately \$2.8 billion of proceeds received from PPL's issuance of common stock and 2011 Equity Units in April 2011. In April 2011, PPL WEM repaid £650 million of its 2011 Bridge Facility borrowing. Such repayment was funded primarily with proceeds received from PPL WEM's issuance of senior notes. In May 2011, PPL WEM repaid the remaining £1.2 billion of borrowings then-outstanding under the 2011 Bridge Facility, primarily with the proceeds from senior notes issued by WPD (East Midlands) and WPD (West Midlands).

In anticipation of the repayment of a portion of the borrowings under the 2011 Bridge Facility with U.S. dollar proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. See Note 19 for additional information.

**Long-term Debt (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)**

	Weighted-Average Rate	Maturities	December 31,	
			2012	2011
<b><u>PPL</u></b>				
<b><u>U.S.</u></b>				
Senior Unsecured Notes (a)	4.66%	2013 - 2038	\$ 4,506	\$ 3,805
Senior Secured Notes/First Mortgage Bonds (b) (c) (d) (e)	4.19%	2013 - 2041	5,587	5,111
Junior Subordinated Notes	4.89%	2018 - 2067	2,608	2,608
Other	6.95%	2014 - 2020	15	15
Total U.S. Long-term Debt			<u>12,716</u>	<u>11,539</u>
<b><u>U.K.</u></b>				
Senior Unsecured Notes (f)	5.71%	2016 - 2040	6,111	5,862
Index-linked Senior Unsecured Notes (g)	1.85%	2043 - 2056	608	581
Total U.K. Long-term Debt (h)			<u>6,719</u>	<u>6,443</u>
Total Long-term Debt Before Adjustments			19,435	17,982
Fair market value adjustments			78	65
Unamortized premium and (discount), net			(37)	(54)
Total Long-term Debt			<u>19,476</u>	<u>17,993</u>
Less current portion of Long-term Debt			751	
Total Long-term Debt, noncurrent			<u>\$ 18,725</u>	<u>\$ 17,993</u>
<b><u>PPL Energy Supply</u></b>				
Senior Unsecured Notes (a)	5.50%	2013 - 2038	\$ 2,581	\$ 2,581
Senior Secured Notes (b)	8.31%	2013 - 2025	663	437
Other	6.00%	2020	5	5
Total Long-term Debt Before Adjustments			<u>3,249</u>	<u>3,023</u>
Fair market value adjustments			22	
Unamortized premium and (discount), net			1	1
Total Long-term Debt			<u>3,272</u>	<u>3,024</u>
Less current portion of Long-term Debt			751	
Total Long-term Debt, noncurrent			<u>\$ 2,521</u>	<u>\$ 3,024</u>
<b><u>PPL Electric</u></b>				
Senior Secured Notes/First Mortgage Bonds (c) (d)	4.60%	2015 - 2041	\$ 1,964	\$ 1,714
Other	7.38%	2014	10	10
Total Long-term Debt Before Adjustments			<u>1,974</u>	<u>1,724</u>
Unamortized discount			(7)	(6)
Total Long-term Debt			<u>\$ 1,967</u>	<u>\$ 1,718</u>
<b><u>LKE</u></b>				
Senior Unsecured Notes	3.31%	2015 - 2021	\$ 1,125	\$ 1,125
Senior Secured Notes/First Mortgage Bonds (c) (e)	3.00%	2015 - 2040	2,960	2,960
Total Long-term Debt Before Adjustments			<u>4,085</u>	<u>4,085</u>
Fair market value adjustments			7	7
Unamortized discount			(17)	(19)
Total Long-term Debt			<u>\$ 4,075</u>	<u>\$ 4,073</u>
<b><u>LG&amp;E</u></b>				
Senior Secured Notes/First Mortgage Bonds (c) (e)	2.49%	2015 - 2040	\$ 1,109	\$ 1,109
Total Long-term Debt Before Adjustments			<u>1,109</u>	<u>1,109</u>
Fair market value adjustments			6	6
Unamortized discount			(3)	(3)
Total Long-term Debt			<u>\$ 1,112</u>	<u>\$ 1,112</u>
<b><u>KU</u></b>				
Senior Secured Notes/First Mortgage Bonds (c) (e)	3.30%	2015 - 2040	\$ 1,851	\$ 1,851
Total Long-term Debt Before Adjustments			<u>1,851</u>	<u>1,851</u>
Fair market value adjustments			1	1
Unamortized discount			(10)	(10)
Total Long-term Debt			<u>\$ 1,842</u>	<u>\$ 1,842</u>

- (a) Includes \$300 million of 5.70% REset Put Securities due 2035 (REPS). The REPS bear interest at a rate of 5.70% per annum to, but excluding, October 15, 2015 (Remarketing Date). The REPS are required to be put by existing holders on the Remarketing Date either for (a) purchase and remarketing by a designated remarketing dealer or (b) repurchase by PPL Energy Supply. If the remarketing dealer elects to purchase the REPS for remarketing, it will purchase the REPS at 100% of the principal amount, and the REPS will bear interest on and after the Remarketing Date at a new fixed rate per annum determined in the remarketing. PPL Energy Supply has the right to terminate the remarketing process. If the remarketing is terminated at the option of PPL Energy Supply or under certain other circumstances, including the occurrence of an event of default by PPL Energy Supply under the related indenture or a failed remarketing for certain specified reasons, PPL Energy Supply will be required to pay the remarketing dealer a settlement amount as calculated in accordance with the related remarketing agreement.
- (b) Includes lease financing consolidated through a VIE. See Note 22 for additional information.
- (c) Includes PPL Electric's senior secured and first mortgage bonds that are secured by the lien of PPL Electric's 2001 Mortgage Indenture, which covers substantially all electric distribution plant and certain transmission plant owned by PPL Electric. The carrying value of PPL Electric's property, plant and equipment was approximately \$4.3 billion and \$3.9 billion at December 31, 2012 and 2011.

LG&E's first mortgage bonds are secured by the lien of the LG&E 2010 Mortgage Indenture, which creates a lien, subject to certain exceptions and exclusions, on substantially all of LG&E'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 and the storage and distribution of natural gas. The aggregate carrying value of the property subject to the lien was \$2.7 billion and \$2.6 billion at December 31, 2012 and December 31, 2011.

KU's first mortgage bonds are secured by the lien of the KU 2010 Mortgage Indenture, which creates a lien, subject to certain exceptions and exclusions, on substantially all of KU'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. The aggregate carrying value of the property subject to the lien was \$4.4 billion and \$4.1 billion at December 31, 2012 and December 31, 2011.

- (d) Includes PPL Electric's series of senior secured bonds that secure its obligations to make payments with respect to each series of Pollution Control Bonds that were issued by the LCIDA and the PEDFA on behalf of PPL Electric. These senior secured bonds were issued in the same principal amount, contain payment and redemption provisions that correspond to and bear the same interest rate as such Pollution Control Bonds. These senior secured bonds were issued under PPL Electric's 2001 Mortgage Indenture and are secured as noted in (c) above. This amount includes \$224 million that may be redeemed at par beginning in 2015 and \$90 million that may be redeemed, in whole or in part, at par beginning in October 2020 and are subject to mandatory redemption upon determination that the interest rate on the bonds would be included in the holders' gross income for federal tax purposes.
- (e) Includes LG&E's and KU's series of first mortgage bonds that were issued to the respective trustees of tax-exempt revenue bonds to secure its respective obligations to make payments with respect to each series of bonds. The first mortgage bonds were issued in the same principal amount, contain payment and redemption provisions that correspond to and bear the same interest rate as such tax-exempt revenue bonds. These first mortgage bonds were issued under the LG&E 2010 Mortgage Indenture and the KU 2010 Mortgage Indenture and are secured as noted in (c) above. The related tax-exempt revenue bonds were issued by various governmental entities, principally counties in Kentucky, on behalf of LG&E and KU. The related revenue bond documents allow LG&E and KU to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, term rate of at least one year or, in some cases, an auction rate or a LIBOR index rate.

At December 31, 2012, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a term rate mode totaled \$321 million for LKE, comprised of \$294 million and \$27 million for LG&E and KU. At December 31, 2012, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a variable rate mode totaled \$604 million for LKE, comprised of \$280 million and \$324 million for LG&E and KU.

Several series of the tax-exempt revenue bonds are insured by monoline bond insurers whose ratings were reduced due to exposures relating to insurance of sub-prime mortgages. Of the bonds outstanding, \$231 million are in the form of insured auction rate securities, wherein interest rates are reset either weekly or 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. During 2008, interest rates increased, and LG&E and KU 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. As noted above, the instruments governing these auction rate bonds permit LG&E and KU to convert the bonds to other interest rate modes.

Certain variable rate tax-exempt revenue bonds totaling \$348 million at December 31, 2012, are subject to tender for purchase by LG&E and KU at the option of the holder and to mandatory tender for purchase by LG&E and KU upon the occurrence of certain events.

- (f) Includes £225 million (\$361 million at December 31, 2012) of notes that may be redeemed, in total but not in part, on December 21, 2026, at the greater of the principal value or a value determined by reference to the gross redemption yield on a nominated U.K. Government bond.
- (g) The principal amount of the notes issued by WPD (South West) and WPD (East Midlands) are adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The adjustment to the principal amounts from 2011 to 2012 was an increase of approximately £9 million (\$14 million) resulting from inflation. In addition, this amount includes £225 million (\$361 million at December 31, 2012) of notes issued by WPD (South West) that may be redeemed, in total by series, on December 1, 2026, at the greater of the adjusted principal value and a make-whole value determined by reference to the gross real yield on a nominated U.K. government bond.
- (h) Includes £3.3 billion (\$5.3 billion at December 31, 2012) of notes that may be put by the holders back to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's, S&P or Fitch) or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event which includes the loss of, or a material adverse change to, the distribution licenses under which the issuer operates.

None of the outstanding debt securities noted above have sinking fund requirements. The aggregate maturities of long-term debt for the periods 2013 through 2017 and thereafter are as follows.



	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
2013	\$ 751	\$ 751				
2014	328	318	\$ 10			
2015	1,317	317	100	\$ 900	\$ 250	\$ 250
2016	828	368				
2017	118	18				
Thereafter	16,093	1,477	1,864	3,185	859	1,601
Total	<u>\$ 19,435</u>	<u>\$ 3,249</u>	<u>\$ 1,974</u>	<u>\$ 4,085</u>	<u>\$ 1,109</u>	<u>\$ 1,851</u>

## Long-term Debt and Equity Securities Activities

### (PPL)

In April 2012, PPL made a registered underwritten public offering of 9.9 million shares of its common stock. In conjunction with that offering, the underwriters exercised an option to purchase 591 thousand additional shares of PPL common stock solely to cover over-allotments.

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 9.9 million shares of PPL common stock. Settlement of these initial forward sale agreements will occur no later than April 2013. As a result of the underwriters' exercise of the over-allotment option, PPL entered into additional forward sale agreements covering the 591 thousand additional shares of PPL common stock. Settlement of the subsequent forward sale agreements will occur no later than July 2013. Upon any physical settlement of any forward sale agreement, PPL will issue and deliver to the forward counterparties shares of its common stock in exchange for cash proceeds per share equal to the forward sale price. The forward sale price will be calculated based on an initial forward price of \$27.02 per share reduced during the period the contracts are outstanding as specified in the forward sale agreements. PPL may, in certain circumstances, elect cash settlement or net share settlement for all or a portion of its rights or obligations under the forward sale agreements.

PPL will not receive any proceeds or issue any shares of common stock until settlement of the forward sale agreements. PPL intends to use any net proceeds that it receives upon settlement to repay short-term debt obligations and for other general corporate purposes.

The forward sale agreements are classified as equity transactions. As a result, no amounts will be recorded in the consolidated financial statements until the settlement of the forward sale agreements. Prior to those settlements, the only impact to the financial statements will be the inclusion of incremental shares within the calculation of diluted EPS using the treasury stock method. See Note 4 for information on the forward sale agreements impact on the calculation of diluted EPS.

In April 2012, WPD (East Midlands) issued £100 million aggregate principal amount of 5.25% Senior Notes due 2023. WPD (East Midlands) received proceeds of £111 million, which equated to \$178 million at the time of issuance, net of underwriting fees. The net proceeds were used for general corporate purposes.

In June 2012, PPL Capital Funding issued \$400 million of 4.20% Senior Notes due 2022. The notes may be redeemed at PPL Capital Funding's option any time prior to maturity at make-whole redemption prices. PPL Capital Funding received proceeds of \$396 million, net of a discount and underwriting fees, which were used for general corporate purposes.

In August 2012, PPL Capital Funding redeemed at par, plus accrued interest, the \$99 million outstanding principal amount of its 6.85% Senior Notes due 2047.

In October 2012, PPL Capital Funding issued \$400 million of 3.50% Senior Notes due 2022. The notes may be redeemed at PPL Capital Funding's option any time prior to maturity at make-whole redemption prices. PPL Capital Funding received proceeds of \$397 million, net of a discount and underwriting fees, which were used to repay short-term debt obligations, including commercial paper borrowings and for general corporate purposes.

### (PPL and PPL Energy Supply)

In April 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the Ironwood Acquisition. See Note 10 for information on the transaction and the long-term debt of PPL Ironwood, LLC assumed through consolidation as part of the acquisition.

In February 2013, PPL Energy Supply completed an exchange offer to exchange up to all, but not less than a majority, of 8.857% Senior Secured Bonds due 2025 of its wholly owned subsidiary, PPL Ironwood (the "Ironwood Bonds") for newly issued PPL Energy Supply Senior Notes, Series 4.60% due 2021. A total of \$167 million aggregate principal amount of outstanding Ironwood Bonds was exchanged for \$212 million aggregate principal amount of PPL Energy Supply Senior Notes, Series 4.60% due 2021.

*(PPL and PPL Electric)*

See Note 3 for information regarding PPL Electric's June 2012 redemption of all 2.5 million shares of its 6.25% Series Preference Stock, par value \$100 per share.

In August 2012, PPL Electric issued \$250 million of 2.50% First Mortgage Bonds due 2022. The notes may be redeemed at PPL Electric's option any time prior to maturity at make-whole redemption prices. PPL Electric received proceeds of \$247 million, net of a discount and underwriting fees. The net proceeds were used to repay short-term debt incurred to fund PPL Electric's redemption of its 6.25% Series Preference Stock in June 2012 and for other general corporate purposes.

*(PPL and LKE)*

In June 2012, LKE completed an exchange of \$250 million of 4.375% Senior Notes due 2021 issued in September 2011 in a transaction not registered under the Securities Act of 1933, for similar securities that were issued in a transaction registered with the SEC.

*(PPL)*

### **2011 Equity Units**

In April 2011, in connection with the acquisition of WPD Midlands, PPL issued 92 million shares of its common stock at a public offering price of \$25.30 per share, for a total of \$2.328 billion. Proceeds from the issuance were \$2.258 billion, net of the \$70 million underwriting discount. PPL also issued 19.55 million 2011 Equity Units at a stated amount per unit of \$50.00 for a total of \$978 million. Proceeds from the issuance were \$948 million, net of the \$30 million underwriting discount. PPL used the net proceeds to repay PPL Capital Funding's borrowings under the 2011 Bridge Facility, as discussed above, to pay certain acquisition-related fees and expenses and for general corporate purposes.

Each 2011 Equity Unit consists of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019 (2019 Notes).

Each 2011 Purchase Contract obligates the holder to purchase, and PPL to sell, for \$50.00 a number of shares of PPL common stock to be determined by the average VWAP of PPL's common stock for the 20-trading day period ending on the third trading day prior to May 1, 2014, subject to antidilution adjustments and an early settlement upon a Fundamental Change as follows:

- if the average VWAP equals or exceeds approximately \$30.99, then 1.6133 shares (a minimum of 31,540,015 shares);
- if the average VWAP is less than approximately \$30.99 but greater than \$25.30, a number of shares of common stock having a value, based on the average VWAP, equal to \$50.00; and
- if the average VWAP is less than or equal to \$25.30, then 1.9763 shares (a maximum of 38,636,665 shares).

If holders elect to settle the 2011 Purchase Contract prior to May 1, 2014, they will receive 1.6133 shares of PPL common stock, subject to antidilution adjustments and an early settlement upon a Fundamental Change.

A holder's ownership interest in the 2019 Notes is pledged to PPL to secure the holder's obligation under the related 2011 Purchase Contract. If a holder of a 2011 Purchase Contract chooses at any time no longer to be a holder of the 2019 Notes, such holder's obligation under the 2011 Purchase Contract must be secured by a U.S. Treasury security.

Each 2011 Purchase Contract also requires PPL to make quarterly contract adjustment payments at a rate of 4.43% per year on the \$50.00 stated amount of the 2011 Equity Unit. PPL has the option to defer these contract adjustment payments until the 2011 Purchase Contract settlement date. Deferred contract adjustment payments will accrue additional contract adjustment payments at the rate of 8.75% per year until paid. Until any deferred contract adjustment payments have been paid, PPL may not declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, subject to certain exceptions.

The 2019 Notes are fully and unconditionally guaranteed by PPL as to payment of principal and interest. The 2019 Notes initially bear interest at 4.32% and are not subject to redemption prior to May 2016. Beginning May 2016, PPL Capital Funding may, at its option, redeem the 2019 Notes, in whole but not in part, at any time, at par plus accrued and unpaid interest. The 2019 Notes are expected to be remarketed in 2014 into two tranches, such that neither tranche will have an aggregate principal amount of less than the lesser of \$250 million and 50% of the aggregate principal amount of the 2019 Notes to be remarketed. One tranche will mature on or about the third anniversary of the settlement of the remarketing, and the other tranche will mature on or about the fifth anniversary of such settlement. Upon a successful remarketing, the interest rate on the 2019 Notes may be reset and the maturity of the tranches may be modified as necessary. In connection with a remarketing, PPL Capital Funding may elect with respect to each tranche, to extend or eliminate the early redemption date and/or calculate interest on the notes of a tranche on a fixed or floating rate basis. If the remarketing fails, holders of the 2019 Notes will have the right to put their notes to PPL Capital Funding on May 1, 2014 for an amount equal to the principal amount plus accrued interest.

Prior to May 2016, PPL Capital Funding may elect at one or more times to defer interest payments on the 2019 Notes for one or more consecutive interest periods until the earlier of the third anniversary of the interest payment due date and May 2016. Deferred interest payments will accrue additional interest at a rate equal to the interest rate then applicable to the 2019 Notes. Until any deferred interest payments have been paid, PPL may not, subject to certain exceptions, (i) declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, (ii) make any payment of principal of, or interest or premium, if any, on, or repay, purchase or redeem any of its debt securities that upon its liquidation ranks equal with, or junior in interest to, the subordinated guarantee of the 2019 Notes by PPL as of the date of issuance and (iii) make any payments regarding any guarantee by PPL of securities of any of its subsidiaries (other than PPL Capital Funding) if the guarantee ranks equal with, or junior in interest to, the 2019 Notes as of the date of their issuance.

In the financial statements, the proceeds from the sale of the 2011 Equity Units were allocated to the 2019 Notes and the 2011 Purchase Contracts, including the obligation to make contract adjustment payments, based on the underlying fair value of each instrument at the time of issuance. As a result, the 2019 Notes were recorded at \$978 million, which approximated fair value, as long-term debt. At the time of issuance, the present value of the contract adjustment payments of \$123 million was recorded to other liabilities representing the obligation to make contract adjustment payments, with an offsetting reduction to additional paid-in capital for the issuance of the 2011 Purchase Contracts, which approximated the fair value of each. The liability is being accreted through interest expense over the three-year term of the 2011 Purchase Contracts. The initial valuation of the contract adjustment payments is considered a non-cash transaction that is excluded from the Statement of Cash Flows in 2011. Costs to issue the 2011 Equity Units were primarily allocated on a relative cost basis, resulting in \$25 million being recorded to "Additional paid-in capital" and \$6 million being recorded to "Other noncurrent assets" on the Balance Sheet. See Note 4 for EPS considerations related to the 2011 Purchase Contracts.

#### 2010 Equity Units

In June 2010, in connection with the acquisition of LKE, PPL issued 103.5 million shares of its common stock at a public offering price of \$24.00 per share, for a total of \$2.484 billion. Proceeds from the issuance were \$2.409 billion, net of the \$75 million underwriting discount. PPL also issued 23 million 2010 Equity Units at a stated amount per unit of \$50.00 for a total of \$1.150 billion. Proceeds from the issuance were \$1.116 billion, net of the \$34 million underwriting discount.

Each 2010 Equity Unit consists of a Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of PPL Capital Funding 4.625% Junior Subordinated Notes due 2018 (2018 Notes).

Each 2010 Purchase Contract obligates the holder to purchase, and PPL to sell, for \$50.00 a variable number of shares of PPL common stock determined by the average VWAP of PPL's common stock for the 20-trading day period ending on the third trading day prior to July 1, 2013, subject to antidilution adjustments and an early settlement upon a Fundamental Change as follows:

- if the average VWAP equals or exceeds \$28.80, then 1.7361 shares (a minimum of 39,930,300 shares);
- if the average VWAP is less than \$28.80 but greater than \$24.00, a number of shares of common stock having a value, based on the average VWAP, equal to \$50.00; and
- if the average VWAP is less than or equal to \$24.00, then 2.0833 shares (a maximum of 47,915,900 shares).

If holders elect to settle the 2010 Purchase Contract prior to July 1, 2013, they will receive 1.7361 shares of PPL common stock, subject to antidilution adjustments and an early settlement upon a Fundamental Change.

A holder's ownership interest in the 2018 Notes is pledged to PPL to secure the holder's obligation under the related 2010 Purchase Contract. If a holder of a 2010 Purchase Contract chooses at any time to no longer be a holder of the 2018 Notes, such holder's obligation under the 2010 Purchase Contract must be secured by a U.S. Treasury security.

Each 2010 Purchase Contract also requires PPL to make quarterly contract adjustment payments at a rate of 4.875% per year on the \$50.00 stated amount of the 2010 Equity Unit. PPL has the option to defer these contract adjustment payments until the 2010 Purchase Contract settlement date. Deferred contract adjustment payments will accrue additional contract adjustment payments at the rate of 9.5% per year until paid. Until any deferred contract adjustment payments have been paid, PPL may not declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, subject to certain exceptions.

The 2018 Notes are fully and unconditionally guaranteed by PPL as to payment of principal and interest. The 2018 Notes initially bear interest at 4.625% and are not subject to redemption prior to July 2015. Beginning July 2015, PPL Capital Funding may, at its option, redeem the 2018 Notes, in whole but not in part, at any time, at par plus accrued and unpaid interest. The 2018 Notes are expected to be remarketed in 2013 in two tranches, such that neither tranche will have an aggregate principal amount of less than the lesser of \$300 million and 50% of the aggregate principal amount of the 2018 Notes to be remarketed. One tranche will mature on or about the third anniversary of the settlement of the remarketing, and the other tranche will mature on or about the fifth anniversary of such settlement. The 2018 Notes will be remarketed as subordinated, unsecured obligations of PPL Capital Funding, as PPL Capital Funding notified the trustee in September 2010 of its irrevocable election to maintain the subordination provisions of the notes and related guarantees in a remarketing. Upon a successful remarketing, the interest rate on the 2018 Notes may be reset and the maturity of the tranches may be modified as necessary. In connection with a remarketing, PPL Capital Funding may elect, with respect to each tranche, to extend or eliminate the early redemption date and/or calculate interest on the notes of a tranche on a fixed or floating rate basis. If the remarketing fails, holders of the 2018 Notes will have the right to put their notes to PPL Capital Funding on July 1, 2013 for an amount equal to the principal amount plus accrued interest.

Prior to July 2013, PPL Capital Funding may elect at one or more times to defer interest payments on the 2018 Notes for one or more consecutive interest periods until the earlier of the third anniversary of the interest payment due date and July 2015. Deferred interest payments will accrue additional interest at a rate equal to the interest rate then applicable to the 2018 Notes. Until any deferred interest payments have been paid, PPL may not, subject to certain exceptions, (i) declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, (ii) make any payment of principal of, or interest or premium, if any, on, or repay, purchase or redeem any of its debt securities that upon its liquidation ranks equal with, or junior in interest to, the subordinated guarantee of the 2018 Notes by PPL as of the date of issuance and (iii) make any payments regarding any guarantee by PPL of securities of any of its subsidiaries (other than PPL Capital Funding) if the guarantee ranks equal with, or junior in interest to, the 2018 Notes as of the date of their issuance.

In the financial statements, the proceeds from the sale of the 2010 Equity Units were allocated to the 2018 Notes and the 2010 Purchase Contracts, including the obligation to make contract adjustment payments, based on the underlying fair value of each instrument at the time of issuance. As a result, the 2018 Notes were recorded at \$1.150 billion, which approximated fair value, as long-term debt. At the time of issuance, the present value of the contract adjustment payments of \$157 million was recorded to other liabilities, representing the obligation to make contract adjustment payments, with an offsetting reduction to additional paid-in capital for the issuance of the 2010 Purchase Contracts, which approximated the fair value of each. The liability is being accreted through interest expense over the three-year term of the 2010 Purchase Contracts. The initial valuation of the contract adjustment payments is considered a non-cash transaction that was excluded from the Statement of Cash Flows in 2010. Costs to issue the 2010 Equity Units were primarily allocated on a relative cost basis, resulting in \$29 million being recorded to "Additional paid-in capital" and \$7 million being recorded to "Other noncurrent assets" on the Balance Sheet. See Note 4 for EPS considerations related to the 2010 Purchase Contracts.

#### **Legal Separateness (PPL, PPL Energy Supply, PPL Electric and LKE)**

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay the creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Energy Supply, PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Energy Supply, PPL Electric and LKE. Accordingly, creditors of PPL Energy Supply, PPL Electric and LKE may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL Energy Supply, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Energy Supply, PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

#### **Distributions, Capital Contributions and Related Restrictions**

*(PPL)*

In November 2012, PPL declared its quarterly common stock dividend, payable January 2, 2013, at 36.0 cents per share (equivalent to \$1.44 per annum). In February 2013, PPL declared its quarterly common stock dividend, payable April 1, 2013, at 36.75 cents per share (equivalent to \$1.47 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

Neither PPL Capital Funding nor PPL may declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067. Subject to certain exceptions, PPL may not declare or pay any dividend or distribution on its capital stock until any deferred interest payments on its 4.625% Junior Subordinated Notes due 2018 and its 4.32% Junior Subordinated Notes due 2019 have been paid and deferred contract adjustment payments on PPL's Purchase Contracts have been paid. At December 31, 2012, no payments were deferred on any series of junior subordinated notes or the Purchase Contracts.

*(PPL, PPL Electric, LKE, LG&E and KU)*

PPL relies on dividends or loans from its subsidiaries to fund PPL's dividends to its common shareholders. The net assets of certain PPL subsidiaries are subject to legal restrictions. LKE primarily relies on dividends from its subsidiaries to fund its dividends to PPL. LG&E, KU and PPL Electric 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. LG&E, KU and PPL Electric believe, however, that this statutory restriction, as applied to their 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. In February 2012, LG&E and KU petitioned the FERC requesting authorization to pay dividends in the future based on retained earnings balances calculated without giving effect to the impact of purchase accounting adjustments for the acquisition of LKE by PPL. In May 2012, FERC approved the petitions with the further condition that each utility may not pay dividends if such payment would cause its adjusted equity ratio to fall below 30% of total capitalization. Accordingly, at December 31, 2012, net assets of \$2.3 billion (\$893 million for LG&E and \$1.4 billion for KU) were restricted for purposes of paying dividends to LKE, and net assets of \$2.3 billion (\$917 million for LG&E and \$1.4 billion for KU) were available for payment of dividends to LKE. LG&E and KU believe they will not be required to change their current dividend practices as a result of the foregoing requirement. In addition, under Virginia law, KU is prohibited from making loans to affiliates without the prior approval of the VSCC. There are no comparable statutes under Kentucky law applicable to LG&E and KU, or under Pennsylvania law applicable to PPL Electric. However, orders from the KPSC require LG&E and KU to obtain prior consent or approval before lending amounts to PPL.

*(PPL and PPL Energy Supply)*

The PPL Montana Colstrip lease places certain restrictions on PPL Montana's ability to declare dividends. At this time, PPL believes that these covenants will not limit PPL's or PPL Energy Supply's ability to operate as desired and will not affect their ability to meet any of their cash obligations.

*(PPL)*

WPD subsidiaries have financing arrangements that limit their ability to pay dividends. However, PPL does not, at this time, expect that any of such limitations would significantly impact PPL's ability to meet its cash obligations.

(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The following distributions and capital contributions occurred in 2012:

	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&amp;E</u>	<u>KU</u>
Dividends/distributions paid to parent/member	\$ 787	\$ 95	\$ 155	\$ 75	\$ 100
Capital contributions received from parent/member	563	150			

## 8. Acquisitions, Development and Divestitures

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results. See Note 9 for information on PPL Energy Supply's 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, which was presented as discontinued operations by PPL Energy Supply, and the sales of businesses in 2011 and prior years that were presented as discontinued operations by PPL, PPL Energy Supply and LKE. See Note 10 for information on PPL's and PPL Energy Supply's 2012 Ironwood Acquisition and PPL's 2011 acquisition of WPD Midlands and 2010 acquisition of LKE.

(PPL, LKE, LG&E and KU)

### Acquisition

#### Terminated Bluegrass CTs Acquisition

In September 2011, LG&E and KU entered into an asset purchase agreement with Bluegrass Generation for the purchase of the Bluegrass CTs, aggregating approximately 495 MW, plus limited associated contractual arrangements required for operation of the units, for a purchase price of \$110 million, pending receipt of applicable regulatory approvals. In May 2012, the KPSC issued an order approving the request to purchase the Bluegrass CTs. In November 2011, LG&E and KU filed an application with the FERC under the Federal Power Act requesting approval to purchase the Bluegrass CTs. In May 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to approval by the FERC of satisfactory mitigation measures to address market-power concerns. After a review of potentially available mitigation options, LG&E and KU determined that the options were not commercially justifiable. In June 2012, LG&E and KU terminated the asset purchase agreement for the Bluegrass CTs in accordance with its terms and made applicable filings with the KPSC and FERC.

### Development

#### Cane Run Unit 7 Construction

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build Cane Run Unit 7. In May 2012, the KPSC issued an order approving the request. LG&E will own a 22% undivided interest, and KU will own a 78% undivided interest in the new generating unit. A formal request for recovery of the costs associated with the construction was not included in the CPCN filing with the KPSC but is expected to be included in future rate proceedings. LG&E and KU commenced preliminary construction activities in the third quarter of 2012 and project construction is expected to be completed by May 2015. The project, which includes building a natural gas supply pipeline and related transmission projects, has an estimated cost of approximately \$600 million.

In conjunction with this construction and to meet new, more stringent EPA regulations with a 2015 compliance date, LG&E and KU anticipate retiring five older coal-fired electric generating units at the Cane Run and Green River plants, which have a combined summer capacity rating of 726 MW. In addition, KU retired the remaining 71 MW unit at the Tyrone plant in February 2013.

### Future Capacity Needs

In addition to the construction of a combined cycle gas unit at the Cane Run station, LG&E and KU continue to assess future capacity needs. As a part of the assessment, LG&E and KU issued an RFP in September 2012 for up to 700 MW of capacity beginning as early as 2015.

#### *(PPL and PPL Energy Supply)*

### Hydroelectric Expansion Projects

In 2009, in light of the availability of tax incentives and potential federal loan guarantees for renewable projects contained in the Economic Stimulus Package, PPL Energy Supply filed an application with the FERC to expand capacity at its Holtwood hydroelectric plant, which the FERC approved. The project's expected cost is \$443 million. Construction continues on the project, with commercial operations scheduled to begin in 2013. At December 31, 2012, expected remaining expenditures are \$84 million.

In 2009, PPL Montana received FERC approval for its request to redevelop the Rainbow hydroelectric facility at Great Falls, Montana. The project's expected cost is \$209 million. Commercial operations is scheduled to begin in 2013. At December 31, 2012, expected remaining expenditures were insignificant.

PPL Energy Supply believes that it is qualified for either investment tax credits or Treasury grants for the projects at the Holtwood and Rainbow facilities. PPL Energy Supply has recognized investment tax credits and continues to evaluate whether to seek Treasury grants in lieu of the credits. During 2012, 2011 and 2010, PPL Energy Supply recorded deferred investment tax credits of \$40 million, \$52 million and \$52 million. PPL Energy Supply anticipates recognizing an additional \$23 million in investment tax credits for tax year 2013. These credits reduce PPL Energy Supply's tax liability and will be amortized over the life of the related assets.

### Bell Bend COLA

In 2008, a PPL Energy Supply subsidiary, PPL Bell Bend, LLC (PPL Bell Bend) submitted a COLA to the NRC for the proposed Bell Bend nuclear generating unit (Bell Bend) to be built adjacent to the Susquehanna plant. Also in 2008, the COLA was formally docketed and accepted for review by the NRC. PPL Bell Bend continues to respond to questions from the NRC regarding technical and site specific information provided in the initial COLA and subsequent amendments. PPL Bell Bend does not expect to complete the COLA review process with the NRC prior to 2015.

In 2008, PPL Bell Bend submitted Parts I and II of an application for a federal loan guarantee for Bell Bend to the DOE. The DOE is expected in the first half of 2013 to finalize the first nuclear loan guarantee for a project in Georgia. Eight of the ten applicants that submitted Part II applications remain active in the DOE program; however, the DOE has stated that the \$18.5 billion currently appropriated to support new nuclear projects would not likely be enough for more than three projects. PPL Bell Bend submits quarterly application updates for Bell Bend to the DOE to remain active in the loan guarantee application process.

PPL Bell Bend has made no decision to proceed with construction of Bell Bend and expects that such decision will not be made for several years given the anticipated lengthy NRC license approval process. Additionally, PPL Bell Bend does not expect to proceed with construction absent favorable economics, a joint arrangement with other interested parties and a federal loan guarantee or other acceptable financing. PPL Bell Bend is currently authorized to spend up to \$205 million through 2015 on the COLA and other permitting costs necessary for construction, which is expected to be sufficient to fund the project through receipt of the license. At December 31, 2012 and 2011, \$154 million and \$131 million of costs, which includes capitalized interest, associated with the licensing application were capitalized and are included on the Balance Sheets in noncurrent "Other intangibles." PPL Bell Bend believes that the estimated fair value of the COLA currently exceeds the costs expected to be capitalized for the licensing application.

### Regional Transmission Line Expansion Plan (PPL and PPL Electric)

#### *Susquehanna-Roseland*

In 2007, PJM directed the construction of a new 150-mile, 500-kilovolt transmission line between the Susquehanna substation in Pennsylvania and the Roseland substation in New Jersey that it identified as essential to long-term reliability of the Mid-Atlantic electricity grid. PJM determined that the line was needed to prevent potential overloads that could occur on several existing transmission lines in the interconnected PJM system. PJM directed PPL Electric to construct the portion of

the Susquehanna-Roseland line in Pennsylvania and Public Service Electric & Gas Company to construct the portion of the line in New Jersey.

On October 1, 2012, the National Park Service (NPS) issued its Record of Decision (ROD) on the proposed Susquehanna-Roseland transmission line affirming the route chosen by PPL Electric and Public Service Electric & Gas Company as the preferred alternative under the NPS's National Environmental Policy Act review. On October 15, 2012, a complaint was filed in the United States District Court for the District of Columbia by various environmental groups, including the Sierra Club, challenging the ROD and seeking to prohibit its implementation, and on December 6, 2012, the groups filed a petition for injunctive relief seeking to prohibit all construction activities until the court issues a final decision on the complaint. PPL Electric has intervened in the lawsuit. The chosen route had previously been approved by the PUC and the New Jersey Board of Public Utilities.

On December 13, 2012, PPL Electric received federal construction and right of way permits to build on National Park Service lands.

Construction activities have begun on portions of the 101-mile route in Pennsylvania. The line is expected to be completed before the peak summer demand period of 2015. At December 31, 2012, PPL Electric's estimated share of the project cost was \$560 million.

PPL and PPL Electric cannot predict the ultimate outcome or timing of any legal challenges to the project or what additional actions, if any, PJM might take in the event of a further delay to the scheduled in-service date for the new line.

#### *Northeast/Pocono*

In October 2012, the FERC issued an order in response to PPL Electric's December 2011 request for ratemaking incentives for the Northeast/Pocono Reliability project (a new 58-mile 230 kV transmission line, three new substations and upgrades to adjacent facilities). The incentives were specifically tailored to address the risks and challenges PPL Electric will face in building the project. The FERC granted the incentive for inclusion of all prudently incurred construction work in progress (CWIP) costs in rate base and denied the request for a 100 basis point adder to the return on equity incentive. The order required a follow-up compliance filing from PPL Electric to ensure proper accounting treatment of AFUDC and CWIP for the project, which PPL Electric will submit with the FERC in March 2013. PPL Electric expects the project to be completed in 2017. At December 31, 2012, PPL Electric estimates the total project costs to be approximately \$200 million with approximately \$190 million qualifying for the CWIP incentive.

### **9. Discontinued Operations**

*(PPL and PPL Energy Supply)*

#### Sale of Certain Non-core Generation Facilities

In 2011, PPL Energy Supply subsidiaries completed the sale of their ownership interests in certain non-core generation facilities, which were included in the Supply segment, for \$381 million. The transaction included the natural gas-fired facilities in Wallingford, Connecticut and University Park, Illinois and an equity interest in Safe Harbor Water Power Corporation, which owns a hydroelectric facility in Conestoga, Pennsylvania.

These non-core generation facilities met the held for sale criteria in the third quarter of 2010. As a result, a pre-tax impairment charge of \$96 million (\$58 million after tax) was recorded and \$5 million (\$4 million after tax) of allocated goodwill was written off. These charges are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the 2010 Statements of Income.

Following are the components of Discontinued Operations in the Statements of Income.

	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 19	\$ 113
Operating expenses (a)	11	156
Operating income (loss)	<u>8</u>	<u>(43)</u>
Other income (expense) - net		2
Interest expense (b)	3	11
Income (loss) before income taxes	5	(52)
Income tax expense (benefit)	3	(18)
Income (Loss) from Discontinued Operations	<u>\$ 2</u>	<u>\$ (34)</u>



- (a) 2010 includes the impairments to the carrying value of the non-core generation facilities and the write-off of allocated goodwill.  
 (b) Represents allocated interest expense based upon debt attributable to the generation facilities sold.

Sale of Long Island Generation Business

In 2010, PPL Energy Supply subsidiaries completed the sale of the Long Island generation business, which was included in the Supply segment. Proceeds from the sale approximated \$124 million. There was no significant impact on earnings in 2010 from the operation of this business or as a result of the sale.

Sale of Maine Hydroelectric Generation Business

In 2010, a PPL Energy Supply subsidiary completed the sale of its Maine hydroelectric generation business, which was included in the Supply segment. The business included eight hydroelectric facilities as well as a 50% equity interest in another hydroelectric facility. The majority of the business was sold in 2009. The remaining three hydroelectric facilities were sold in 2010 for \$24 million, and also resulted in the receipt of an additional \$14 million in contingent consideration in connection with the 2009 sale. As a result of the consideration received in 2010, PPL Energy Supply recorded a gain of \$25 million (\$15 million after tax), reflected in "Income (Loss) from Discontinued Operations (net of income taxes)" on the 2010 Statement of Income.

Distribution of Membership Interest in PPL Global to Parent (PPL Energy Supply)

In January 2011, PPL Energy Supply distributed its entire membership interest in PPL Global, which represented the entire U.K. Regulated segment, to PPL Energy Supply's parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011, and no gains or losses were recognized on the distribution. The purpose of the distribution was to better align PPL's organizational structure with the manner in which it manages these businesses, separating the U.S.-based competitive energy marketing and supply business from the U.K.-based regulated electricity distribution business. Following the distribution, PPL Energy Supply operates in a single reportable segment, and through its subsidiaries is primarily engaged in the generation and marketing of power, primarily in the northeastern and northwestern U.S.

Following are the components of Discontinued Operations in the Statement of Income.

	<u>2010</u>
Operating revenues	\$ 761
Operating expenses	<u>368</u>
Operating income	393
Other income (expense) - net	4
Interest expense (a)	<u>135</u>
Income before income taxes	262
Income tax expense	<u>1</u>
Income (Loss) from Discontinued Operations	<u>\$ 261</u>

- (a) NO interest was allocated, as PPL Global was sufficiently capitalized.

The amount of cash and cash equivalents of PPL Global at the time of the distribution was reflected as a financing activity in the 2011 Statement of Cash Flows.

WKE

*(PPL and LKE)*

WKE had a 25-year lease for and operated generating facilities of BREC, and a coal-fired generating facility owned by the City of Henderson, Kentucky. WKE terminated the lease in 2009 prior to PPL acquiring LKE. See Note 15 for additional information related to the termination of the lease. In 2012, an adjustment was made to the liability for certain WKE indemnifications, which is reflected in Discontinued Operations. See "Guarantees and Other Assurances" in Note 15 for additional information on the adjustment and related indemnification. The results of operations for the 2012, 2011 and 2010 periods were not significant.

## 10. Business Acquisitions

### Ironwood Acquisition (PPL and PPL Energy Supply)

On April 13, 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the acquisition of all of the equity interests of two subsidiaries of The AES Corporation, AES Ironwood, L.L.C. (subsequently renamed PPL Ironwood, LLC) and AES Prescott, L.L.C. (subsequently renamed PPL Prescott, LLC), which own and operate, respectively, the Ironwood Facility. The Ironwood Facility began operation in 2001 and, since 2008, PPL EnergyPlus has supplied natural gas for the facility and received the facility's full electricity output and capacity value pursuant to a tolling agreement that expires in 2021. The acquisition provides PPL Energy Supply, through its subsidiaries, operational control of additional combined-cycle gas generation in PJM.

The fair value of the consideration paid for this acquisition was as follows.

Aggregate enterprise consideration	\$	326
Less: Fair value of long-term debt outstanding assumed through consolidation (a)		258
Plus: Restricted cash debt service reserves		17
Cash consideration paid for equity interests (including working capital adjustments)	\$	<u>85</u>

- (a) The long-term debt assumed through consolidation consisted of \$226 million aggregate principal amount of 8.857% senior secured bonds to be fully repaid by 2025, plus \$8 million of debt service reserve loans, and a \$24 million fair value adjustment.

### Purchase Price Allocation

The following table summarizes the allocation of the purchase price to the fair value of the major classes of assets acquired and liabilities assumed through consolidation, and the effective settlement of the tolling agreement through consolidation.

PP&E	\$	505
Long-term debt (current and noncurrent) (a)		(258)
Tolling agreement (b)		(170)
Other net assets (a)		8
Net identifiable assets acquired	\$	<u>85</u>

- (a) Represents non-cash activity excluded from the 2012 Statement of Cash Flows.
- (b) Prior to the acquisition, PPL EnergyPlus had recorded primarily an intangible asset, which represented its rights to and the related accounting for the tolling agreement with PPL Ironwood, LLC. On the acquisition date, PPL Ironwood, LLC recorded a liability, recognized at fair value, for its obligation to PPL EnergyPlus. The tolling agreement assets of PPL EnergyPlus and the tolling agreement liability of PPL Ironwood, LLC eliminate in consolidation for PPL and PPL Energy Supply as a result of the acquisition, and therefore the agreement is considered effectively settled. The difference between the tolling agreement assets and liability resulted in an insignificant loss on the effective settlement of the agreement.

During the fourth quarter of 2012, the purchase price allocation was finalized with no material adjustments made to the preliminary valuation.

### Acquisition of WPD Midlands (PPL)

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. The consideration for the acquisition consisted of cash of \$5.8 billion, including the repayment of \$1.7 billion of affiliate indebtedness owed to subsidiaries of E.ON AG, and approximately \$800 million of long-term debt assumed through consolidation. WPD Midlands operates two regulated distribution networks that serve five million end-users in the Midlands area of England. The acquisition increased the regulated portion of PPL's business and enhances rate-regulated growth opportunities as the regulated businesses make investments to improve infrastructure and customer reliability. Further, since the service territories of WPD (South Wales), WPD (South West) and WPD Midlands are contiguous, cost savings, efficiencies and other benefits are achieved from the combined operations of these entities.

The fair value of the consideration paid for this acquisition was as follows (in billions).

Aggregate enterprise consideration	\$ 6.6
Less: Fair value of long-term debt outstanding assumed through consolidation	0.8
Total cash consideration paid	<u>5.8</u>
Less: Funds used to repay pre-acquisition affiliate indebtedness	1.7
Cash consideration paid for Central Networks' outstanding ordinary share capital	<u>\$ 4.1</u>

The total cash consideration paid was primarily funded by borrowings under the 2011 Bridge Facility on the date of acquisition. Subsequently, PPL repaid those borrowings in 2011 using proceeds from the permanent financing, including issuances of common stock and 2011 Equity Units, as well as proceeds from the issuance of debt by PPL WEM, WPD (East Midlands) and WPD (West Midlands). See Note 7 for additional information.

#### *Purchase Price Allocation*

The following table summarizes (in billions) the allocation of the purchase price to the fair value of the major classes of assets acquired and liabilities assumed.

Current assets (a)	\$ 0.2
PP&E	4.9
Intangible assets	0.1
Other noncurrent assets	0.1
Current liabilities (b)	(0.4)
PPL WEM affiliate indebtedness	(1.7)
Long-term debt (current and noncurrent) (b)	(0.8)
Other noncurrent liabilities (b)	(0.7)
Net identifiable assets acquired	<u>1.7</u>
Goodwill	2.4
Net assets acquired	<u>\$ 4.1</u>

(a) Includes gross contractual amount of the accounts receivable acquired of \$122 million, which approximates fair value.

(b) Represents non-cash activity excluded from the 2011 Statement of Cash Flows.

The purchase price allocation resulted in goodwill of \$2.4 billion that was assigned to the U.K. Regulated segment. The goodwill is attributable to the expected continued growth of a rate-regulated business with a defined service area operating under a constructive regulatory framework, expected cost savings, efficiencies and other benefits resulting from a contiguous service area with WPD (South West) and WPD (South Wales), as well as the ability to leverage WPD (South West)'s and WPD (South Wales)'s existing management team's high level of performance in capital cost efficiency, system reliability and customer service. The goodwill is not deductible for U.K. income tax purposes.

#### *Separation Benefits - U.K. Regulated Segment*

In connection with the 2011 acquisition, PPL completed a reorganization designed to transition WPD Midlands from a functional operating structure to a regional operating structure requiring a smaller combined support structure, reducing duplication and implementing more efficient procedures. As a result of the reorganization, 729 employees of WPD Midlands have been terminated.

The separation benefits, before income taxes, associated with the reorganization are as follows.

Severance compensation	\$ 61
Early retirement deficiency costs (ERDC) under applicable pension plans	46
Outplacement services	<u>1</u>
Total separation benefits	<u>\$ 108</u>

In connection with the reorganization, WPD Midlands recorded \$93 million of the total expected separation benefits in 2011, of which \$48 million related to severance compensation and \$45 million related to ERDC. WPD Midlands recorded an additional \$15 million of total separation benefits in 2012, of which \$13 million related to severance compensation and \$2 million related to ERDC. The accrued severance compensation is reflected in "Other current liabilities" and the ERDC reduced "Other noncurrent assets" on the Balance Sheets. All separation benefits are included in "Other operation and maintenance" on the Statements of Income.

The changes in the carrying amounts of accrued severance were as follows.

	2012	2011
Accrued severance at beginning of period	\$ 21	
Severance compensation	13	\$ 48
Severance paid	(34)	(27)
Accrued severance at end of period	<u>\$ 21</u>	<u>\$ 21</u>

In addition to the reorganization costs noted above, an additional \$9 million was recorded in 2011 for ERDC payable under applicable pension plans and severance compensation for certain employees who separated from the WPD Midlands companies, but were not part of the reorganization. These separation benefits are also included in "Other operation and maintenance" on the Statement of Income.

#### Other

WPD Midlands 2011 financial results included in PPL's Statement of Income and included in the U.K. Regulated segment were as follows.

Operating Revenues	\$ 790
Net Income Attributable to PPL Shareowners	137

#### Pro forma Information

The pro forma financial information, which includes LKE, discussed below, as if the acquisition had occurred January 1, 2009 and WPD Midlands as if the acquisition had occurred January 1, 2010, is as follows.

	2011	2010
Operating Revenues - PPL consolidated pro forma (unaudited)	\$ 13,140	\$ 11,850
Net Income Attributable to PPL Shareowners - PPL consolidated pro forma (unaudited)	1,800	1,462

The pro forma financial information presented above has been derived from the historical consolidated financial statements of PPL and LKE, which was acquired on November 1, 2010, and from the historical combined financial statements of WPD Midlands, which was acquired on April 1, 2011. Income (loss) from discontinued operations (net of income taxes), which was not significant for 2011 and was \$(18) million for 2010, were excluded from the pro forma amounts above.

The pro forma financial information presented above includes adjustments to depreciation, net periodic pension costs, interest expense and the related income tax effects to reflect the impact of the acquisition. The pre-tax nonrecurring credits (expenses) presented in the following table were directly attributable to the WPD Midlands and LKE acquisitions and adjustments were included in the calculation of pro forma operating revenue and net income to remove the effect of these nonrecurring items and the related income tax effects.

	Income Statement Line Item	2011	2010
<b>WPD Midlands acquisition</b>			
2011 Bridge Facility costs (a)	Interest Expense	\$ (44)	
Foreign currency loss on 2011 Bridge Facility (b)	Other Income (Expense) - net	(57)	
Net hedge gains associated with the 2011 Bridge Facility (c)	Other Income (Expense) - net	55	
Hedge ineffectiveness (d)	Interest Expense	(12)	
U.K. stamp duty tax (e)	Other Income (Expense) - net	(21)	
Separation benefits (f)	Other operation and maintenance	(102)	
Other acquisition-related adjustments	(g)	(77)	
<b>LKE acquisition</b>			
2010 Bridge Facility costs (h)	Interest Expense		\$ (80)
Other acquisition-related adjustments (i)	Other Income (Expense) - net		(31)

- (a) The 2011 Bridge Facility costs, primarily commitment and structuring fees, were incurred to establish a bridge facility for purposes of funding the WPD Midlands acquisition purchase price.
- (b) The 2011 Bridge Facility was denominated in GBP. The amount includes a \$42 million foreign currency loss on PPL Capital Funding's repayment of its 2011 Bridge Facility borrowing and a \$15 million foreign currency loss associated with proceeds received on the U.S. dollar-denominated senior notes issued by PPL WEM in April 2011 that were used to repay a portion of PPL WEM's borrowing under the 2011 Bridge Facility.
- (c) The repayment of borrowings on the 2011 Bridge Facility was economically hedged to mitigate the effects of changes in foreign currency exchange rates with forward contracts to purchase GBP, which resulted in net hedge gains.

- (d) The hedge ineffectiveness includes a combination of ineffectiveness associated with closed out interest rate swaps and a charge recorded as a result of certain interest rate swaps failing hedge effectiveness testing, both associated with the acquisition financing.
- (e) The U.K. stamp duty tax represents a tax on the transfer of ownership of property in the U.K. incurred in connection with the acquisition.
- (f) See "Separation Benefits - U.K. Regulated Segment" above.
- (g) Primarily includes acquisition-related advisory, accounting and legal fees recorded in "Other Income (Expense) - net" and contract termination costs, rebranding costs and relocation costs recorded in "Other operation and maintenance."
- (h) Primarily commitment and structuring fees, incurred to establish a bridge facility for purposes of funding the acquisition purchase price.
- (i) Primarily includes acquisition-related advisory, accounting and legal fees.

### Acquisition of LKE

(PPL)

On November 1, 2010, PPL completed the acquisition of all of the limited liability company interests of E.ON U.S. LLC from a wholly owned subsidiary of E.ON AG. Upon completion of the acquisition, E.ON U.S. LLC was renamed LG&E and KU Energy LLC (LKE). LKE is a holding company with regulated utility operations conducted through its subsidiaries, LG&E and KU. The acquisition reapportions the mix of PPL's regulated and competitive businesses by increasing the regulated portion of its business, strengthens PPL's credit profile and enhances rate-regulated growth opportunities as the regulated businesses make investments to improve infrastructure and customer reliability.

The fair value of the consideration paid for this acquisition was as follows (in billions).

Aggregate enterprise consideration	\$ 7.6
Less: Fair value of assumed long-term debt outstanding, net	0.8
Total cash consideration paid	<u>6.8</u>
Less: Funds used to repay pre-acquisition affiliate indebtedness	4.3
Cash consideration paid for E.ON U.S. LLC equity interests	<u>\$ 2.5</u>

The total cash consideration paid, including repayment of affiliate indebtedness, was funded by PPL's June 2010 issuance of \$3.6 billion of common stock and 2010 Equity Units that provided proceeds totaling \$3.5 billion, net of underwriting discounts, \$3.2 billion of borrowings under an existing credit facility in October 2010, \$249 million of proceeds from the monetization of certain full-requirement sales contracts in July 2010 and cash on hand. See Note 7 for additional information on the issuance of common stock and 2010 Equity Units and the October 2010 borrowing under PPL Energy Supply's syndicated credit facility that provided interim financing to partially fund the acquisition. See Note 19 for additional information on the monetization of certain full-requirement sales contracts.

### *Purchase Price Allocation*

The following table summarizes (in billions) the allocation of the purchase price to the fair value of the major classes of assets acquired and liabilities assumed.

Current assets (a)	\$ 0.9
PP&E	7.5
Other intangibles (current and noncurrent)	0.4
Regulatory and other noncurrent assets	0.7
Current liabilities, excluding current portion of long-term debt (b)	(0.5)
PPL affiliate indebtedness (c)	(4.3)
Long-term debt (current and noncurrent) (b)	(0.9)
Other noncurrent liabilities (b)	(2.3)
Net identifiable assets acquired	<u>1.5</u>
Goodwill	<u>1.0</u>
Net assets acquired	<u>\$ 2.5</u>

- (a) Includes gross contractual amount of the accounts receivable acquired of \$186 million. PPL expected \$11 million to be uncollectible; however, credit risk is mitigated since uncollectible accounts are a component of customer rates.
- (b) Represents non-cash activity excluded from the 2010 Statement of Cash Flows.
- (c) Includes \$1.6 billion designated as a capital contribution to LKE.

For purposes of goodwill impairment testing, the \$996 million of goodwill was assigned to the PPL reportable segments expected to benefit from the acquisition. Both the Kentucky Regulated and the Supply segments are expected to benefit and the assignment of goodwill was \$662 million to the Kentucky Regulated segment and \$334 million to the Supply segment. The goodwill at the Kentucky Regulated segment reflects the value paid for the expected continued growth of a rate-regulated business located in a defined service area with a constructive regulatory environment, the ability of LKE to leverage its assembled workforce to take advantage of those growth opportunities and the attractiveness of stable, growing cash flows. Although no other assets or liabilities from the acquisition were assigned to the Supply segment, the Supply

segment obtained a synergistic benefit attributed to the overall de-risking of the PPL portfolio, which enhanced PPL Energy Supply's credit profile, thereby increasing the value of the Supply segment. This increase in value resulted in the assignment of goodwill to the Supply segment. The goodwill is not deductible for income tax purposes. As such, no deferred taxes were recorded related to goodwill.

See Note 9 and the "Guarantees and Other Assurances" section of Note 15 for additional information on certain indemnifications provided by LKE, the most significant of which relates to the discontinued operations of WKE.

The 2010 LKE financial results included in PPL's Statement of Income and included in the Kentucky Regulated segment were as follows.

	<u>Operating Revenues</u>	<u>Net Income (Loss) Attributable to PPL Shareowners</u>
From November 1, 2010 - December 31, 2010	\$ 493	\$ 47

*(PPL, PPL Energy Supply, LKE, LG&E and KU)*

In November 2010, LKE, LG&E and KU issued debt totaling \$2.9 billion, of which LKE used \$100 million to return capital to PPL. The majority of these proceeds, together with a borrowing by LG&E under its available credit facilities, were used to repay borrowings from a PPL Energy Supply subsidiary. Such borrowings were incurred to permit LKE to repay certain indebtedness owed to affiliates of E.ON AG upon the closing of the acquisition. In November 2010, PPL Energy Supply used the above-referenced amounts received from LKE, together with other cash on hand, to repay approximately \$3.0 billion of its October 2010 borrowing under existing credit facilities.

*(PPL and PPL Energy Supply)*

To ensure adequate funds were available for the acquisition, in July 2010, PPL Energy Supply monetized certain full-requirement sales contracts that resulted in cash proceeds of \$249 million. See "Commodity Price Risk (Non-trading) - Monetization of Certain Full-Requirement Sales Contracts" in Note 19 for additional information. Additionally, PPL Energy Supply received proceeds in 2011 from the sale of certain non-core generation facilities, which were used to repay the short-term borrowings drawn on existing credit facilities. See "Sale of Certain Non-core Generation Facilities" in Note 9 for additional information.

As a result of the monetization of these full-requirement sales contracts, coupled with the expected net proceeds from the then-anticipated sale of these non-core generation facilities, debt that had been planned to be issued by PPL Energy Supply in late 2010 was no longer needed. Therefore, hedge accounting associated with interest rate swaps entered into by PPL in anticipation of a debt issuance by PPL Energy Supply was discontinued. Net gains (losses) of \$(29) million, or \$(19) million after tax, were reclassified from AOCI to "Other Income (Expense) - net" on PPL's 2010 Statement of Income.

*(LKE, LG&E and KU)*

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 cash consideration for the equity interests in LKE and its subsidiaries of \$2,493 million and provided a capital contribution on November 1, 2010, of \$1,565 million; included within this was the consideration paid of \$1,702 million for LG&E and \$2,656 million for KU. The allocation of the purchase price was based on the fair value of assets acquired and liabilities assumed.

The push-down accounting for the fair value of assets acquired and liabilities assumed was as follows (in millions).

	LKE	LG&E	KU
Current assets	\$ 969	\$ 503	\$ 341
Investments	31	1	30
PP&E	7,469	2,935	4,531
Other intangibles (current and noncurrent)	427	226	201
Regulatory and other noncurrent assets	689	416	274
Current liabilities, excluding current portion of long-term debt	(516)	(420)	(367)
PPL affiliate indebtedness	(4,349)	(485)	(1,331)
Long-term debt (current and noncurrent)	(934)	(580)	(352)
Other noncurrent liabilities	(2,289)	(1,283)	(1,278)
Net identifiable assets acquired	1,497	1,313	2,049
Goodwill	996	389	607
Net assets acquired	2,493	1,702	2,656
Capital Contribution on November 1, 2010, to replace affiliate indebtedness	1,565		
Beginning equity balance on November 1, 2010	<u>\$ 4,058</u>	<u>\$ 1,702</u>	<u>\$ 2,656</u>

Goodwill represents value paid for the rate regulated businesses of LG&E and KU, which are 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. LG&E's and 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 customer rates.

Adjustments to LKE's, LG&E's and KU's assets and liabilities that contributed to goodwill are 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 was being amortized over the expected remaining useful life of plant and equipment at EEI, which was estimated to be over 20 years. During the fourth quarter of 2012, KU recorded an impairment in EEI. See Notes 1 and 18 for additional information.

The pollution control bonds, excluding the reacquired bonds, had a fair value adjustment of \$7 million for LG&E and \$1 million for KU. 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 \$126 million based upon an announced transaction by another owner. LG&E and KU's combined investment in OVEC was not significant and the power purchase agreement was valued at \$87 million for LG&E and \$39 million for KU. An intangible asset was recorded with the offset to regulatory liability and is amortized using the units of production method until March 2026, the expiration date of the agreement at the date of the acquisition.
- LG&E and KU each recorded an emission allowance intangible asset and a regulatory liability as the result of adjusting the fair value of the emission allowances at LG&E and KU. The emission allowance intangible of \$8 million at LG&E and \$9 million at KU represents allocated and purchased sulfur dioxide and nitrogen oxide emission allowances that were unused as of the valuation date or allocated for use in future years. LG&E and 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.
- Coal contract intangible assets were recorded at LG&E for \$124 million and at KU for \$145 million as well as a non-current liability of \$11 million for LG&E and \$22 million for KU 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 LG&E and 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.

- Adjustments on November 1, 2010 were made to record LKE pension assets at fair value, remeasure its pension and postretirement benefit obligations at current discount rates and eliminate accumulated other comprehensive income (loss). An increase of \$4 million in the liability balances of LG&E and KU was recorded, due to the lowering of the discount rate; this was credited to their respective pension and postretirement liability balances with offsetting adjustments made to the related regulatory assets and liabilities.

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, LG&E and 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. LG&E's and KU's customer rates will continue to reflect these items (e.g. coal, purchased power, emission allowances) at their original contracted prices.

LG&E and KU also considered whether a separate fair value should be assigned to LG&E's and KU's rights to operate within its various electric and natural gas distribution 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.

#### *Kentucky Acquisition Commitments*

*(PPL, LKE, LG&E and KU)*

In connection with the September 2010 approval of PPL's acquisition of LKE, LG&E and KU agreed to implement the Acquisition Savings Sharing Deferral (ASSD) methodology whereby LG&E's and KU's adjusted jurisdictional revenues, expenses, and net operating income are calculated each year. If LG&E's or KU's actual earned rate of return on common equity exceeds 10.75%, half of the excess amount will be deferred as a regulatory liability and ultimately returned to customers. The first ASSD filing with the KPSC was made on March 30, 2012 based on the 2011 calendar year. On July 2, 2012, the KPSC issued an order approving the calculations contained in the 2011 ASSD filing and determined that such calculations produced no deferral amounts for the purpose of establishing regulatory liabilities and are proper and in accordance with the settlement agreement. The ASSD methodology for each of LG&E's and KU's utility operations terminated on January 1, 2013, when new rates went into effect. Therefore, no further ASSD filings will be made.

## **11. Leases**

### **Lessee Transactions**

*(PPL, LKE, LG&E and KU)*

#### E.W. Brown Combustion Turbines

LG&E and KU are participants in a sale-leaseback transaction involving two combustion turbines at the E.W. Brown generating plant. In December 1999, after selling their interests in the combustion turbines, LG&E and KU entered into an 18-year lease of the turbines. LG&E and KU provided funds to fully defease the lease including the repurchase price and have the right to exercise an early purchase option contained in the lease after 15.5 years, which will occur in 2015. The financial statement treatment of this transaction is the same as if LG&E and KU had retained their ownership interest. Since the lease was defeased, there are no remaining minimum lease payments and all related PP&E is reflected on the Balance Sheets. See Note 14 for the balances included on the Balance Sheets related to this transaction. Depreciation expense was insignificant for all periods presented.

Upon a default under the lease, LG&E and KU are obligated to pay to the lessor their share of certain amounts. Primary events of default include loss or destruction of the combustion turbines, failure to insure or maintain the combustion turbines 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 combustion turbines reverts to LG&E and KU. The maximum aggregate amount at December 31, 2012 that could be required to be paid by LKE is \$5 million, by LG&E is \$2 million and by KU is \$3 million. LKE has guaranteed the payment of these potential default payments of LG&E and KU.



(PPL and PPL Energy Supply)

Colstrip Generating Plant

In July 2000, PPL Montana sold its interest in the Colstrip generating plants to owner lessors who lease back to PPL Montana, under four 36-year non-cancelable leases, a 50% interest in Colstrip Units 1 and 2 and a 30% interest in Unit 3. This transaction is accounted for as a sale-leaseback and classified as an operating lease. PPL Montana is responsible for its share of the operating expenses associated with its leasehold interests. See Note 14 for information on the sharing agreement for Colstrip Units 3 and 4. PPL Montana currently amortizes material leasehold improvements over no more than the remaining life of the original leases; however, the leases provide two renewal options based on the economic useful life of the generation assets. The leases place certain restrictions on PPL Montana's ability to incur additional debt, sell assets and declare dividends and require PPL Montana to maintain certain financial ratios related to cash flow and net worth. There are no residual value guarantees in these leases. However, upon an event of default or an event of loss, PPL Montana could be required to pay a termination value of amounts sufficient to allow the lessor to repay amounts owing on the lessor notes and make the lessor whole for its equity investment and anticipated return on investment. The events of default include payment defaults, breaches of representations or covenants, acceleration of other indebtedness of PPL Montana, change in control of PPL Montana and certain bankruptcy events. The termination value was estimated to be \$301 million at December 31, 2012.

Kerr Dam

Under the Kerr Hydroelectric Project No. 5 joint operating license issued by the FERC, PPL Montana is responsible to make payments to the Confederated Salish and Kootenai Tribes of the Flathead Nation for the use of certain of their tribal lands in connection with the operation of Kerr Dam. This payment arrangement, subject to escalation based upon inflation, extends until the end of the license term in 2035. Between 2015 and 2025, the tribes have the option to purchase, hold and operate the project, at a conveyance price to be determined in accordance with the provisions in the FERC license. Exercise of the option by the tribes would result in the termination of this payment arrangement obligation for PPL Montana. The payment arrangement has been treated as an operating lease for accounting purposes. In February 2013, the parties to the license submitted the issue of the appropriate amount of the conveyance price to arbitration.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Other Leases

PPL and its subsidiaries have entered into various agreements for the lease of office space, vehicles, land gas storage and other equipment.

Rent - Operating Leases

Rent expense for operating leases was as follows:

	2012	2011	2010
PPL	\$ 116	\$ 109	\$ 90
PPL Energy Supply	62	84	87

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
LKE	\$ 18	\$ 18	\$ 3	\$ 14
LG&E	7	7	1	5
KU	10	10	2	8

Total future minimum rental payments for all operating leases are estimated to be:

	PPL	PPL Energy Supply	LKE	LG&E	KU
2013	\$ 109	\$ 76	\$ 15	\$ 5	\$ 9
2014	106	78	15	6	8
2015	85	65	12	5	7
2016	37	26	8	3	5
2017	21	13	6	2	4
Thereafter	149	104	34	14	18
Total	<u>\$ 507</u>	<u>\$ 362</u>	<u>\$ 90</u>	<u>\$ 35</u>	<u>\$ 51</u>

## 12. Stock-Based Compensation

(PPL, PPL Energy Supply, PPL Electric and LKE)

In 2012, shareowners approved the PPL SIP. This new equity plan replaces the PPL ICP and incorporates the following changes:

- Eliminates the potential to pay dividend equivalents on stock options.
- Eliminates the automatic lapse of restrictions on all equity awards in the event of a "potential" change in control and requires that a termination of employment occur in the event of a change in control before restrictions lapse.
- Changes the treatment of outstanding stock options upon retirement to limit the exercise period to the earlier of the end of the term (ten years from grant) or five years after retirement.

To further align the executives' interests with those of PPL shareowners, this plan provides that each restricted stock unit entitles the executive to accrue additional restricted stock units equal to the amount of quarterly dividends paid on PPL stock. These additional restricted stock units would be deferred and payable in shares of PPL common stock at the end of the restriction period. Dividend equivalents on restricted stock unit awards prior to 2013 are currently paid in cash when dividends are declared by PPL.

Under the ICP, SIP and the ICPKE (together, the Plans), restricted shares of PPL common stock, restricted stock units, performance units and stock options may be granted to officers and other key employees of PPL, PPL Energy Supply, PPL Electric, LKE and other affiliated companies. Awards under the Plans are made by the Compensation, Governance and Nominating Committee (CGNC) of the PPL Board of Directors, in the case of the ICP and SIP, and by the PPL Corporate Leadership Council (CLC), in the case of the ICPKE.

The following table details the award limits under each of the plans.

Plan	Total Plan Award Limit (Shares)	Annual Grant Limit Total As % of Outstanding PPL Common Stock On First Day of Each Calendar Year	Annual Grant Limit Options (Shares)	Annual Grant Limit For Individual Participants - Performance Based Awards	
				For awards denominated in shares (Shares)	For awards denominated in cash (in dollars)
ICP(a)	15,769,431	2%	3,000,000		
SIP	10,000,000		2,000,000	750,000	\$ 15,000,000
ICPKE	14,199,796	2%	3,000,000		

(a) Applicable to outstanding awards granted from January 27, 2006 to January 26, 2012. During 2012, the total plan award limit was reached and the ICP was replaced by the SIP.

Any portion of these awards that has not been granted may be carried over and used in any subsequent year. If any award lapses, is forfeited or the rights of the participant terminate, the shares of PPL common stock underlying such an award are again available for grant. Shares delivered under the Plans may be in the form of authorized and unissued PPL common stock, common stock held in treasury by PPL or PPL common stock purchased on the open market (including private purchases) in accordance with applicable securities laws.

## Restricted Stock and Restricted Stock Units

Restricted shares of PPL common stock are outstanding shares with full voting and dividend rights. Restricted stock awards are granted as a retention award for select key executives and vest when the recipient reaches a certain age or meets service or other criteria set forth in the executive's restricted stock award agreement. The shares are subject to forfeiture or accelerated payout under plan provisions for termination, retirement, disability and death of employees. Restricted shares vest fully, in certain situations, as defined by each of the Plans.

The Plans allow for the grant of restricted stock units. Restricted stock units are awards based on the fair value of PPL common stock on the date of grant. Actual PPL common shares will be issued upon completion of a vesting period, generally three years.

The fair value of restricted stock and restricted stock units granted is recognized on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value of restricted stock and restricted stock units granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. Recipients of restricted stock and restricted stock units may also be granted the right to receive dividend equivalents through the end of the restriction period or until the award is forfeited. Restricted stock and restricted stock units are subject to forfeiture or accelerated payout under the plan provisions for termination, retirement, disability and death of employees. Restricted stock and restricted stock units vest fully, in certain situations, as defined by each of the Plans.

The weighted-average grant date fair value of restricted stock and restricted stock units granted was:

	2012	2011	2010
PPL	\$ 28.35	\$ 25.25	\$ 28.93
PPL Energy Supply	28.29	25.14	29.49
PPL Electric	28.51	25.09	29.40
LKE	28.34		26.31

Restricted stock and restricted stock unit activity for 2012 was:

	Restricted Shares/Units		Weighted- Average Grant Date Fair Value Per Share
<b><u>PPL</u></b>			
Nonvested, beginning of period	2,040,035	\$	27.03
Granted	1,487,556		28.35
Vested	(1,002,229)		27.23
Forfeited	(21,592)		27.69
Nonvested, end of period	2,503,770		27.73
<b><u>PPL Energy Supply</u></b>			
Nonvested, beginning of period	665,180	\$	27.30
Transferred	62,320		28.66
Granted	564,020		28.29
Vested	(219,124)		27.04
Forfeited	(11,710)		27.97
Nonvested, end of period	1,060,686		27.95
<b><u>PPL Electric</u></b>			
Nonvested, beginning of period	251,595	\$	27.10
Transferred	(54,460)		28.93
Granted	133,530		28.51
Vested	(61,995)		27.63
Forfeited	(7,442)		27.46
Nonvested, end of period	261,228		27.30
<b><u>LKE</u></b>			
Nonvested, beginning of period	145,210	\$	26.31
Granted	144,340		28.34
Vested	(149,910)		26.38
Nonvested, end of period	139,640		28.34

Substantially all restricted stock and restricted stock unit awards are expected to vest.

The total fair value of restricted stock and restricted stock units vesting for the years ended December 31 was:

	2012	2011	2010
PPL	\$ 27	\$ 19	\$ 15
PPL Energy Supply	6	6	7
PPL Electric	2	2	2
LKE	4	1	

### Performance Units

Performance units are intended to encourage and award future performance. Performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable performance goal. Performance is determined based on total shareowner return during a 3-year performance period. At the end of the period, payout is determined by comparing PPL's performance to the total shareowner return of the companies included in an index group, in the case of the 2010 and 2011 awards, the S&P 500 Electric Utilities Index, and in the case of the 2012 awards, the Philadelphia Electric Utilities Index. Awards granted in 2010 are payable on a graduated basis within the following ranges: if PPL's performance is at or above the 85th percentile of the index group, the award is paid at 200% of the Target Award; at the 50th percentile of the index group, the award is paid at 100% of the Target Award; at the 40th percentile of the index group, the award is paid at 50% of the Target Award; and below the 40th percentile, no award is payable. Awards granted in 2011 and 2012 are payable on a graduated basis similar to 2010, except that the 2011 awards provide for a minimum payment at 25% of the Target Award if performance falls below the 40th percentile of the index group, and in 2012 the minimum payment was eliminated, with no award payable if performance falls below the 25th percentile. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the determination of the CGNC of whether the performance goals have been achieved. Under the plan provisions, performance units are subject to forfeiture upon termination of employment except for retirement, disability or death of an employee, in which case the total performance units remain outstanding and are eligible for vesting through the conclusion of the performance period. The fair value of performance units granted is recognized as compensation expense on a straight-line basis over the 3-year performance period. Performance units vest on a pro rata basis, in certain situations, as defined by each of the Plans.

The fair value of each performance unit granted was estimated using a Monte Carlo pricing model that considers stock beta, a risk-free interest rate, expected stock volatility and expected life. The stock beta was calculated comparing the risk of the individual securities to the average risk of the companies in the index group. The risk-free interest rate reflects the yield on a U.S. Treasury bond commensurate with the expected life of the performance unit. Volatility over the expected term of the performance unit is calculated using daily stock price observations for PPL and all companies in the index group and is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL and the companies in the index group. PPL had used historical volatility to value its performance units in 2010. Beginning in 2011, PPL began using a mix of historic and implied volatility in response to the significant changes in its business model, moving from a primarily unregulated to a primarily regulated business model, as a result of the acquisitions of LKE and WPD Midlands.

The weighted-average assumptions used in the model were:

	2012	2011	2010
Risk-free interest rate	0.30%	1.00%	1.41%
Expected stock volatility	19.30%	23.40%	34.70%
Expected life	3 years	3 years	3 years

The weighted-average grant date fair value of performance units granted was:

	2012	2011	2010
PPL	\$ 31.41	\$ 29.67	\$ 34.06
PPL Energy Supply	31.40	29.68	34.16
PPL Electric	31.37	29.57	33.54
LKE	31.30	29.20	

Performance unit activity for 2012 was:

	Performance Units	Weighted- Average Grant Date Fair Value Per Share
<b>PPL</b>		
Nonvested, beginning of period	398,609	\$ 33.31
Granted	322,771	31.41
Forfeited	(127,177)	38.61
Nonvested, end of period	594,203	31.14
<b>PPL Energy Supply</b>		
Nonvested, beginning of period	75,067	\$ 33.00
Transferred	12,719	34.15
Granted	71,572	31.40
Forfeited	(35,169)	38.90
Nonvested, end of period	124,189	31.26
<b>PPL Electric</b>		
Nonvested, beginning of period	32,808	\$ 33.11
Transferred	(12,719)	34.15
Granted	16,234	31.37
Forfeited	(10,240)	34.17
Nonvested, end of period	26,083	31.10
<b>LKE</b>		
Nonvested, beginning of period	26,893	\$ 29.20
Granted	55,857	31.30
Nonvested, end of period	82,750	30.62

### Stock Options

Under the Plans, stock options may be granted with an option exercise price per share not less than the fair value of PPL's common stock on the date of grant. Options outstanding at December 31, 2012, become exercisable in equal installments over a three-year service period beginning one year after the date of grant, assuming the individual is still employed by PPL or a subsidiary. The CGNC and CLC have discretion to accelerate the exercisability of the options, except that the exercisability of an option issued under the ICP may not be accelerated unless the individual remains employed by PPL or a subsidiary for one year from the date of grant. All options expire no later than ten years from the grant date. The options become exercisable immediately in certain situations, as defined by each of the Plans. The fair value of options granted is recognized as compensation expense on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value of options granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant.

The fair value of each option granted is estimated using a Black-Scholes option-pricing model. PPL uses a risk-free interest rate, expected option life, expected volatility and dividend yield to value its stock options. The risk-free interest rate reflects the yield for a U.S. Treasury Strip available on the date of grant with constant rate maturity approximating the option's expected life. Expected life is calculated based on historical exercise behavior. Volatility over the expected term of the options is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL's volatility in those prior periods. Management's expectations for future volatility, considering potential changes to PPL's business model and other economic conditions, are also reviewed in addition to the historical data to determine the final volatility assumption. PPL had used historical volatility to value its stock options granted in 2010. Beginning in 2011, PPL began using a mix of historic and implied volatility in response to the significant changes in its business model, moving from a primarily unregulated to a primarily regulated business model, as a result of the acquisitions of LKE and WPD Midlands. The dividend yield is based on several factors, including PPL's most recent dividend payment, as of the grant date and the forecasted stock price through 2013. The assumptions used in the model were:

	2012	2011	2010
Risk-free interest rate	1.13%	2.34%	2.52%
Expected option life	6.17 years	5.71 years	5.43 years
Expected stock volatility	20.60%	21.60%	28.57%
Dividend yield	5.00%	5.93%	5.61%

The weighted-average grant date fair value of options granted was:

	2012	2011	2010
PPL	\$ 2.48	\$ 2.47	\$ 4.70
PPL Energy Supply	2.51	2.47	4.73
PPL Electric	2.50	2.47	4.62
LKE	2.51	2.47	

Stock option activity for 2012 was:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted- Average Remaining Contractual Term	Aggregate Total Intrinsic Value
<b>PPL</b>				
Outstanding at beginning of period	7,530,198	\$ 30.65		
Granted	1,948,550	28.19		
Exercised	(263,094)	23.22		
Forfeited	(81,109)	28.43		
Outstanding at end of period	9,134,545	30.36	6.3	\$ 9
Options exercisable at end of period	6,134,265	31.70	5.7	6
<b>PPL Energy Supply</b>				
Outstanding at beginning of period	1,690,153	\$ 30.79		
Transferred	176,070	31.90		
Granted	483,740	28.19		
Exercised	(36,358)	24.35		
Forfeited	(48,482)	29.34		
Outstanding at end of period	2,265,123	30.45	6.1	\$ 2
Options exercisable at end of period	1,529,711	31.80	4.9	1
<b>PPL Electric</b>				
Outstanding at beginning of period	460,510	\$ 31.05		
Transferred	(176,070)	31.90		
Granted	100,590	28.22		
Exercised	(11,873)	25.67		
Forfeited	(32,627)	27.07		
Outstanding at end of period	340,530	30.35	7.0	
Options exercisable at end of period	193,355	32.43	5.8	
<b>LKE</b>				
Outstanding at beginning of period	329,600	\$ 25.77		
Granted	354,490	28.17		
Exercised	(49,243)	25.74		
Outstanding at end of period	634,847	27.11	8.6	\$ 1
Options exercisable at end of period	144,260	26.62	8.4	

PPL received \$6 million in cash from stock options exercised in 2012. The related tax savings were not significant for 2012. Substantially all stock option awards are expected to vest.

The total intrinsic value of stock options exercised for the years ended December 31, 2012, 2011 and 2010 was not significant.

### Compensation Expense

Compensation expense for restricted stock, restricted stock units, performance units and stock options accounted for as equity awards was as follows:

	2012	2011	2010
PPL	\$ 49	\$ 36	\$ 26
PPL Energy Supply	23	16	20
PPL Electric	11	8	6
LKE	8	5	

The income tax benefit related to above compensation expense was as follows:

	2012	2011	2010
PPL	\$ 20	\$ 15	\$ 11
PPL Energy Supply	10	6	8
PPL Electric	4	3	3
LKE	4	2	

The income tax benefit PPL realized from stock-based awards vested or exercised for 2012 was not significant.

At December 31, 2012, unrecognized compensation expense related to nonvested restricted stock, restricted stock units, performance units and stock option awards was:

	Unrecognized Compensation Expense	Weighted- Average Period for Recognition
PPL	\$ 27	2.1 years
PPL Energy Supply	11	2.4 years
PPL Electric	2	2.2 years
LKE	2	1.8 years

### 13. Retirement and Postemployment Benefits

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

#### Defined Benefits

Until January 1, 2012, the majority of PPL's subsidiaries domestic employees were eligible for pension benefits under non-contributory defined benefit pension plans with benefits based on length of service and final average pay, as defined by the plans. Effective January 1, 2012, PPL's domestic qualified pension plans were closed to newly hired salaried employees. Newly hired bargaining unit employees will continue to be eligible under the plans based on their collective bargaining agreements. Salaried employees hired on or after January 1, 2012 are eligible to participate in the new PPL Retirement Savings Plan, a 401(k) savings plan with enhanced employer matching. PPL does not expect a significant near-term cost impact as a result of the change.

Until January 1, 2012, employees of PPL Montana were eligible for pension benefits under a cash balance pension plan. Effective January 1, 2012, that plan also was closed to newly hired salaried employees. Newly hired bargaining unit employees will continue to be eligible under the plan based on their collective bargaining agreements. Salaried employees hired on or after January 1, 2012 are eligible to participate in the new PPL Retirement Savings Plan. PPL Montana does not expect a significant near-term cost impact as a result of the change.

The defined benefit pension plans of LKE and its subsidiaries were closed to new salaried and bargaining unit employees hired after December 31, 2005. Employees hired after December 31, 2005 receive additional company contributions above the standard matching contributions to their savings plans.

Employees of certain of PPL Energy Supply's mechanical contracting companies are eligible for benefits under multiemployer plans sponsored by various unions.

Effective April 1, 2010, PPL WW's principal defined benefit pension plan was closed to most new employees, except for those meeting specific grandfathered participation rights. WPD Midlands was acquired by PPL WEM on April 1, 2011. WPD Midlands' defined benefit plan had been closed to new members, except for those meeting specific grandfathered participation rights, prior to acquisition. New employees not eligible to participate in the plan are offered benefits under a defined contribution plan.

PPL and certain of its subsidiaries also provide supplemental retirement benefits to executives and other key management employees through unfunded nonqualified retirement plans.

The majority of employees of PPL's domestic subsidiaries will become eligible for certain health care and life insurance benefits upon retirement through contributory plans. Postretirement health benefits may be paid from 401(h) accounts established as part of the PPL Retirement Plan and the LG&E and KU Retirement Plan within the PPL Services Corporation Master Trust, funded VEBA trusts and company funds. Postretirement benefits under the PPL Montana Retiree Health Plan are paid from company assets. WPD does not sponsor any postretirement benefit plans other than pensions.

(PPL)

The following disclosures distinguish between the domestic (U.S.) and WPD (U.K.) pension plans.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.			2012	2011	2010
	2012	2011	2010	2012	2011	2010			
<b>PPL</b>									
<b>Net periodic defined benefit costs (credits):</b>									
Service cost	\$ 103	\$ 95	\$ 64	\$ 54	\$ 44	\$ 17	\$ 12	\$ 12	\$ 8
Interest cost	220	217	159	340	282	151	31	33	28
Expected return on plan assets	(259)	(245)	(184)	(458)	(338)	(202)	(23)	(23)	(20)
Amortization of:									
Transition (asset) obligation							2	2	5
Prior service cost	24	24	21	4	4	4	1		4
Actuarial (gain) loss	42	30	8	79	57	48	4	6	6
<b>Net periodic defined benefit costs (credits) prior to settlement charges and termination benefits</b>	<b>130</b>	<b>121</b>	<b>68</b>	<b>19</b>	<b>49</b>	<b>18</b>	<b>27</b>	<b>30</b>	<b>31</b>
Settlement charges	11								
Termination benefits (a)				2	50				
<b>Net periodic defined benefit costs (credits)</b>	<b>\$ 141</b>	<b>\$ 121</b>	<b>\$ 68</b>	<b>\$ 21</b>	<b>\$ 99</b>	<b>\$ 18</b>	<b>\$ 27</b>	<b>\$ 30</b>	<b>\$ 31</b>
<b>Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:</b>									
Settlements	\$ (11)								
Net (gain) loss	372	\$ 117	\$ 142	\$ 1,073	\$ 152	\$ 17	\$ 13	\$ (9)	\$ 20
Prior service cost (credit)		8					(1)	10	(71)
Amortization of:									
Transition asset							(2)	(2)	(5)
Prior service cost	(24)	(24)	(21)	(4)	(4)	(4)	(1)		(4)
Actuarial gain (loss)	(42)	(30)	(7)	(79)	(57)	(48)	(4)	(6)	(6)
Acquisition of regulatory assets/liabilities:									
Transition obligation									4
Prior service cost			31						6
Actuarial (gain) loss			303						(2)
<b>Total recognized in OCI and regulatory assets/liabilities (b)</b>	<b>295</b>	<b>71</b>	<b>448</b>	<b>990</b>	<b>91</b>	<b>(35)</b>	<b>5</b>	<b>(7)</b>	<b>(58)</b>
<b>Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities (b)</b>	<b>\$ 436</b>	<b>\$ 192</b>	<b>\$ 516</b>	<b>\$ 1,011</b>	<b>\$ 190</b>	<b>\$ (17)</b>	<b>\$ 32</b>	<b>\$ 23</b>	<b>\$ (27)</b>

(a) Related to the WPD Midlands separations in the U.K.

(b) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. As a result, WPD does not record regulatory assets/liabilities.

For PPL's U.S. pension benefits and for other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	U.S. Pension Benefits			Other Postretirement Benefits		
	2012	2011	2010	2012	2011	2010
OCI	\$ 181	\$ 47	\$ 84	\$ 12	\$ (6)	\$ (40)
Regulatory assets/liabilities	114	24	364	(7)	(1)	(18)
<b>Total recognized in OCI and regulatory assets/liabilities</b>	<b>\$ 295</b>	<b>\$ 71</b>	<b>\$ 448</b>	<b>\$ 5</b>	<b>\$ (7)</b>	<b>\$ (58)</b>



The estimated amounts to be amortized from AOCI and regulatory assets/liabilities into net periodic defined benefit costs in 2013 are as follows:

	Pension Benefits		Other
	U.S.	U.K.	Postretirement Benefits
Prior service cost	\$ 22		
Actuarial loss	78	\$ 154	\$ 6
Total	<u>\$ 100</u>	<u>\$ 154</u>	<u>\$ 6</u>
Amortization from Balance Sheet:			
AOCI	\$ 43	\$ 154	\$ 3
Regulatory assets/liabilities	57		3
Total	<u>\$ 100</u>	<u>\$ 154</u>	<u>\$ 6</u>

*(PPL Energy Supply)*

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K. (a)					
	2012	2011	2010	2012	2011	2010	2012	2011	2010
<b>PPL Energy Supply</b>									
<b>Net periodic defined benefit costs (credits):</b>									
Service cost	\$ 6	\$ 5	\$ 4			\$ 17	\$ 1	\$ 1	\$ 1
Interest cost	7	7	7			151	1	1	1
Expected return on plan assets	(9)	(9)	(7)			(202)			
Amortization of:									
Prior service cost						4			
Actuarial (gain) loss	2	2	2			48			
Net periodic defined benefit costs (credits) prior to settlement charges	6	5	6			18	2	2	2
Net periodic defined benefit costs (credits)	<u>\$ 6</u>	<u>\$ 5</u>	<u>\$ 6</u>			<u>\$ 18</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 2</u>
<b>Other Changes in Plan Assets and Benefit Obligations Recognized in OCI:</b>									
Current year net (gain) loss	\$ 16	\$ 7	\$ 4			\$ 17		\$ (2)	
Current year prior service credit							\$ (1)		
Amortization of:									
Prior service cost						(4)			
Actuarial gain (loss)	(2)	(2)	(2)			(48)			
Total recognized in OCI	14	5	2			(35)	(1)	(2)	
Total recognized in net periodic defined benefit costs and OCI	<u>\$ 20</u>	<u>\$ 10</u>	<u>\$ 8</u>			<u>\$ (17)</u>	<u>\$ 1</u>	<u>\$</u>	<u>\$ 2</u>

(a) In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Supply's parent. See Note 9 for additional information.

Actuarial loss of \$3 million related to PPL Energy Supply's U.S. pension plan is expected to be amortized from AOCI into net periodic defined benefit costs in 2013.

*(LKE)*

The following table provides the components of net periodic defined benefit costs for LKE's pension and other postretirement benefit plans for the years ended December 31, 2012, and 2011, and November 1, 2010 through December 31, 2010, for the Successor and January 1, 2010 through October 31, 2010, for the Predecessor.

	Pension Benefits			Other Postretirement Benefits				
	Successor			Predecessor 2010	Successor			Predecessor 2010
	2012	2011	2010		2012	2011	2010	
<b>LKE</b>								
<b>Net periodic defined benefit costs (credits):</b>								
Service cost	\$ 22	\$ 24	\$ 4	\$ 17	\$ 4	\$ 4	\$ 1	\$ 3
Interest cost	64	67	11	54	9	10	1	9
Expected return on plan assets	(70)	(64)	(9)	(45)	(4)	(3)		(2)
Amortization of:								
Transition obligation					2	2		1
Prior service cost	5	5	1	7	3	2		2
Actuarial (gain) loss	22	24	5	16	(1)			
<b>Net periodic defined benefit costs</b>	<b>\$ 43</b>	<b>\$ 56</b>	<b>\$ 12</b>	<b>\$ 49</b>	<b>\$ 13</b>	<b>\$ 15</b>	<b>\$ 2</b>	<b>\$ 13</b>
<b>Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:</b>								
Current year net (gain) loss	\$ 96	\$ 29	\$ (22)	\$ 96	\$ (11)	\$ (3)	\$ (2)	\$ 3
Current year prior service cost		8				11		
Amortization of:								
Transition obligation					(2)	(2)		(2)
Prior service cost	(5)	(5)	(1)	(7)	(3)	(2)		(1)
Actuarial gain (loss)	(22)	(24)	(5)	(16)	1			
<b>Total recognized in OCI and regulatory assets/liabilities</b>	<b>69</b>	<b>8</b>	<b>(28)</b>	<b>73</b>	<b>(15)</b>	<b>4</b>	<b>(2)</b>	
<b>Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities</b>	<b>\$ 112</b>	<b>\$ 64</b>	<b>\$ (16)</b>	<b>\$ 122</b>	<b>\$ (2)</b>	<b>\$ 19</b>	<b>\$</b>	<b>\$ 13</b>

For LKE's pension and other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities are as follows at December 31, 2012, 2011 and 2010 for the Successor, and at October 31, 2010 for the Predecessor.

	Pension Benefits			Other Postretirement Benefits				
	Successor			Predecessor 2010	Successor			Predecessor 2010
	2012	2011	2010		2012	2011	2010	
OCI	\$ 34	\$ 1	\$ (8)	\$ 32	\$ (1)	\$ 2	\$ (1)	\$ (1)
Regulatory assets/liabilities	35	7	(20)	41	(14)	2	(1)	1
<b>Total recognized in OCI and regulatory assets/liabilities</b>	<b>\$ 69</b>	<b>\$ 8</b>	<b>\$ (28)</b>	<b>\$ 73</b>	<b>\$ (15)</b>	<b>\$ 4</b>	<b>\$ (2)</b>	<b>\$</b>

The estimated amounts to be amortized from AOCI and regulatory assets/liabilities into net periodic defined benefit costs for LKE in 2013 are as follows.

	Pension Benefits	Other Postretirement Benefits
Prior service cost	\$ 5	\$ 3
Actuarial loss	31	(1)
<b>Total</b>	<b>\$ 36</b>	<b>\$ 2</b>
Amortization from Balance Sheet:		
Regulatory assets/liabilities	\$ 36	\$ 2
<b>Total</b>	<b>\$ 36</b>	<b>\$ 2</b>

(LG&E)

The following table provides the components of net periodic defined benefit costs for LG&E's pension benefit plan for the years ended December 31, 2012 and 2011, and November 1, 2010 through December 31, 2010, for the Successor and January 1, 2010 through October 31, 2010, for the Predecessor.

	Pension Benefits					
	Successor			Predecessor		
	2012	2011	2010	2010		
<b>LG&amp;E</b>						
<b>Net periodic defined benefit costs (credits):</b>						
Service cost	\$ 2	\$ 2		\$		1
Interest cost	14	14		\$		12
Expected return on plan assets	(19)	(18)	(3)			(13)
Amortization of:						
Prior service cost	3	2	1			2
Actuarial loss	11	11	2			6
Net periodic defined benefit costs	<u>\$ 11</u>	<u>\$ 11</u>	<u>\$ 2</u>	<u>\$</u>		<u>8</u>
<b>Other Changes In Plan Assets and Benefit Obligations</b>						
<b>Recognized in Regulatory Assets - Gross:</b>						
Current year net (gain) loss	\$ 18	\$ 15	\$ (5)	\$		18
Current year prior service cost		9				
Amortization of:						
Prior service cost	(2)	(2)				(2)
Actuarial (loss)	(11)	(11)	(2)			(6)
Total recognized in regulatory assets	<u>5</u>	<u>11</u>	<u>(7)</u>			<u>10</u>
Total recognized in net periodic defined benefit costs and regulatory assets	<u>\$ 16</u>	<u>\$ 22</u>	<u>\$ (5)</u>	<u>\$</u>		<u>18</u>

The estimated amounts to be amortized from regulatory assets into net periodic defined benefit costs for LG&E in 2013 are as follows.

	Pension Benefits
Prior service cost	\$ 2
Actuarial loss	13
Total	<u>\$ 15</u>

(PPL, PPL Energy Supply and PPL Electric)

Net periodic defined benefit costs (credits) charged to operating expense, excluding amounts charged to construction and other non-expense accounts were:

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.					
	2012	2011	2010	2012	2011	2010(a)	2012	2011	2010
PPL	\$ 119	\$ 98	\$ 59	\$ 25	\$ 82	\$ 16	\$ 22	\$ 24	\$ 27
PPL Energy Supply	37	27	24			16	6	7	12
PPL Electric (b)	19	14	12				3	4	8

- (a) As a result of PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, these amounts are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on PPL Energy Supply's Statements of Income. See Note 9 for additional information.
- (b) PPL Electric does not directly sponsor any defined benefit plans. PPL Electric was allocated these costs of defined benefit plans sponsored by PPL Services, based on its participation in those plans, which management believes are reasonable.

In the table above, for PPL Energy Supply, amounts include costs for the specific plans it sponsors and the following allocated costs of defined benefit plans sponsored by PPL Services, based on PPL Energy Supply's participation in those plans, which management believes are reasonable:

	Pension Benefits			Other Postretirement Benefits		
	2012	2011	2010	2012	2011	2010
PPL Energy Supply	\$ 31	\$ 23	\$ 19	\$ 5	\$ 6	\$ 10

(LKE, LG&E and KU)

The following table provides net periodic defined benefit costs charged to operating expense for the years ended December 31, 2012, and 2011, and November 1, 2010 through December 31, 2010, for the Successor and January 1, 2010 through October 31, 2010, for the Predecessor.

	Pension Benefits						Other Postretirement Benefits			
	Successor			Predecessor			Successor			Predecessor
	2012	2011	2010	2010			2012	2011	2010	2010
LKE	\$ 31	\$ 40	\$ 9	\$	37	\$ 9	\$ 11	\$ 2	\$	9
LG&E	13	16	3		12	5	5	1		4
KU (a)	8	10	2		8	3	4	1		3

(a) KU does not directly sponsor any defined benefit plans. KU was allocated these costs of defined benefit plans sponsored by LKE, based on its participation in those plans, which management believes are reasonable.

In the table above, for LG&E, amounts include costs for the specific plans it sponsors and the following allocated costs of defined benefit plans sponsored by LKE, based on its participation in those plans, which management believes are reasonable.

	Pension Benefits						Other Postretirement Benefits			
	Successor			Predecessor			Successor			Predecessor
	2012	2011	2010	2010			2012	2011	2010	2010
LG&E	\$ 5	\$ 7	\$ 1	\$	6	\$ 2	\$ 5	\$ 1	\$	4

(PPL and PPL Energy Supply)

The following weighted-average assumptions were used in the valuation of the benefit obligations at December 31.

	Pension Benefits						Other Postretirement Benefits	
	U.S.		U.K.					
	2012	2011	2012	2011	2012	2011	2012	2011
<b>PPL</b>								
Discount rate	4.22%	5.06%	4.27%	5.24%	4.00%	4.80%		
Rate of compensation increase	3.98%	4.02%	4.00%	4.00%	3.97%	4.00%		
<b>PPL Energy Supply</b>								
Discount rate	4.25%	5.12%			3.77%	4.60%		
Rate of compensation increase	3.95%	4.00%			3.95%	4.00%		

(LKE and LG&E)

The following table provides the weighted-average assumptions used in the valuation of the benefit obligations at December 31.

	Pension Benefits				Other Postretirement Benefits	
	2012	2011	2012	2011	2012	2011
<b>LKE</b>						
Discount rate			4.24%	5.08%	3.99%	4.78%
Rate of compensation increase			4.00%	4.00%	4.00%	4.00%
<b>LG&amp;E</b>						
Discount rate			4.20%	5.00%		
Rate of compensation increase			N/A	N/A		

(PPL and PPL Energy Supply)

The following weighted-average assumptions were used to determine the net periodic defined benefit costs for the year ended December 31.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.					
	2012	2011	2010	2012	2011	2010	2012	2011	2010
<b>PPL</b>									
Discount rate	5.06%	5.42%	5.96%	5.24%	5.59%	5.59%	4.80%	5.14%	5.47%
Rate of compensation increase	4.02%	4.88%	4.79%	4.00%	3.75%	4.00%	4.00%	4.90%	4.78%
Expected return on plan assets (a)	7.07%	7.25%	7.96%	7.17%	7.04%	7.91%	5.99%	6.57%	6.90%
<b>PPL Energy Supply</b>									
Discount rate	5.12%	5.47%	6.00%			5.59%	4.60%	4.95%	5.55%
Rate of compensation increase	4.00%	4.75%	4.75%			4.00%	4.00%	4.75%	4.75%
Expected return on plan assets (a)	7.00%	7.25%	8.00%			7.91%	N/A	N/A	N/A

(LKE and LG&E)

The following table provides the weighted-average assumptions used to determine the net periodic defined benefit costs for the years ended December 31, 2012, and 2011, and November 1, 2010 through December 31, 2010, for the Successor and January 1, 2010 through October 31, 2010, for the Predecessor.

	Pension Benefits				Other Postretirement Benefits			
	Successor			Predecessor	Successor			Predecessor
	2012	2011	2010	2010	2012	2011	2010	2010
<b>LKE</b>								
Discount rate	5.09%	5.49%	5.40%	6.11%	4.78%	5.12%	4.94%	5.82%
Rate of compensation increase	4.00%	5.25%	5.25%	5.25%	4.00%	5.25%	5.25%	5.25%
Expected return on plan assets (a)	7.25%	7.25%	7.25%	7.75%	7.02%	7.16%	7.04%	7.20%
<b>LG&amp;E</b>								
Discount rate	5.00%	5.39%	5.28%	6.08%				
Rate of compensation increase	N/A	N/A	N/A	N/A				
Expected return on plan assets (a)	7.25%	7.25%	7.25%	7.75%				

(PPL, PPL Energy Supply, LKE and LG&E)

(a) The expected long-term rates of return for PPL's, PPL Energy Supply's, LKE's and LG&E's U.S. pension and other postretirement benefits have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. The best estimates are based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. PPL management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption.

The expected long-term rates of return for PPL's U.K. pension plans have been developed by PPL management with assistance from an independent actuary using a best estimate of expected returns, volatilities and correlations for each asset class. The best estimates are based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes.

(PPL and PPL Energy Supply)

The following table provides the assumed health care cost trend rates for the year ended December 31:

	2012	2011	2010
<b>PPL and PPL Energy Supply</b>			
Health care cost trend rate assumed for next year			
- obligations	8.0%	8.5%	9.0%
- cost	8.5%	9.0%	8.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			
- obligations	5.5%	5.5%	5.5%
- cost	5.5%	5.5%	5.5%
Year that the rate reaches the ultimate trend rate			
- obligations	2019	2019	2019
- cost	2019	2019	2016

(LKE)

The following table provides the assumed health care cost trend rates for the years ended December 31, 2012, 2011 and November 1, 2010 through December 31, 2010, for the Successor and January 1, 2010 through October 31, 2010, for the Predecessor.

	Successor			Predecessor
	2012	2011	2010	2010
<b>LKE</b>				
Health care cost trend rate assumed for next year				
- obligations	8.0%	8.5%	9.0%	7.8%
- cost	8.5%	9.0%	9.0%	8.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)				
- obligations	5.5%	5.5%	5.5%	4.5%
- cost	5.5%	5.5%	5.5%	4.5%
Year that the rate reaches the ultimate trend rate				
- obligations	2019	2019	2019	2029
- cost	2019	2019	2019	2029

(PPL and LKE)

A one percentage point change in the assumed health care costs trend rate assumption would have had the following effects on the other postretirement benefit plans in 2012:

	One Percentage Point	
	Increase	Decrease
Effect on accumulated postretirement benefit obligation		
PPL	\$ 7	\$ (6)
LKE	5	(4)

(PPL Energy Supply)

The effects on PPL Energy Supply's other postretirement benefit plan would not have been significant.

(PPL)

The funded status of the PPL plans was as follows:

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.		2012	2011
	2012	2011	2012	2011		
<b>Change in Benefit Obligation</b>						
Benefit Obligation, beginning of period	\$ 4,381	\$ 4,007	\$ 6,638	\$ 2,841	\$ 687	\$ 667
Service cost	103	95	54	44	12	12
Interest cost	220	217	340	282	31	33
Participant contributions			15	11	6	5
Plan amendments		8			(1)	10
Actuarial loss	546	220	1,081	257	31	6
Acquisition (a)				3,501		
Settlements	(25)					
Termination benefits			2	50		
Net transfer in (out)			12			
Actual expenses paid	(3)					
Gross benefits paid	(176)	(166)	(397)	(309)	(46)	(47)
Federal subsidy					2	1
Currency conversion			143	(39)		
Benefit Obligation, end of period	<u>5,046</u>	<u>4,381</u>	<u>7,888</u>	<u>6,638</u>	<u>722</u>	<u>687</u>
<b>Change in Plan Assets</b>						
Plan assets at fair value, beginning of period	3,471	2,819	6,351	2,524	391	360
Actual return on plan assets	432	349	476	444	42	38
Employer contributions	239	470	341	164	27	33
Participant contributions			15	11	5	5
Acquisition (a)				3,567		
Settlements	(25)					
Actual expenses paid	(2)	(1)				
Gross benefits paid	(176)	(166)	(397)	(309)	(44)	(45)
Currency conversion			125	(50)		
Plan assets at fair value, end of period	<u>3,939</u>	<u>3,471</u>	<u>6,911</u>	<u>6,351</u>	<u>421</u>	<u>391</u>
Funded Status, end of period	<u>\$ (1,107)</u>	<u>\$ (910)</u>	<u>\$ (977)</u>	<u>\$ (287)</u>	<u>\$ (301)</u>	<u>\$ (296)</u>
<b>Amounts recognized in the Balance Sheets consist of:</b>				\$ 130		
Noncurrent asset						
Current liability	\$ (8)	\$ (29)			\$ (1)	\$ (1)
Noncurrent liability	(1,099)	(881)	(977)	(417)	(300)	(295)
Net amount recognized, end of period	<u>\$ (1,107)</u>	<u>\$ (910)</u>	<u>\$ (977)</u>	<u>\$ (287)</u>	<u>\$ (301)</u>	<u>\$ (296)</u>
<b>Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:</b>						
Transition obligation						\$ 2
Prior service cost (credit)	\$ 91	\$ 115	\$ 1	\$ 3	\$ (7)	(5)
Net actuarial loss	1,241	922	2,184	1,191	106	97
Total (b)	<u>\$ 1,332</u>	<u>\$ 1,037</u>	<u>\$ 2,185</u>	<u>\$ 1,194</u>	<u>\$ 99</u>	<u>\$ 94</u>
<b>Total accumulated benefit obligation for defined benefit pension plans</b>	<u>\$ 4,569</u>	<u>\$ 3,949</u>	<u>\$ 7,259</u>	<u>\$ 6,144</u>		

- (a) Includes the pension plans of WPD Midlands, which was acquired in 2011. See Note 10 for additional information.  
(b) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. As a result, WPD does not record regulatory assets/liabilities.

For PPL's U.S. pension and other postretirement benefit plans, the amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	U.S. Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011
AOCI	\$ 659	\$ 481	\$ 59	\$ 56
Regulatory assets/liabilities	673	556	40	38
Total	\$ 1,332	\$ 1,037	\$ 99	\$ 94

All of PPL's U.S. pension plans had projected and accumulated benefit obligations in excess of plan assets at December 31, 2012 and 2011. All of PPL's other postretirement benefit plans had accumulated postretirement benefit obligations in excess of plan assets at December 31, 2012 and 2011.

For the U.K. pension plans of PPL WEM, projected benefit obligations of \$4.3 billion were in excess of plan assets of \$4.1 billion at December 31, 2012.

For the U.K. pension plans of PPL WW, projected and accumulated benefit obligations were in excess of plan assets at December 31 as follows (in billions):

	2012	2011
Projected benefit obligation	\$ 3.6	\$ 3.0
Accumulated benefit obligation	3.3	2.8
Fair value of plan assets	2.8	2.6

(PPL Energy Supply)

The funded status of the PPL Energy Supply plans were as follows:

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.		2012	2011
	2012	2011	2012	2011		
<b>Change in Benefit Obligation</b>						
Benefit Obligation, beginning of period	\$ 143	\$ 121		\$ 2,841	\$ 17	\$ 18
Service cost	6	5			1	1
Interest cost	7	7			1	1
Plan amendments					(1)	
Actuarial loss	23	13				(2)
Distribution to parent (a)				(2,841)		
Actual expenses paid						(1)
Gross benefits paid	(3)	(3)			(1)	
Benefit Obligation, end of period	176	143			17	17
<b>Change in Plan Assets</b>						
Plan assets at fair value, beginning of period	132	106		2,524		
Actual return on plan assets	16	14				
Employer contributions	4	15				
Distribution to parent (a)				(2,524)		
Gross benefits paid	(3)	(3)				
Plan assets at fair value, end of period	149	132				
Funded Status, end of period	\$ (27)	\$ (11)		\$	\$ (17)	\$ (17)
<b>Amounts recognized in the Balance Sheets consist of:</b>						
Current liability					\$ (1)	\$ (1)
Noncurrent liability	\$ (27)	\$ (11)			(16)	(16)
Net amount recognized, end of period	\$ (27)	\$ (11)			\$ (17)	\$ (17)

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.		2012	2011
	2012	2011	2012	2011		
<b>Amounts recognized in AOCI (pre-tax) consist of:</b>						
Prior service cost (credit)		\$ 1			\$ (1)	
Net actuarial loss	\$ 52	38			2	\$ 2
Total	\$ 52	\$ 39			\$ 1	\$ 2
<b>Total accumulated benefit obligation for defined benefit pension plans</b>	<b>\$ 176</b>	<b>\$ 143</b>				

(a) As a result of PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, the funded status and AOCI were removed from the balance sheet in January 2011. See Note 9 for additional information.

PPL Energy Supply's pension plan had projected and accumulated benefit obligations in excess of plan assets at December 31, 2012 and 2011. PPL Energy Supply's other postretirement benefit plan had accumulated postretirement benefit obligations in excess of plan assets at December 31, 2012 and 2011.

In addition to the plans it sponsors, PPL Energy Supply and its subsidiaries are allocated a portion of the funded status and costs of the defined benefit plans sponsored by PPL Services based on their participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to PPL Energy Supply resulted in liabilities at December 31 as follows:

	2012	2011
Funded status of the pension plans	\$ 268	\$ 204
Other postretirement benefits	60	51

(LKE)

The funded status of the LKE plans was as follows.

	Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011
<b>Change in Benefit Obligation</b>				
Benefit Obligation, beginning of period	\$ 1,306	\$ 1,229	\$ 214	\$ 204
Service cost	22	24	4	4
Interest cost	63	67	9	10
Plan amendments		9		10
Actuarial loss (gain)	144	25	(8)	(3)
Gross benefits paid	(48)	(48)	(11)	(12)
Federal subsidy			1	1
Benefit Obligation, end of period	1,487	1,306	209	214
<b>Change in Plan Assets</b>				
Plan assets at fair value, beginning of period	944	778	58	49
Actual return on plan assets	117	62	8	3
Employer contributions	57	152	13	18
Gross benefits paid	(48)	(48)	(11)	(12)
Plan assets at fair value, end of period	1,070	944	68	58
Funded Status, end of period	\$ (417)	\$ (362)	\$ (141)	\$ (156)
<b>Amounts recognized in the Balance Sheets consist of:</b>				
Current liability	\$ (3)	\$ (3)		
Noncurrent liability	(414)	(359)	(141)	(156)
Net amount recognized, end of period	\$ (417)	\$ (362)	\$ (141)	\$ (156)
<b>Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:</b>				
Transition obligation				\$ 2
Prior service cost	\$ 28	\$ 34	\$ 11	\$ 14
Net actuarial (gain) loss	355	280	(17)	(7)
Total	\$ 383	\$ 314	\$ (6)	\$ 9
<b>Total accumulated benefit obligation for defined benefit pension plans</b>	<b>\$ 1,319</b>	<b>\$ 1,141</b>		



At December 31, the amounts recognized in AOCI and regulatory assets/liabilities are as follows.

	Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011
AOCI	\$ 27	\$ (7)		\$ 1
Regulatory assets/liabilities	356	321	\$ (6)	8
Total	\$ 383	\$ 314	\$ (6)	\$ 9

All of LKE's pension plans had projected and accumulated benefit obligations in excess of plan assets at December 31, 2012 and 2011. LKE's other postretirement benefit plan had accumulated postretirement benefit obligations in excess of plan assets at December 31, 2012 and 2011.

(LG&E)

The funded status of the LG&E plan was as follows.

	Pension Benefits	
	2012	2011
<b>Change in Benefit Obligation</b>		
Benefit Obligation, beginning of period	\$ 298	\$ 274
Service cost	1	2
Interest cost	14	14
Plan amendments		9
Actuarial loss	32	14
Gross benefits paid	(14)	(15)
Benefit Obligation, end of period	331	298
<b>Change in Plan Assets</b>		
Plan assets at fair value, beginning of period	256	217
Actual return on plan assets	32	16
Employer contributions	13	38
Gross benefits paid	(14)	(15)
Plan assets at fair value, end of period	287	256
Funded Status, end of period	\$ (44)	\$ (42)
<b>Amounts recognized in the Balance Sheets consist of:</b>		
Noncurrent liability	\$ (44)	\$ (42)
Net amount recognized, end of period	\$ (44)	\$ (42)
<b>Amounts recognized in regulatory assets (pre-tax) consist of:</b>		
Prior service cost	\$ 17	\$ 20
Net actuarial loss	123	115
Total	\$ 140	\$ 135
<b>Total accumulated benefit obligation for defined benefit pension plan</b>	\$ 328	\$ 292

LG&E's pension plan had projected and accumulated benefit obligations in excess of plan assets at December 31, 2012 and 2011.

In addition to the plan it sponsors, LG&E is allocated a portion of the funded status and costs of certain defined benefit plans sponsored by LKE based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to LG&E resulted in liabilities at December 31 as follows.

	2012	2011
Funded status of the pension plans	\$ 58	\$ 53
Other postretirement benefits	81	87

(PPL and PPL Energy Supply)

PPL Energy Supply's mechanical contracting subsidiaries make contributions to over 70 multiemployer pension plans, based on the bargaining units from which labor is procured. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers .
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If PPL Energy Supply's mechanical contracting subsidiaries choose to stop participating in some of their multiemployer plans, they may be required to pay those plans an amount based on the unfunded status of the plan, referred to as a withdrawal liability.

PPL Energy Supply identified the Steamfitters Local Union No. 420 Pension Plan, EIN/Plan Number 23-2004424/001 as the only significant plan to which contributions are made. Contributions to this plan by PPL Energy Supply's mechanical contracting companies were \$5 million for 2012, \$5 million for 2011 and \$4 million for 2010. At the date the financial statements were issued, the Form 5500 was not available for the plan year ending in 2012. Therefore, the following disclosures specific to this plan are being made based on the Form 5500s filed for the plan years ended December 31, 2011 and 2010. PPL Energy Supply's mechanical contracting subsidiaries were not identified individually as greater than 5% contributors on the Form 5500s. However, the combined contributions of the three subsidiaries contributing to the plan had exceeded 5%. The plan had a Pension Protection Act zone status of yellow and red, without utilizing an extended amortization period, as of December 31, 2011 and 2010. In addition, the plan is subject to a rehabilitation plan and surcharges have been applied to participating employer contributions. The expiration date of the collective-bargaining agreement related to those employees participating in this plan is April 30, 2014. There were no other plans deemed individually significant based on a multifaceted assessment of each plan. This assessment included review of the funded/zone status of each plan and PPL Energy Supply's potential obligations under the plan and the number of participating employers contributing to the plan.

PPL Energy Supply's mechanical contracting subsidiaries also participate in multiemployer other postretirement plans that provide for retiree life insurance and health benefits.

The table below details total contributions to all multiemployer pension and other postretirement plans, including the plan identified as significant above. The contribution amounts fluctuate each year based on the volume of work and type of projects undertaken from year to year.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Pension Plans	\$ 31	\$ 36	\$ 26
Other Postretirement Medical Plans	28	31	23
Total Contributions	<u>\$ 59</u>	<u>\$ 67</u>	<u>\$ 49</u>

PPL Energy Supply maintains a liability for the cost of health care of retired miners of former subsidiaries that had been engaged in coal mining, as required by the Coal Industry Retiree Health Benefit Act of 1992. At December 31, 2012, the liability was \$3 million. The liability is the net of \$67 million of estimated future benefit payments offset by \$35 million of assets in a retired miners VEBA trust and an additional \$29 million of excess assets available in a Black Lung Trust that can be used to fund the health care benefits of retired miners.

*(PPL Electric)*

Although PPL Electric does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by PPL Services based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to PPL Electric resulted in liabilities at December 31 as follows:

	<u>2012</u>	<u>2011</u>
Funded status of the pension plans	\$ 237	\$ 186
Other postretirement benefits	61	53

(KU)

Although KU does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by LKE based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees of KU are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to KU resulted in liabilities at December 31 as follows.

	2012	2011
Funded status of the pension plans	\$ 104	\$ 83
Other postretirement benefits	53	62

#### Plan Assets - U.S. Pension Plans

(PPL, PPL Energy Supply, LKE and LG&E)

PPL's primary legacy pension plan and the pension plan in which employees of PPL Montana participate are invested in the PPL Services Corporation Master Trust that also includes a 401(h) account that is restricted for certain other postretirement benefit obligations. Through December 31, 2011, the plans sponsored by LKE, including LG&E's plan, were invested in Pension Trusts that also included a 401(h) account that is restricted for certain other postretirement benefit obligations. Effective January 1, 2012, the assets in the LKE Pension Trusts were transferred into the PPL Services Corporation Master Trust. The investment strategy for the master trust is to achieve a risk-adjusted return on a mix of assets that, in combination with PPL's funding policy, will ensure that sufficient assets are available to provide long-term growth and liquidity for benefit payments. The master trust benefits from a wide diversification of asset types, investment fund strategies and external investment fund managers, and therefore has no significant concentration of risk.

The investment policy of the PPL Services Corporation Master Trust outlines investment objectives and defines the responsibilities of the EBPB, external investment managers, investment advisor and trustee and custodian. The investment policy is reviewed annually by PPL's Board of Directors.

The EBPB created a risk management framework around the trust assets and pension liabilities. This framework considers the trust assets as being composed of three sub-portfolios: the growth, immunizing and liquidity portfolios. The growth portfolio is comprised of investments that generate a return at a reasonable risk, including equity securities, certain debt securities and alternative investments. The immunizing portfolio consists of debt securities and derivative positions that will typically have long durations. The immunizing portfolio is designed to offset a portion of the change in the pension liabilities due to changes in interest rates. The liquidity portfolio consists primarily of cash and cash equivalents.

Target allocation ranges have been developed for each portfolio on a plan basis based on input from external consultants with a goal of limiting funded status volatility. The EBPB monitors the investments in each portfolio on a plan basis, and seeks to obtain a target portfolio that emphasizes reduction of risk of loss from market volatility. In pursuing that goal, the EBPB establishes revised guidelines from time to time. EBPB investment guidelines on a plan basis, as well as the weighted average of such guidelines, as of the end of 2012 are presented below.

The asset allocation for the trusts and the target allocation by portfolio, at December 31, are as follows:

#### PPL Services Corporation Master Trust

	Percentage of trust assets		2012 Target Asset Allocation (a)		
	2012 (a)	2011	Weighted Average	PPL Plans	LKE Plans
<b>Growth Portfolio</b>	<b>58%</b>	<b>57%</b>	<b>56%</b>	<b>55%</b>	<b>59%</b>
Equity securities	31%	31%			
Debt securities (b)	18%	17%			
Alternative Investments	9%	9%			
<b>Immunizing Portfolio</b>	<b>41%</b>	<b>41%</b>	<b>42%</b>	<b>43%</b>	<b>38%</b>
Debt securities (b)	40%	40%			
Derivatives	1%	1%			
<b>Liquidity Portfolio</b>	<b>1%</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>3%</b>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

- (a) Allocations exclude consideration of cash for the WKE Bargaining Employees' Retirement Plan and a guaranteed annuity contract held by the LG&E and KU Retirement Plan.  
 (b) Includes commingled debt funds, which PPL treats as debt securities for asset allocation purposes.

### LG&E and KU Energy LLC Pension Trusts

	Percentage of trust assets	Target Asset Allocation
	2011	2011
<b>Growth Portfolio</b>	<b>54%</b>	<b>59%</b>
Equity securities	33%	
Debt securities (a)	21%	
<b>Immunizing Portfolio</b>	<b>34%</b>	<b>38%</b>
Debt securities (a) (b)	34%	
<b>Liquidity Portfolio (b)</b>	<b>12%</b>	<b>3%</b>
<b>Total</b>	<b>100%</b>	<b>100%</b>

- (a) Includes commingled debt funds, which LKE treats as debt securities for asset allocation purposes.  
 (b) The asset allocation for this portfolio was not within the established target range due to the transition of assets at the end of 2011 in anticipation of transfer into the PPL Services Corporation Master Trust in January 2012.

#### (PPL Energy Supply)

PPL Montana, a subsidiary of PPL Energy Supply, has a pension plan whose assets are invested solely in the PPL Services Corporation Master Trust, which is fully disclosed below. The fair value of this plan's assets of \$149 million at December 31, 2012 represents an interest of approximately 4% in the master trust.

#### (LKE)

LKE has pension plans, including LG&E's plan, whose assets, effective January 1, 2012, are invested solely in the PPL Services Corporation Master Trust, which is fully disclosed below. The fair value of these plans' assets of \$1.1 billion at December 31, 2012 represents an interest of approximately 26% in the master trust.

#### (LG&E)

LG&E has a pension plan whose assets, effective January 1, 2012, are invested solely in the PPL Services Corporation Master Trust, which is fully disclosed below. The fair value of this plan's assets of \$287 million at December 31, 2012 represents an interest of approximately 7% in the master trust. At December 31, 2011, this plan's assets were invested solely in the LG&E and KU Energy LLC Pension Trusts, which is also fully disclosed below. The fair value of this plan's assets of \$256 million at December 31, 2011 represents an interest of approximately 26% in the pension trust.

#### (PPL, PPL Energy Supply, LKE and LG&E)

The fair value of net assets in the U.S. pension plan trusts by asset class and level within the fair value hierarchy was:

	December 31, 2012				December 31, 2011			
	Total	Fair Value Measurements Using			Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>PPL Services Corporation Master Trust</b>								
Cash and cash equivalents	\$ 84	\$ 84			\$ 78	\$ 78		
Equity securities:								
U.S.:								
Large-cap	558	206	\$ 352		371	247	\$ 124	
Small-cap	124	124			112	112		
Commingled debt	676	56	620		458		458	
International	557	184	373		299	102	197	
Debt securities:								
U.S. Treasury and U.S. government sponsored agency	704	634	70		515	443	72	
Residential/commercial backed securities	12		11	\$ 1	9		9	
Corporate	874		847	27	446		439	\$ 7
Other	24		23	1	10		10	
International	7		7		6		6	

	December 31, 2012				December 31, 2011			
	Fair Value Measurements Using				Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Alternative investments:								
Commodities	59		59					
Real estate	93		93		85		85	
Private equity	75			75	45			45
Hedge funds	125		125		92		92	
Derivatives:								
Interest rate swaps and swaptions	36		36		20		20	
Other	2		2		5		5	
Insurance contracts	42			42				
Receivables	55	29	26		50	31	19	
Payables	(66)	(55)	(11)		(48)	(40)	(8)	
Total PPL Services Corporation Master Trust assets	4,041	1,262	2,633	146	2,553	973	1,528	52
401(h) account restricted for other								
postretirement benefit obligations	(102)	(32)	(66)	(4)	(26)	(10)	(16)	
Fair value - PPL Services Corporation Master Trust pension assets	3,939	1,230	2,567	142	2,527	963	1,512	52

(PPL, LKE and LG&E)

**LG&E and KU Energy LLC Pension Trusts**

Cash and cash equivalents					122	122		
Equity securities:								
U.S.:								
Large-cap					220		220	
Commingled debt					65		65	
International					106	44	62	
Debt securities:								
U.S. Treasury					97	97		
Corporate					342		342	
Derivatives:								
Total return swaps					4		4	
Insurance contracts					46			46
Total LG&E and KU Energy LLC Pension Trusts assets					1,002	263	693	46
401(h) account restricted for other								
postretirement benefit obligations					(58)	(13)	(45)	
Fair value - LG&E and KU Energy LLC Pension Trusts pension assets					944	250	648	46
Fair value - total U.S. pension plans	\$ 3,939	\$ 1,230	\$ 2,567	\$ 142	\$ 3,471	\$ 1,213	\$ 2,160	\$ 98

A reconciliation of U.S. pension trust assets classified as Level 3 at December 31, 2012 is as follows:

	Residential/ commercial backed securities	Corporate debt	Private equity	Insurance contracts	Other Debt	Total
Balance at beginning of period		\$ 7	\$ 45	\$ 46		\$ 98
Actual return on plan assets						
Relating to assets still held at the reporting date			1	10	3	14
Relating to assets sold during the period			2			2
Purchases, sales and settlements	\$ 1	21	20	(7)		35
Transfers from level 2 to level 3					\$ 1	1
Transfers from level 3 to level 2		(4)				(4)
Balance at end of period	\$ 1	\$ 27	\$ 75	\$ 42	\$ 1	\$ 146

A reconciliation of U.S. pension trust assets classified as Level 3 at December 31, 2011 is as follows:

	Residential/ commercial backed securities	Corporate debt	Private equity	Insurance contracts	Other	Total
Balance at beginning of period		\$ 6	\$ 10	\$ 47		\$ 63
Actual return on plan assets						
Relating to assets still held at the reporting date		(4)	8	3		7
Purchases, sales and settlements		5	27	(4)		28
Balance at end of period		\$ 7	\$ 45	\$ 46		\$ 98

(PPL, PPL Energy Supply, LKE and LG&E)

The fair value measurements of cash and cash equivalents are based on the amounts on deposit.

The market approach is used to measure fair value of equity securities. The fair value measurements of equity securities (excluding commingled funds), which are generally classified as Level 1, are based on quoted prices in active markets. These securities represent actively and passively managed investments that are managed against various equity indices.

Investments in commingled equity and debt funds are categorized as equity securities. These investments are classified as Level 2, except for exchange-traded funds, which are classified as Level 1 based on quoted prices in active markets. The fair value measurements for Level 2 investments are based on firm quotes of net asset values per share, which are not considered obtained from a quoted price in an active market. For the commingled equity funds, these securities represent investments that are measured against the Russell 1000 Growth Index, the Russell 1000 Index, the Russell 3000 Index and the MSCI EAFE Index. Commingled debt funds are described in greater detail in the following discussion of debt securities.

The fair value measurements of debt securities are generally based on evaluated prices that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences. Debt securities are generally measured using a market approach, including the use of matrix pricing. Common inputs include reported trades; broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as benchmark yields, credit valuation adjustments, reference data from market research publications, monthly payment data, collateral performance and new issue data. For the PPL Services Corporation Master Trust, these securities represent investments in securities issued by U.S. Treasury and U.S. government sponsored agencies; investments securitized by residential mortgages, auto loans, credit cards and other pooled loans; investments in investment grade and non-investment grade bonds issued by U.S. companies across several industries; investments in debt securities issued by foreign governments and corporations; and exchange traded funds as well as commingled fund investments. Investments in commingled funds include a fund that invests in a diversified portfolio of emerging market debt obligations that is measured against the JP Morgan EMBI Global Diversified Index, as well as funds that invest in investment grade long duration fixed income securities that are measured against the Barclays Long A or Better Index. During the first ten months of 2011 for the LG&E and KU Energy LLC Pension Trusts, debt securities within commingled trusts were measured against the Barclays Aggregated Bond Index and the Barclays U.S. Government/Credit Long Index. During the last two months of 2011, the debt securities for the LG&E and KU Energy LLC Pension Trusts were transitioned to debt securities similar to those within the PPL Services Corporation Master Trust. The debt securities, excluding those in commingled funds, held by the PPL Services Corporation Master Trust at December 31, 2012 have a weighted-average coupon of 3.49% and a weighted-average maturity of 21 years.

Investments in commodities represent ownership of units of a commingled fund that is invested as a long-only, unleveraged portfolio of exchange-traded futures and forward contracts in tangible commodities to obtain broad exposure to all principal groups in the global commodity markets, including energies, agriculture and metals (both precious and industrial) using proprietary commodity trading strategies. The fund has daily liquidity with a specified notification period. The fund's fair value is based upon a unit value as calculated by the fund's trustee.

Investments in real estate represent an investment in a partnership whose purpose is to manage investments in core U.S. real estate properties diversified geographically and across major property types (e.g., office, industrial, retail, etc.). The manager is focused on properties with high occupancy rates with quality tenants. This results in a focus on high income and stable cash flows with appreciation being a secondary factor. Core real estate generally has a lower degree of leverage when compared with more speculative real estate investing strategies. The partnership has limitations on the amounts that may be redeemed based on available cash to fund redemptions. Additionally, the general partner may decline to accept redemptions when necessary to avoid adverse consequences for the partnership, including legal and tax implications, among others. The fair value of the investment is based upon a partnership unit value.

Investments in private equity represent interests in partnerships in multiple early-stage venture capital funds and private equity fund of funds that use a number of diverse investment strategies. Four of the partnerships have limited lives of ten years, while the fifth has a life of 15 years, after which liquidating distributions will be received. Prior to the end of each partnership's life, the investment cannot be redeemed with the partnership; however, the interest may be sold to other parties, subject to the general partner's approval. The PPL Services Corporation Master Trust has unfunded commitments of \$73 million that may be required during the lives of the partnerships. Fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

Investments in hedge funds represent investments in three hedge fund of funds. Hedge funds seek a return utilizing a number of diverse investment strategies. The strategies, when combined aim to reduce volatility and risk while attempting to deliver positive returns under all market conditions. Major investment strategies for the hedge fund of funds include long/short equity, market neutral, distressed debt, and relative value. Generally, shares may be redeemed on 90 days prior written notice. The funds are subject to short term lockups and have limitations on the amount that may be withdrawn based on a percentage of the total net asset value of the fund, among other restrictions. All withdrawals are subject to the general partner's approval. The fair value for two of the funds has been estimated using the net asset value per share and the third fund's fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

The fair value measurements of derivative instruments utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. These securities primarily represent investments in interest rate swaps and swaptions (the option to enter into an interest rate swap) which are valued based on the swap details, such as swap curves, notional amount, index and term of index, reset frequency, volatility and payer/receiver credit ratings.

Receivables/payables classified as Level 1 represent investments sold/purchased but not yet settled. Receivables/payables classified as Level 2 represent interest and dividends earned but not yet received and costs incurred but not yet paid.

Insurance contracts, classified as Level 3, represent an investment in an immediate participation guaranteed group annuity contract. The fair value is based on contract value, which represents cost plus interest income less distributions for benefit payments and administrative expenses.

#### Plan Assets - U.S. Other Postretirement Benefit Plans (PPL and LKE)

PPL's and LKE's investment strategy with respect to its other postretirement benefit obligations is to fund VEBA trusts and/or 401(h) accounts with voluntary contributions and to invest in a tax efficient manner. Excluding the 401(h) accounts included in the PPL Services Corporation Master Trust in 2012 and LG&E and KU Energy LLC Pension Trusts in 2011 discussed in Plan Assets - U.S. Pension Plans above, PPL's and LKE's other postretirement benefit plans are invested in a mix of assets for long-term growth with an objective of earning returns that provide liquidity as required for benefit payments. These plans benefit from diversification of asset types, investment fund strategies and investment fund managers, and therefore, have no significant concentration of risk. Equity securities include investments in domestic large-cap commingled funds. Ownership interests in commingled funds that invest entirely in debt securities are classified as equity securities, but treated by PPL and LKE as debt securities for asset allocation and target allocation purposes. Ownership interests in commingled money market funds that invest entirely in money market securities are classified as equity securities, but treated by PPL and LKE as cash and cash equivalents for asset allocation and target allocation purposes. The asset allocation for the VEBA trusts and the target allocation, by asset class, at December 31 are detailed below.

Asset Class	Percentage of plan assets		Target Asset
	2012	2011	Allocation 2012
U.S. Equity securities	46%	41%	45%
Debt securities (a)	51%	53%	50%
Cash and cash equivalents (b)	3%	6%	5%
Total	100%	100%	100%

(a) Includes commingled debt funds and debt securities.

(b) Includes commingled money market fund.

The fair value of assets in the U.S. other postretirement benefit plans by asset class and level within the fair value hierarchy was:

	December 31, 2012				December 31, 2011			
	Total	Fair Value Measurement Using			Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
U.S. Equity securities:								
Large-cap	\$ 145		\$ 145		\$ 126		\$ 126	
Commingled debt	119		119		121		121	
Commingled money market funds	13	\$ 13			20		20	
Municipalities	41		41		40		40	
Receivables	1		1					
Total VEBA trust assets	319	13	306		307		307	
401(h) account assets (a)	102	32	66	\$ 4	84	\$ 23	61	
Fair value - U.S. other postretirement benefit plans	\$ 421	\$ 45	\$ 372	\$ 4	\$ 391	\$ 23	\$ 368	

(a) LKE's other postretirement benefit plan was invested primarily in a 401(h) account as disclosed in the PPL Services Corporation Master trust in 2012 and the LG&E and KU Energy LLC Pension Trusts in 2011.

Investments in large-cap equity securities represent investments in a passively managed equity index fund that invests in securities and a combination of other collective funds that together track the performance of the S&P 500 Index. Redemptions can be made daily on this fund.

Investments in commingled debt securities represent investments in a fund that invests in a diversified portfolio of investment grade long-duration fixed income securities that are managed to track the Barclays U.S. Long Credit Index, as well as a fund that is tracked to the Barclays U.S. Long Treasury Index. Redemptions can be made weekly on these funds.

Investments in commingled money market funds represent investments in a fund that invests primarily in a diversified portfolio of investment grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The primary objective of the fund is a high level of current income consistent with stability of principal and liquidity. Redemptions can be made daily on this fund.

Investments in municipalities represent investments in a diverse mix of tax-exempt municipal securities.

Receivables represent interest and dividends earned but not received as well as investments sold but not yet settled.

#### Plan Assets - U.K. Pension Plans (PPL)

The overall investment strategy of WPD's pension plans is developed by each plan's independent trustees in its Statement of Investment Principles in compliance with the U.K. Pensions Act of 1995 and other U.K. legislation. The trustees' primary focus is to ensure that assets are sufficient to meet members' benefits as they fall due with a longer term objective to reduce investment risk. The investment strategy is intended to maximize investment returns while not incurring excessive volatility in the funding position. WPD's plans are invested in a wide diversification of asset types, fund strategies and fund managers and therefore have no significant concentration of risk. Commingled funds that consist entirely of debt securities are traded as equity units, but treated by WPD as debt securities for asset allocation and target allocation purposes. These include investments in U.K. corporate bonds and U.K. gilts.

The asset allocation and target allocation at December 31 of WPD's pension plans are detailed below.



Asset Class	Percentage of plan assets		Target Asset Allocation
	2012	2011	2012
Cash and cash equivalents			5%
Equity securities			
U.K.	6%	14%	6%
European (excluding the U.K.)	14%	5%	4%
Asian-Pacific		5%	3%
North American		5%	5%
Emerging markets	3%	2%	5%
Currency	2%	1%	1%
Global Tactical Asset Allocation	18%		18%
Debt securities (a)	51%	56%	52%
Alternative investments	6%	7%	6%
Total	100%	100%	100%

(a) Includes commingled debt funds.

The fair value of assets in the U.K. pension plans by asset class and level within the fair value hierarchy was:

	December 31, 2012				December 31, 2011			
	Total	Fair Value Measurement Using			Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 14	\$ 14			\$ 313	\$ 313		
Equity securities:								
U.K. companies	440	223	\$ 217		921		\$ 921	
European companies (excluding the U.K.)	956	720	236		313		313	
Asian-Pacific companies					312		312	
North American companies					335		335	
Emerging markets companies	231		231		116		116	
Currency	127		127		31		31	
Global Tactical Asset Allocation	1,220		1,220		25		25	
Commingled debt:								
U.K. corporate bonds	593		593		699		699	
U.K. gilts	1,664		1,664		2,109		2,109	
U.K. index-linked gilts	1,243		1,243		744		744	
Alternative investments:								
Real estate	423		423		433		433	
Fair value - U.K. pension plans	\$ 6,911	\$ 957	\$ 5,954		\$ 6,351	\$ 313	\$ 6,038	

Except for investments in real estate, the fair value measurements of WPD's pension plan assets are based on the same inputs and measurement techniques used to measure the U.S. pension plan assets described above.

Investments in U.K. equity securities represent passively managed equity index funds that are measured against the FTSE All Share Index. Investments in European equity securities represent passively managed equity index funds that are measured against the FTSE Europe ex U.K. Index. Investments in Asian-Pacific equity securities represent passively managed equity index funds that aim to outperform 50% FTSE Asia Pacific ex-Japan Index and 50% FTSE Japan Index. Investments in North American equity securities represent passively managed index funds that are measured against the FTSE North America Index. Investments in emerging market equity securities represent passively managed equity index funds that are measured against the MSCI Emerging Markets Index. Investments in currency equity securities represent investments in unitized passive and actively traded currency funds. The Global Tactical Asset Allocation strategy attempts to benefit from short-term market inefficiencies by taking positions in worldwide markets with the objective to profit from relative movements across those markets.

Debt securities include investment grade corporate bonds of companies from diversified U.K. industries.

Investments in real estate represent holdings in a U.K. unitized fund that owns and manages U.K. industrial and commercial real estate with a strategy of earning current rental income and achieving capital growth. The fair value measurement of the fund is based upon a net asset value per share, which is based on the value of underlying properties that are independently appraised in accordance with Royal Institution of Chartered Surveyors valuation standards at least annually with quarterly valuation updates based on recent sales of similar properties, leasing levels, property operations and/or market conditions. The fund may be subject to redemption restrictions in the unlikely event of a large forced sale in order to ensure other unit holders are not disadvantaged.

**Expected Cash Flows - U.S. Defined Benefit Plans (PPL)**

PPL's U.S. defined benefit plans have the option to utilize available prior year credit balances to meet current and future contribution requirements. However, PPL contributed \$394 million to its U.S. pension plans in January 2013.

PPL sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. PPL expects to make approximately \$7 million of benefit payments under these plans in 2013.

PPL is not required to make contributions to its other postretirement benefit plans but has historically funded these plans in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause PPL to contribute \$24 million to its other postretirement benefit plans in 2013.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid and the following federal subsidy payments are expected to be received by the separate plan trusts.

	Pension	Other Postretirement	
		Benefit Payment	Expected Federal Subsidy
2013	\$ 196	\$ 49	\$ 1
2014	206	53	1
2015	219	55	1
2016	232	58	1
2017	249	60	1
2018-2022	1,475	333	3

*(PPL Energy Supply)*

The PPL Montana pension plan has the option to utilize available prior year credit balances to meet current and future contribution requirements. Therefore, no contributions are expected for 2013.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the separate plan trusts.

	Pension	Other Postretirement	
2013	\$ 4	\$ 1	
2014	5	2	
2015	6	2	
2016	6	2	
2017	7	2	
2018-2022	48	12	

*(LKE)*

LKE's defined benefit plans have the option to utilize available prior year credit balances to meet current and future contribution requirements. However, LKE contributed \$150 million to its pension plans in January 2013.

LKE sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. LKE expects to make \$3 million of benefit payments under these plans in 2013.

LKE is not required to make contributions to its other postretirement benefit plan but has historically funded this plan in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause LKE to contribute \$12 million to its other postretirement benefit plan in 2013.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid and the following federal subsidy payments are expected to be received by the separate plan trusts.

	Pension	Other Postretirement	
		Benefit Payment	Expected Federal Subsidy
2013	\$ 55	\$ 13	\$ 1
2014	55	13	
2015	58	14	1
2016	60	14	
2017	65	14	1
2018 - 2022	399	77	2

*(LG&E)*

LG&E's defined benefit plan has the option to utilize available prior year credit balances to meet current and future contribution requirements. However, LG&E contributed \$11 million to its pension plan in January 2013.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the separate plan trust.

	Pension
2013	\$ 15
2014	15
2015	15
2016	16
2017	16
2018 - 2022	95

**Expected Cash Flows - U.K. Pension Plans (PPL)**

The pension plans of WPD are subject to formal actuarial valuations every three years, which are used to determine funding requirements. Future contributions for PPL WW were evaluated in accordance with the latest valuation performed as of March 31, 2010, in respect of PPL WW's principal pension plan, to determine contribution requirements for 2013 and forward. Future contributions for PPL WEM were evaluated in accordance with the latest valuation performed as of June 30, 2011, in respect of PPL WEM's principal pension plan, to determine contribution requirements for 2013 and forward. WPD expects to make contributions of approximately \$136 million in 2013. PPL WW and PPL WEM are currently permitted to recover in rates approximately 75% of their deficit funding requirements for their primary pension plans.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the separate plan trusts.

	Pension
2013	\$ 379
2014	385
2015	393
2016	400
2017	406
2018-2022	2,141

**Savings Plans (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)**

Substantially all employees of PPL's domestic subsidiaries are eligible to participate in deferred savings plans (401(k)s). Employer contributions to the plans were:

	2012	2011	2010
PPL	\$ 36	\$ 31	\$ 23
PPL Energy Supply	12	11	10
PPL Electric	5	5	4

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
LKE	\$ 12	\$ 11	\$ 2	\$ 9
LG&E	6	5	1	4
KU	6	6	1	4

The increase for PPL in 2012 and 2011 is primarily the result of PPL's acquisition of LKE and the employer contributions related to the employees of that company and its subsidiaries under their existing plans.

*(PPL, PPL Energy Supply and PPL Electric)*

#### Employee Stock Ownership Plan

Certain PPL subsidiaries sponsor a non-leveraged ESOP in which domestic employees, excluding those of PPL Montana, LKE and the mechanical contractors, are enrolled on the first day of the month following eligible employee status. Dividends paid on ESOP shares are treated as ordinary dividends by PPL. Under existing income tax laws, PPL is permitted to deduct the amount of those dividends for income tax purposes and to contribute the resulting tax savings (dividend-based contribution) to the ESOP.

The dividend-based contribution is used to buy shares of PPL's common stock and is expressly conditioned upon the deductibility of the contribution for federal income tax purposes. Contributions to the ESOP are allocated to eligible participants' accounts as of the end of each year, based 75% on shares held in existing participants' accounts and 25% on the eligible participants' compensation.

Compensation expense for ESOP contributions was \$8 million in 2012, 2011 and 2010. These amounts were offset by the dividend-based contribution tax savings and had no impact on PPL's earnings.

PPL shares within the ESOP outstanding at December 31, 2012 were 7,857,222, or 1% of total common shares outstanding, and are included in all EPS calculations.

#### Separation Benefits

Certain PPL subsidiaries provide separation benefits to eligible employees. These benefits may be provided in the case of separations due to performance issues, loss of job related qualifications or organizational changes. Until December 1, 2012, certain employees separated were eligible for cash severance payments, outplacement services, accelerated stock award vesting, continuation of group health and welfare coverage, and enhanced pension and postretirement medical benefits. As of December 1, 2012, separation benefits for certain employees were changed to eliminate accelerated stock award vesting and enhanced pension and postretirement medical benefits. Also, the continuation of group health and welfare coverage was replaced with a single sum payment approximating the dollar amount of premium payments that would be incurred for continuation of group health and welfare coverage. Separation benefits are recorded when such amounts are probable and estimable.

Separation benefits were not significant in 2012 and 2010.

See Note 10 for separation benefits recorded in 2011 in connection with a reorganization following the acquisition of WPD Midlands.

*(PPL, PPL Energy Supply, PPL Electric and LKE)*

#### Health Care Reform

In March 2010, Health Care Reform was signed into law. Many provisions of Health Care Reform do not take effect for an extended period of time, and most will require the publication of implementing regulations and/or issuance of program guidelines.

Beginning in 2013, provisions within Health Care Reform eliminate the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, in 2010:

- PPL recorded income tax expense of \$8 million; and
- PPL Energy Supply recorded income tax expense of \$5 million.

Other provisions within Health Care Reform that apply to PPL and its subsidiaries include:

- an excise tax, beginning in 2018, imposed on high-cost plans providing health coverage that exceeds certain thresholds;
- a requirement to extend dependent coverage up to age 26; and
- broadening the eligibility requirements under the Federal Black Lung Act.

PPL and its subsidiaries have evaluated the provisions of Health Care Reform and have included the applicable provision in the valuation of those benefit plans that are impacted. The inclusion of the various provisions of Health Care Reform did not have a material impact on the financial statements. PPL and its subsidiaries will continue to monitor the potential impact of any changes to the existing provisions and implementation guidance related to Health Care Reform on their benefit programs.

#### 14. Jointly Owned Facilities

(PPL, PPL Energy Supply, LKE, LG&E and KU)

At December 31, 2012 and 2011, the Balance Sheets reflect the owned interests in the facilities listed below.

	Ownership Interest	Electric Plant	Other Property	Accumulated Depreciation	Construction Work in Progress
<b>PPL</b>					
<b><u>December 31, 2012</u></b>					
Generating Plants					
Susquehanna	90.00%	\$ 4,628		\$ 3,530	\$ 65
Conemaugh	16.25%	238		122	30
Keystone	12.34%	206		82	3
Trimble County Units 1 & 2	75.00%	1,279		112	43
Merrill Creek Reservoir	8.37%		\$ 22	15	
<b><u>December 31, 2011</u></b>					
Generating Plants					
Susquehanna	90.00%	\$ 4,608		\$ 3,496	\$ 42
Conemaugh	16.25%	233		115	14
Keystone	12.34%	198		69	3
Trimble County Units 1 & 2	75.00%	1,245		61	35
Merrill Creek Reservoir	8.37%		\$ 22	15	
<b>PPL Energy Supply</b>					
<b><u>December 31, 2012</u></b>					
Generating Plants					
Susquehanna	90.00%	\$ 4,628		\$ 3,530	\$ 65
Conemaugh	16.25%	238		122	30
Keystone	12.34%	206		82	3
Merrill Creek Reservoir	8.37%		\$ 22	15	
<b><u>December 31, 2011</u></b>					
Generating Plants					
Susquehanna	90.00%	\$ 4,608		\$ 3,496	\$ 42
Conemaugh	16.25%	233		115	14
Keystone	12.34%	198		69	3
Merrill Creek Reservoir	8.37%		\$ 22	15	

	Ownership Interest	Electric Plant	Other Property	Accumulated Depreciation	Construction Work In Progress
<b>LKE</b>					
<b>December 31, 2012</b>					
Generating Plants					
Trimble County Unit 1	75.00%	\$ 304		\$ 33	\$ 10
Trimble County Unit 2	75.00%	975		79	33
<b>December 31, 2011</b>					
Generating Plants					
Trimble County Unit 1	75.00%	\$ 297		\$ 19	\$ 11
Trimble County Unit 2	75.00%	948		42	24
<b>LG&amp;E</b>					
<b>December 31, 2012</b>					
Generating Plants					
E.W. Brown Units 6-7	38.00%	\$ 40		\$ 5	
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00%	46		3	
Trimble County Unit 1	75.00%	304		33	\$ 10
Trimble County Unit 2	14.25%	198		14	13
Trimble County Units 5-6	29.00%	29		2	
Trimble County Units 7-10	37.00%	68		6	2
Cane Run Unit 7 CCGT	22.00%				16
<b>December 31, 2011</b>					
Generating Plants					
E.W. Brown Units 6-7	38.00%	\$ 39		\$ 3	
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00%	44		2	\$ 5
Trimble County Unit 1	75.00%	297		19	11
Trimble County Unit 2	14.25%	190		7	7
Trimble County Units 5-6	29.00%	31		1	
Trimble County Units 7-10	37.00%	64		4	1
<b>KU</b>					
<b>December 31, 2012</b>					
Generating Plants					
E.W. Brown Units 6-7	62.00%	\$ 64		\$ 7	\$ 1
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00%	42		2	
Trimble County Unit 2	60.75%	777		65	20
Trimble County Units 5-6	71.00%	70		4	
Trimble County Units 7-10	63.00%	116		10	2
Cane Run Unit 7 CCGT	78.00%				53
<b>December 31, 2011</b>					
Generating Plants					
E.W. Brown Units 6-7	62.00%	\$ 64		\$ 5	
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00%	39		2	\$ 4
Trimble County Unit 2	60.75%	758		35	17
Trimble County Units 5-6	71.00%	66		2	4
Trimble County Units 7-10	63.00%	109		6	5

Each subsidiary owning these interests provides its own funding for its share of the facility. Each receives a portion of the total output of the generating plants equal to its percentage ownership. The share of fuel and other operating costs associated with the plants is included in the corresponding operating expenses on the Statements of Income.

In addition to the interests mentioned above, at December 31, 2012 and 2011, PPL Montana has a 50% leasehold interest in Colstrip Units 1 and 2 and a 30% leasehold interest in Colstrip Unit 3 under operating leases. See Note 11 for additional information. At December 31, 2012 and 2011, NorthWestern owned a 30% interest in Colstrip Unit 4. PPL Montana and NorthWestern have a sharing agreement that governs each party's responsibilities and rights relating to the operation of Colstrip Units 3 and 4. Under the terms of that agreement, each party is responsible for 15% of the total non-coal operating and construction costs of Colstrip Units 3 and 4, regardless of whether a particular cost is specific to Colstrip Unit 3 or 4, and is entitled to take up to the same percentage of the available generation from Units 3 and 4.

**15. Commitments and Contingencies**

**Energy Purchases, Energy Sales and Other Commitments**

Energy Purchase Commitments

*(PPL and PPL Energy Supply)*

PPL Energy Supply enters into long-term energy and energy related contracts which include commitments to purchase:

<u>Contract Type</u>	<u>Maximum Maturity Date</u>
Fuels (a)	2023
Limestone	2030
Natural Gas Storage	2015
Natural Gas Transportation	2032
Power, excluding wind	2017
RECs	2038
Wind Power	2027

(a) PPL Energy Supply enters into long-term purchase contracts to supply the coal requirements for its coal-fired generation facilities. As a result of lower electricity and natural gas prices, coal unit utilization has decreased. To mitigate the risk of exceeding available coal storage, PPL Energy Supply incurred pre-tax charges of \$29 million during 2012 to reduce its 2012 and 2013 contracted coal deliveries. These charges were recorded to "Fuel" on the Statement of Income.

*(PPL, LKE, LG&E and KU)*

LG&E and KU enter into purchase contracts to supply the coal and natural gas requirements for generation facilities and LG&E's gas supply operations. These contracts include the following commitments:

<u>Contract Type</u>	<u>Maximum Maturity Date</u>
Coal	2017
Coal Transportation and Fleeting Services	2023
Natural Gas Storage	2013
Natural Gas Transportation	2024

LG&E and KU have a power purchase agreement with OVEC expiring in June 2040. Pursuant to the OVEC power purchase contract, LG&E and KU are responsible for their pro-rata share of certain obligations of OVEC under defined circumstances. These potential liabilities include unpaid OVEC indebtedness as well as shortfall amounts in certain excess decommissioning costs and other post-employment and post-retirement benefit costs other than pension. LKE's proportionate share of OVEC's outstanding debt was \$135 million at December 31, 2012, consisting of LG&E's share of \$93 million and KU's share of \$42 million. Future obligations for power purchases from OVEC are unconditional demand payments, comprised of annual minimum debt service payments, as well as contractually required reimbursement of plant operating, maintenance and other expenses as follows:

	<u>LG&amp;E</u>	<u>KU</u>	<u>Total</u>
2013	\$ 21	\$ 9	\$ 30
2014	21	9	30
2015	21	9	30
2016	22	10	32
2017	22	10	32
Thereafter	612	272	884
	<u>\$ 719</u>	<u>\$ 319</u>	<u>\$ 1,038</u>

In addition, LG&E and KU had total energy purchases under the OVEC power purchase agreement for the periods ended as follows:

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
LG&E	\$ 20	\$ 22	\$ 4	\$ 17
KU	9	10	2	7
Total	\$ 29	\$ 32	\$ 6	\$ 24

*(PPL and PPL Electric)*

In 2009, the PUC approved PPL Electric's procurement plan for the period January 2011 through May 2013. To date, PPL Electric has conducted all of its planned competitive solicitations. The solicitations include a mix of long-term and short-term purchases, ranging from five months to ten years, to fulfill PPL Electric's obligation to provide for customer supply as a PLR. In May 2012, PPL Electric filed a plan with the PUC to purchase its electricity supply for default customers for the period June 2013 through May 2015. The PUC subsequently approved PPL Electric's plan on January 24, 2013. The approved plan proposes that PPL Electric procure this electricity through competitive solicitations conducted twice each plan year beginning in April 2013.

*(PPL Electric)*

See Note 16 for information on the power supply agreements between PPL EnergyPlus and PPL Electric.

#### Energy Sales Commitments

*(PPL and PPL Energy Supply)*

In connection with its marketing activities or hedging strategy for its power plants, PPL Energy Supply has entered into long-term power sales contracts that extend into 2019, excluding long-term renewable energy agreements that extend into 2038.

*(PPL Energy Supply)*

See Note 16 for information on the power supply agreements between PPL EnergyPlus and PPL Electric.

#### PPL Montana Hydroelectric License Commitments *(PPL and PPL Energy Supply)*

PPL Montana owns and operates 11 hydroelectric facilities and one storage reservoir licensed by the FERC under long-term licenses pursuant to the Federal Power Act. Pursuant to Section 8(e) of the Federal Power Act, the FERC approved the transfer from Montana Power to PPL Montana of all pertinent licenses in connection with the Montana Asset Purchase Agreement.

The Kerr Dam Project license (50-year term) was issued by the FERC jointly to Montana Power and the Confederated Salish and Kootenai Tribes of the Flathead Nation in 1985, and requires PPL Montana (as successor licensee to Montana Power) to hold and operate the project for at least 30 years (to 2015). Between 2015 and 2025, the tribes have the option to purchase, hold and operate the project for the remainder of the license term, which expires in 2035. While the tribes have indicated their intent to exercise the option at the earliest possible date, PPL Montana cannot predict if and when this option will be exercised. The license also requires PPL Montana to continue to implement a plan to mitigate the impact of the Kerr Dam on fish, wildlife and their habitats. Under this arrangement, PPL Montana has a remaining commitment to spend \$6 million between 2013 and 2015, in addition to the annual rent it pays to the tribes.

PPL Montana entered into two Memoranda of Understanding (MOUs) with state, federal and private entities related to the issuance in 2000 of the FERC renewal license for the nine dams comprising the Missouri-Madison project. The MOUs are periodically updated and renewed and require PPL Montana to implement plans to mitigate the impact of its projects on fish, wildlife and their habitats, and to increase recreational opportunities. The MOUs were created to maximize collaboration between the parties and enhance the possibility to receive matching funds from relevant federal agencies. Under these arrangements, PPL Montana has a remaining commitment to spend \$30 million between 2013 and 2040.



## Legal Matters

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

### WKE Indemnification (PPL and LKE)

See footnote (l) to the table in "Guarantees and Other Assurances" below for information on an LKE indemnity relating to its former WKE lease, including related legal proceedings.

*(PPL and PPL Energy Supply)*

### Montana Hydroelectric Litigation

In November 2004, PPL Montana, Avista Corporation (Avista) and PacifiCorp commenced an action for declaratory judgment in Montana First Judicial District Court seeking a determination that no lease payments or other compensation for their hydroelectric facilities' use and occupancy of certain riverbeds in Montana can be collected by the State of Montana. This lawsuit followed dismissal on jurisdictional grounds of an earlier federal lawsuit seeking such compensation in the U.S. District Court of Montana. The federal lawsuit alleged that the beds of Montana's navigable rivers became state-owned trust property upon Montana's admission to statehood, and that the use of them should, under a 1931 regulatory scheme enacted after all but one of the hydroelectric facilities in question were constructed, trigger lease payments for use of land beneath. In July 2006, the Montana state court approved a stipulation by the State of Montana that it was not seeking compensation for the period prior to PPL Montana's December 1999 acquisition of the hydroelectric facilities.

Following a number of adverse trial court rulings, in 2007 PacifiCorp and Avista each entered into settlement agreements with the State of Montana providing, in pertinent part, that each company would make prospective lease payments for use of the State's navigable riverbeds (subject to certain future adjustments), resolving the State's claims for past and future compensation.

Following an October 2007 trial of this matter on damages, in June 2008, the Montana District Court awarded the State retroactive compensation of approximately \$35 million for the 2000-2006 period and approximately \$6 million for 2007 compensation. Those unpaid amounts accrue interest at 10% per year. The Montana District Court also deferred determination of compensation for 2008 and future years to the Montana State Land Board. In October 2008, PPL Montana appealed the decision to the Montana Supreme Court, requesting a stay of judgment and a stay of the Land Board's authority to assess compensation for 2008 and future periods.

In March 2010, the Montana Supreme Court substantially affirmed the June 2008 Montana District Court decision. As a result, in the first quarter of 2010, PPL Montana recorded a pre-tax charge of \$56 million (\$34 million after tax), representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. Rental compensation was estimated for periods subsequent to 2007. The portion of the pre-tax charge that related to prior years totaled \$54 million (\$32 million after tax). The pre-tax charge recorded on the Statement of Income was \$49 million in "Other operation and maintenance" and \$7 million in "Interest Expense."

In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition, and in February 2012 issued a decision overturning the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. As a result, in the fourth quarter of 2011 PPL Montana reversed its total loss accrual of \$89 million (\$53 million after-tax) which had been recorded prior to the U.S. Supreme Court decision. The amount reversed was recorded on the Statement of Income as a \$75 million credit to "Other operation and maintenance" and a \$14 million credit to "Interest Expense." PPL Montana believes the U.S. Supreme Court decision resolves certain questions of liability in this case in favor of PPL Montana and leaves open for reconsideration by Montana courts, consistent with the findings of the U.S. Supreme Court, certain other questions. In April 2012, the case was returned by the Montana Supreme Court to the Montana First Judicial District Court. Further proceedings have not yet been scheduled by the District Court. PPL Montana has concluded it is no longer probable, but it remains reasonably possible, that a loss has been incurred. While unable to estimate a range of loss, PPL Montana believes that any such amount would not be material.

## Bankruptcy of SMGT

In October 2011, SMGT, a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus expiring in June 2019 (SMGT Contract), filed for protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Montana. At the time of the bankruptcy filing, SMGT was PPL EnergyPlus' largest unsecured credit exposure. This contract was accounted for as NPNS by PPL EnergyPlus.

The SMGT Contract provided for fixed volume purchases on a monthly basis at established prices. Pursuant to a court order and subsequent stipulations entered into between the SMGT bankruptcy trustee and PPL EnergyPlus, since the date of its Chapter 11 filing through January 2012, SMGT continued to purchase electricity from PPL EnergyPlus at the price specified in the SMGT Contract and made timely payments for such purchases, but at lower volumes than as prescribed in the SMGT Contract. In January 2012, the trustee notified PPL EnergyPlus that SMGT would not purchase electricity under the SMGT Contract for the month of February. In March 2012, the U.S. Bankruptcy Court for the District of Montana issued an order approving the request of the SMGT trustee and PPL EnergyPlus to terminate the SMGT Contract. As a result, the SMGT Contract was terminated effective April 1, 2012, allowing PPL EnergyPlus to resell to other customers the electricity previously contracted to SMGT.

PPL EnergyPlus' receivable under the SMGT Contract, representing non-performance by SMGT prior to termination of the SMGT Contract, totaled approximately \$21 million at December 31, 2012, which has been fully reserved.

In July 2012, PPL EnergyPlus filed its proof of claim in the SMGT bankruptcy proceeding. The total claim, including the above receivable, is approximately \$375 million, predominantly an unsecured claim representing the value for energy sales that will not occur as a result of the termination of the SMGT Contract. No assurance can be given as to the collectability of the claim, thus no amounts have been recorded in the 2012 financial statements.

PPL Energy Supply cannot predict any amount that it may recover in connection with the SMGT bankruptcy or the prices and other terms on which it will be able to market to third parties the power that SMGT will not purchase from PPL EnergyPlus due to the termination of the SMGT Contract.

## Notices of Intent to Sue Colstrip Owners

In July 2012, PPL Montana received a Notice of Intent to Sue for violations of the Clean Air Act at Colstrip Steam Electric Station (Notice) from counsel on behalf of the Sierra Club and the MEIC. An Amended Notice was received on September 4, 2012, and a Second Amended Notice was received in October 2012. A Supplemental Notice was received in December 2012. The Notice, Amended Notice, Second Amended Notice, and Supplemental Notice (the Notices) were all addressed to the Owner or Managing Agent of Colstrip, and to the other Colstrip co-owners: Avista Corporation, Puget Sound Energy, Portland General Electric Company, NorthWestern Energy and PacifiCorp. The Notice alleges certain violations of the Clean Air Act, including New Source Review, Title V and opacity requirements. The Amended Notice alleges additional opacity violations at Colstrip, and the Second Amended Notice alleges additional Title V violations. The Supplemental Notice includes additional New Source Review Claims. All four notices state that Sierra Club and MEIC will request a United States District Court to impose injunctive relief and civil penalties, require a beneficial environmental project in the areas affected by the alleged air pollution and require reimbursement of Sierra Club's and MEIC's costs of litigation and attorney's fees. Under the Clean Air Act, lawsuits cannot be filed until 60 days after the applicable notice date. PPL is evaluating the allegations set forth in the Notices and cannot at this time predict the outcome of this matter.

## **Regulatory Issues**

*(PPL, PPL Electric, LKE, LG&E and KU)*

See Note 6 for information on regulatory matters related to utility rate regulation.

## Enactment of Financial Reform Legislation (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The Dodd-Frank Act became effective in July 2010 and includes provisions that impose derivative transaction reporting requirements and require most over-the-counter derivative transactions to be executed through an exchange and to be centrally cleared. The Dodd-Frank Act also provides that the U.S. Commodity Futures Trading Commission (CFTC) may impose collateral and margin requirements for over-the-counter derivative transactions, as well as capital requirements for certain entity classifications. Final rules on major provisions in the Dodd-Frank Act are being established through rulemakings. The rulemakings are scheduled to become effective at different times beginning with the October 12, 2012 effective date of the definitional rule for the term "swap". In particular, the CFTC's Final Rule (Final Rule), defining key terms such as "swap dealer" and "major swap participant", took effect with the effectiveness of the swap definitional rule.

The heightened thresholds and requirements for these entity classifications set forth in the Final Rule resulted in the Registrants currently being designated neither swap dealers nor major swap participants. The Dodd-Frank Act and its implementing regulations, however, will impose on the Registrants significant additional and costly recordkeeping and reporting requirements. Also, the Registrants could face significantly higher operating costs or may be required to post additional collateral if they or their counterparties are subject to capital or margin requirements as ultimately adopted in the implementing regulations of the Dodd-Frank Act. The Registrants will continue to evaluate the provisions of the Dodd-Frank Act and its implementing regulations. At this time, the Registrants cannot predict the impact that the law or its implementing regulations will have on their businesses or operations, or the markets in which they transact business, but could incur significant costs related to compliance with the Dodd-Frank Act.

*(PPL, PPL Energy Supply and PPL Electric)*

#### New Jersey Capacity Legislation

In January 2011, New Jersey enacted a law that intervenes in the wholesale capacity market exclusively regulated by the FERC: S. No. 2381, 214th Leg. (N.J. 2011) (the Act). To create incentives for the development of new, in-state electric generation facilities, the Act implements a "long-term capacity agreement pilot program (LCAPP)." The Act requires New Jersey utilities to pay a guaranteed fixed price for wholesale capacity, imposed by the New Jersey Board of Public Utilities (BPU), to certain new generators participating in PJM, with the ultimate costs of that guarantee to be borne by New Jersey ratepayers. PPL believes the intent and effect of the LCAPP is to encourage the construction of new generation in New Jersey even when, under the FERC-approved PJM economic model, such new generation would not be economic. The Act could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to incent necessary generation investment throughout PJM. In February 2011, the PJM Power Providers Group (P3), an organization in which PPL is a member, filed a complaint before the FERC seeking changes in PJM's capacity market rules designed to ensure that subsidized generation, such as the generation that may result from the implementation of the LCAPP, will not be able to set capacity prices artificially low as a result of their exercise of buyer market power. In April 2011, the FERC issued an order granting in part and denying in part P3's complaint and ordering changes in PJM's capacity rules consistent with a significant portion of P3's requested changes. Several parties have filed appeals of the FERC's order. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

In addition, in February 2011, PPL, and several other generating companies and utilities filed a complaint in U.S. District Court in New Jersey challenging the Act on the grounds that it violates well-established principles under the Supremacy Clause and the Commerce Clause of the U.S. Constitution. In this action, the plaintiffs request declaratory and injunctive relief barring implementation of the Act by the Commissioners of the BPU. In October 2011, the court denied the BPU's motion to dismiss the proceeding. In September 2012, the U.S. District Court denied all summary judgment motions, and the litigation is continuing. Trial is scheduled to begin in March 2013. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

#### Maryland Capacity Order

In April 2012, the Maryland Public Service Commission (MD PSC) ordered three electric utilities in Maryland to enter into long-term contracts to support the construction of new electric generating facilities in Maryland, specifically a 661 MW natural gas-fired combined-cycle generating facility to be owned by CPV Maryland, LLC. PPL believes the intent and effect of the action by the MD PSC is to encourage the construction of new generation in Maryland even when, under the FERC-approved PJM economic model, such new generation would not be economic. The MD PSC action could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to encourage necessary generation investment throughout PJM.

In April 2012, PPL and several other generating companies filed a complaint in U.S. District Court in Maryland challenging the MD PSC order on the grounds that it violates well-established principles under the Supremacy and Commerce clauses of the U.S. Constitution. In this action, the plaintiffs request declaratory and injunctive relief barring implementation of the order by the Commissioners of the MD PSC. In August 2012, the court denied the MD PSC and CPV Maryland, LLC motions to dismiss the proceeding and the litigation is continuing. Trial is scheduled to begin in March 2013. PPL, PPL Energy Supply, and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

### Pacific Northwest Markets (PPL and PPL Energy Supply)

Through its subsidiaries, PPL Energy Supply made spot market bilateral sales of power in the Pacific Northwest during the period from December 2000 through June 2001. Several parties subsequently claimed refunds at FERC as a result of these sales. In June 2003, the FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to consider additional evidence. In October 2011, FERC initiated proceedings to consider additional evidence. At June 30, 2012, there were two remaining claims against PPL Energy Supply totaling \$73 million. In July 2012, PPL Montana and the City of Tacoma, one of the parties claiming refunds at FERC, reached a settlement whereby PPL Montana would pay \$75 thousand to resolve the City of Tacoma's \$23 million claim, \$9 million of which represents interest. The settlement does not resolve the remaining claim outstanding at December 31, 2012 of approximately \$50 million.

Although PPL and its subsidiaries believe they have not engaged in any improper trading or marketing practices affecting the Pacific Northwest markets, PPL and PPL Energy Supply cannot predict the outcome of the above-described proceedings or whether any subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings. Consequently, PPL and PPL Energy Supply cannot estimate a range of reasonably possible losses, if any, related to this matter.

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

### FERC Market-Based Rate Authority

In 1998, the FERC authorized LG&E, KU and PPL EnergyPlus to make wholesale sales of electric power and related products at market-based rates. In those orders, the FERC directed LG&E, KU and PPL EnergyPlus, respectively, to file an updated market analysis within three years after the order, and every three years thereafter. Since then, periodic market-based rate filings with the FERC have been made by LG&E, KU, PPL EnergyPlus, PPL Electric, PPL Montana and most of PPL Generation's subsidiaries. These filings consisted of a Northwest market-based rate filing for PPL Montana and a Northeast market-based rate filing for most of the other PPL subsidiaries in PJM's region. In June 2011, FERC approved PPL's market-based rate update for the Eastern and Western regions. Also, in June 2011, PPL filed its market-based rate update for the Southeast region, including LG&E and KU in addition to PPL EnergyPlus. In June 2011, the FERC issued an order approving LG&E's and KU's request for a determination that they no longer be deemed to have market power in the BREC balancing area and removing restrictions on their market-based rate authority in such region.

Currently, a seller granted FERC market-based rate authority may enter into power contracts during an authorized time period. If the FERC determines that the market is not workably competitive or that the seller possesses market power or is not charging "just and reasonable" rates, it may institute prospective action, but any contracts entered into pursuant to the FERC's market-based rate authority remain in effect and are generally subject to a high standard of review before the FERC can order changes. Recent court decisions by the U.S. Court of Appeals for the Ninth Circuit have raised issues that may make it more difficult for the FERC to continue its program of promoting wholesale electricity competition through market-based rate authority. These court decisions permit retroactive refunds and a lower standard of review by the FERC for changing power contracts, and could have the effect of requiring the FERC in advance to review most, if not all, power contracts. In June 2008, the U.S. Supreme Court reversed one of the decisions of the U.S. Court of Appeals for the Ninth Circuit, thereby upholding the higher standard of review for modifying contracts. At this time, PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU cannot predict the impact of these court decisions on the FERC's future market-based rate authority program or on their businesses.

### Electric Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk power system. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk power electricity system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties of up to \$1 million per day, per violation, for certain violations.

LG&E, KU, PPL Electric and certain subsidiaries of PPL Energy Supply monitor their compliance with the Reliability Standards and continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans, as required. The resolution of a number of potential violations is pending. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any, other than the amounts currently recorded.

In October 2012, the FERC issued a Notice of Proposed Rulemaking (NOPR) concerning Reliability Standards for Geomagnetic Disturbances. The FERC proposes to direct NERC to submit for approval Reliability Standards that address the impact of geomagnetic disturbances on the reliable operation of the bulk-power system, including one or more measures to protect against damage to the bulk-power system, such as the installation of equipment that blocks geomagnetically induced currents on implicated transformers. If the NOPR is adopted by the FERC, it is expected to require the Registrants either or both to make significant expenditures in new equipment or modifications to their facilities. The Registrants are unable to predict whether the NOPR will be adopted as proposed by the FERC or the amount of any expenditures that may be required as a result of the adoption of any Reliability Standards for geomagnetic disturbances.

#### **Settled Litigation (PPL and PPL Energy Supply)**

##### Spent Nuclear Fuel Litigation

In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna plant. PPL Susquehanna recorded credits totaling \$56 million to "Fuel" on the Statement of Income in 2011 to recognize recovery, under the settlement agreement, of certain costs to store spent nuclear fuel at the Susquehanna plant. The amounts recorded through September 2011 cover costs incurred from 1998 through December 2010. PPL Susquehanna is eligible to receive payment of annual claims for allowed costs, as set forth in the settlement agreement, that are incurred through December 31, 2013. In exchange, PPL Susquehanna has waived any claims against the United States government for costs paid or injuries sustained related to storing spent nuclear fuel at the Susquehanna plant through December 31, 2013.

#### **Environmental Matters - Domestic**

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operating certain facilities or operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost impact of these permits and rules.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act 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 in accordance with their approved compliance plans. Costs not covered by the ECR for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before their respective state regulatory authorities, or the FERC, if applicable. Because PPL Electric does not own any generating plants, its exposure to environmental compliance costs is reduced. As PPL Energy Supply is not a rate regulated entity, it does not have any mechanism for seeking rate recovery of environmental compliance costs. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

*(PPL, PPL Energy Supply, LKE, LG&E and KU)*

#### Air

*CSAPR (formerly Clean Air Transport Rule) and CAIR*

In July 2011, the EPA adopted the CSAPR, which was intended to finalize and rename the Clean Air Transport Rule (Transport Rule) proposed in August 2010. The CSAPR replaced the EPA's previous CAIR which was invalidated by the U.S. Court of Appeals for the District of Columbia Circuit (the Court) in July 2008. CAIR subsequently was effectively reinstated by the Court in December 2008, pending finalization of the Transport Rule. Like CAIR, CSAPR only applied to PPL's fossil-fueled generating plants located in Kentucky and Pennsylvania.

In December 2011, the Court stayed implementation of the CSAPR and left CAIR in effect pending a final decision on the validity of the rule. In August 2012, the Court issued a ruling invalidating CSAPR, remanding the rule to the EPA for further action, and leaving CAIR in place during the interim. A further revised rule is not expected from the EPA for at least two years.

The CSAPR was meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxides emissions. The CSAPR established new sulfur dioxide and nitrogen oxide emission allowance cap and trade programs that were more restrictive than previously under CAIR. The CSAPR provided for two-phased programs of sulfur dioxide and nitrogen oxide emissions reductions, with initial reductions in 2012 and more stringent reductions in 2014.

The Kentucky fossil-fueled generating plants can meet the CAIR sulfur dioxide emission requirements by utilizing sulfur dioxide allowances (including banked allowances). To meet nitrogen oxide standards, under the CAIR, the Kentucky companies will need to buy allowances and/or make operational changes. LG&E and KU do not currently anticipate that the costs of meeting these reinstated CAIR requirements or standards will be significant.

PPL Energy Supply's Pennsylvania fossil-fueled generating plants can meet the CAIR sulfur dioxide emission requirements with the existing scrubbers that were placed in service in 2008 and 2009. To meet nitrogen oxide standards, under the CAIR, PPL Energy Supply will need to buy allowances and/or make operational changes, the costs of which are not anticipated to be significant.

#### *National Ambient Air Quality Standards*

In addition to the reductions in sulfur dioxide and nitrogen oxide emissions required under the CAIR for its Pennsylvania and Kentucky plants, PPL's fossil-fueled generating plants, including those in Montana, may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates.

In 2010, the EPA finalized a new one-hour standard for sulfur dioxide, and states are required to identify areas that meet those standards and areas that are in non-attainment. For non-attainment areas, states are required to develop plans by 2014 to achieve attainment by 2017. For areas that are in attainment or that are unclassifiable, states are required to develop maintenance plans by mid-2013 that demonstrate continued attainment. In December 2012, the EPA issued final rules that strengthen the particulate standards. Under the final rule, states and the EPA have until the end of 2014 to identify initial non-attainment areas, and states have until 2020 to achieve attainment status for those areas. States can request an extension to 2025 to comply with the rule. Until particulate matter and sulfur dioxide maintenance and compliance plans are developed, PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict which of their facilities may be located in a non-attainment area and what measures would be required to achieve attainment status.

PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with the CAIR, the MATS, or the Regional Haze requirements, such as upgraded or new sulfur dioxide scrubbers at some of their plants and, in the case of LG&E and KU, the previously announced retirement of coal-fired generating units at the Cane Run, Green River and Tyrone plants, will help to achieve compliance with the new one-hour sulfur dioxide standard. If additional reductions were to be required, the financial impact could be significant.

#### *Mercury and Other Hazardous Air Pollutants*

In May 2011, the EPA published a proposed regulation providing for stringent reductions of mercury and other hazardous air pollutants. In February 2012, the EPA published the final rule, known as the MATS, with an effective date of April 16, 2012. The rule is being challenged by industry groups and states. The EPA issued a proposed rule in November 2012 reconsidering limited aspects of its MATS and New Source Performance Standards (NSPS) to which PPL responded with comments.

The rule provides for a three-year compliance deadline with the potential for a one-year extension as provided under the statute. Based on their assessment of the need to install pollution control equipment to meet the provisions of the proposed rule, LG&E and KU filed requests with the KPSC for environmental cost recovery to facilitate moving forward with plans to install environmental controls including chemical additive and fabric-filter baghouses to remove certain hazardous air pollutants. Recovery of the cost of certain controls was granted by the KPSC in December 2011. See Note 6 for information on LG&E's and KU's anticipated retirement of certain coal-fired electric generating units in response to this and other environmental regulations. With the publication of the final MATS rule, LG&E and KU are currently assessing whether any revisions of their approved compliance plans will be necessary.

With respect to PPL Energy Supply's Pennsylvania plants, PPL Energy Supply believes that certain coal-fired plants may require installation of chemical additive systems, the cost of which is not expected to be significant. With respect to PPL Energy Supply's Montana plants, modifications to the current air pollution controls installed on Colstrip may be required, the cost of which is not expected to be significant. For the Corette plant, PPL Energy Supply announced in September 2012 its intention, beginning in April 2015, to place the plant in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with the MATS requirements. The Corette plant asset group's carrying amount at December 31, 2012 was approximately \$68 million. Although the Corette plant asset group was not determined to be impaired at December 31, 2012, it is reasonably possible that an impairment could occur in future periods as higher priced sales contracts settle, adversely impacting projected cash flows. PPL Energy Supply, LG&E and KU are continuing to conduct in-depth reviews of the MATS, including the potential implications to scrubber wastewater discharges. See the discussion of effluent limitations guidelines and standards below.

#### *Regional Haze and Visibility*

In January 2012, the EPA proposed limited approval of the Pennsylvania regional haze State Implementation Plan (PA SIP). That proposal would essentially approve PPL's analysis that further particulate controls at PPL Energy Supply's Pennsylvania plants are not warranted. The limited approval does not address deficiencies of the state plan arising from the remand of the CAIR. Previously, the EPA had determined that implementation of the CAIR requirements would meet regional haze requirements.

In 2012, the EPA finalized a rule providing that implementation of the CSAPR would also meet the Best Available Retrofit Technology (BART) requirements for sulfur dioxide and nitrogen oxides. This rule also addresses the PA SIP deficiency arising from the CAIR remand. However, in August 2012, the U.S. Court of Appeals for the District of Columbia Circuit (Court) vacated and remanded the CSAPR back to the EPA for further rulemaking (as discussed above). In September 2012, several environmental groups filed a petition for review with the Court challenging the EPA's approval of the PA SIP. At this time, it is not known whether the EPA will reinstate its previous determination that CAIR satisfies the BART requirement or will require states to conduct source-specific BART studies.

In Montana, the EPA Region 8 developed the regional haze plan as the Montana Department of Environmental Quality declined to develop a BART state implementation plan at this time. PPL submitted to the EPA its analyses of the visibility impacts of sulfur dioxide, nitrogen oxides and particulate emissions for Colstrip Units 1 and 2 and Corette. PPL's analyses concluded that further reductions are not warranted, except that the EPA concurred with the installation of Separated Overfire Air (SOFA) and lime injection for Units 1 and 2. PPL has also submitted data and analyses of various air emission control options under the rules to reduce air emissions related to the non-BART-affected emission sources of Colstrip Units 3 and 4. The analyses show that any incremental reductions would not be cost-effective and that further analysis is not warranted.

In September 2012, the EPA issued its final Federal Implementation Plans (FIP) for the Montana regional haze rule. The final FIP indicated that no additional controls were required for Corette or Colstrip Units 3 and 4 but proposed tighter limits for Corette and Colstrip Units 1 and 2. PPL Energy Supply expects to meet these tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015. See "Mercury and Other Hazardous Air Pollutants" discussion above. Under the final FIP, Colstrip Units 1 and 2 will require additional controls, including the possible installation of an SNCR and other technology, to meet more stringent nitrogen oxide and sulfur dioxide limits. The cost of these potential additional controls, if required, could be significant. In November 2012, PPL filed a petition for review of the Montana Regional Haze FIP with the U.S. Court of Appeals for the Ninth Circuit. Environmental groups have also filed a petition for review. The two matters have been consolidated, and the parties have agreed to a briefing schedule.

LG&E and KU also submitted analyses of the visibility impacts of their Kentucky BART-eligible sources to the Kentucky Division for Air Quality (KDAQ). Only LG&E's Mill Creek plant was determined to have a significant regional haze impact. The KDAQ has submitted a regional haze SIP to the EPA which requires the Mill Creek plant to reduce its sulfuric acid mist emissions from Units 3 and 4, the costs of which are not expected to be significant. After approval of the Kentucky SIP by the EPA and revision of the Mill Creek plant's air permit under Title V, LG&E intends to install sorbent injection controls at the plant to reduce sulfuric acid mist emissions.

#### *New Source Review (NSR)*

The EPA has continued its NSR enforcement efforts targeting coal-fired generating plants. The EPA has asserted that modification of these plants has increased their emissions and, consequently, that they are subject to stringent NSR requirements under the Clean Air Act. In April 2009, PPL received EPA information requests for its Montour and Brunner Island plants. The requests are similar to those that PPL received in the early 2000s for its Colstrip, Corette and Martins Creek plants. PPL and the EPA have exchanged certain information regarding this matter. In January 2009, PPL and other

companies that own or operate the Keystone plant in Pennsylvania received a notice of violation from the EPA alleging that certain projects were undertaken without proper NSR compliance. In May and November 2012, PPL Montana received information requests from the EPA regarding projects undertaken during the Spring 2012 maintenance outage at Colstrip Unit 1. In September 2012, PPL Montana received an information request from the Montana Department of Environmental Quality regarding the Unit 1 and other projects. PPL and PPL Energy Supply cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In addition, in August 2007, LG&E received information requests for the Mill Creek and Trimble County plants, and KU received requests for the Ghent plant, but they have received no further communications from the EPA since providing their responses. PPL, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In March 2009, KU received a notice alleging that KU violated certain provisions of the Clean Air Act's rules governing NSR and prevention of significant deterioration by installing sulfur dioxide scrubbers and SCR controls at its Ghent plant 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 an information request on this matter. In September 2012, the parties reached a tentative settlement addressing the Ghent NSR matter and a September 2007 notice of violation alleging opacity violations at the plant. A consent decree was lodged in the U.S. District Court for the Eastern District of Kentucky in December 2012. PPL, LKE and KU cannot predict the outcome of this matter until the consent decree is entered by the Court, but currently do not expect such outcome to result in costs in excess of amounts already accrued, which amounts are not material.

If PPL subsidiaries are found to have violated NSR regulations, PPL, PPL Energy Supply, LKE, LG&E and KU would, among other things, be required to meet permit limits reflecting Best Available Control Technology (BACT) for the emissions of any pollutant found to have significantly increased due to a major plant modification. The costs to meet such limits, including installation of technology at certain units, could be significant.

States and environmental groups also have provided notice of their intention to initiate enforcement actions and litigation alleging violations of the NSR regulations by coal-fired generating plants. See "Legal Matters" above for information on a notice of intent to sue received in July 2012 (and amended multiple times thereafter) by PPL Montana and other owners of Colstrip. PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict whether such actions will be brought against any of their other plants.

#### *Colstrip and Corette Air Permits (PPL and PPL Energy Supply)*

In January 2013, Earthjustice, on behalf of the Sierra Club and the MEIC filed an administrative appeal with the Board of Environmental Review, setting forth challenges to certain components of the Title V permits for Colstrip and Corette. These challenges include: 1) the regional haze requirements should have been included in the Title V permits for Corette and Colstrip; 2) the MATS requirements should have been included in the Title V permits for Corette and Colstrip; 3) the particulate monitoring methodology is inadequate at Corette and Colstrip; and 4) sulfur dioxide monitoring is inadequate at Corette. PPL Montana intends to participate in this proceeding and cannot predict its outcome.

On January 31, 2013, the Sierra Club and the MEIC alleged identical claims in their joint petition to the EPA, requesting that the EPA object to the MDEQ's issuance of Colstrip's and Corette's Title V permits. PPL Montana cannot predict the outcome of this parallel matter pending before the EPA.

#### *TC2 Air Permit (PPL, LKE, LG&E and KU)*

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the TC2 baseload generating unit, but the agency upheld the permit in an order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which were incorporated into a final revised permit issued by the KDAQ in January 2010. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact on the capital costs of this project, if any.



### *Global Climate Change*

There is concern nationally and internationally about global climate change and the possible contribution of GHG emissions including, most significantly, carbon dioxide, from the combustion of fossil fuels. This has resulted in increased demands for carbon dioxide emission reductions from investors, environmental organizations, government agencies and the international community. These demands and concerns have led to federal legislative proposals, actions at regional, state and local levels, litigation relating to GHG emissions and the EPA regulations on GHGs.

### *Greenhouse Gas Legislation*

While climate change legislation was actively considered in 2009-2010, such legislation has not significantly progressed. Since that time, although the U.S. House of Representatives passed legislation attempting to bar the EPA from regulating GHG emissions under the existing authority of the Clean Air Act, the Senate never took up the legislation. The timing and elements of future federal legislation addressing GHG emission reductions are uncertain at this time.

### *Greenhouse Gas Regulations and Tort Litigation*

As a result of the April 2007 U.S. Supreme Court decision that the EPA has authority under the Clean Air Act to regulate GHG emissions from new motor vehicles, in April 2010, the EPA and the U.S. Department of Transportation issued new light-duty vehicle emissions standards that apply beginning with 2012 model year vehicles. The EPA also clarified that this standard, beginning in 2011, authorized regulation of GHG emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act. As a result, any new sources or major modifications to existing GHG sources causing a net significant emissions increase requires the BACT permit limits for GHGs. The rules were challenged, and in June 2012, the U.S. Court of Appeals for the District of Columbia Circuit upheld the EPA's regulations. In December 2012, the Court denied petitions for rehearing pertaining to the Court's June 2012 opinion.

In addition, in April 2012, the EPA proposed NSPS for carbon dioxide emissions from new coal-fired generating units, combined-cycle natural gas units, and integrated gasification combined-cycle units. The proposal would require new coal plants to achieve the same stringent limitations on carbon dioxide emissions as the best performing new gas plants. There presently is no commercially available technology to allow new coal plants to achieve these limitations and, as a result, the EPA's proposal would effectively preclude future construction of new coal-fired generation. In December 2012, the U.S. Court of Appeals for the District of Columbia Circuit dismissed consolidated challenges to the NSPS holding that the proposed rule is not a final agency action. The EPA is expected to finalize the NSPS for new sources in early 2013.

At the regional level, ten northeastern states signed a Memorandum of Understanding (MOU) agreeing to establish a GHG emission cap-and-trade program, called the Regional Greenhouse Gas Initiative (RGGI). The program commenced in January 2009 and calls for stabilizing carbon dioxide emissions, at base levels established in 2005, from electric power plants with capacity greater than 25 MW. The MOU also provides for a 10% reduction, by 2019, in carbon dioxide emissions from base levels.

Pennsylvania has not stated an intention to join the RGGI, but enacted the Pennsylvania Climate Change Act of 2008 (PCCA). The PCCA established a Climate Change Advisory Committee to advise the PADEP on the development of a Climate Change Action Plan. In December 2009, the Advisory Committee finalized its Climate Change Action Report and identified specific actions that could result in reducing GHG emissions by 30% by 2020. Some of the proposed actions, such as a mandatory 5% efficiency improvement at power plants, could be technically unachievable. To date, there have been no regulatory or legislative actions taken to implement the recommendations of the report. In addition, legislation has been introduced that would, if enacted, accelerate solar supply requirements and restrict eligible solar projects to those located in Pennsylvania. PPL and PPL Energy Supply cannot predict at this time whether this legislation will be enacted.

Eleven western states and certain Canadian provinces established the Western Climate Initiative (WCI) in 2003. The WCI established a goal of reducing carbon dioxide emissions by 15% below 2005 levels by 2020 and developed GHG emission allocations, offsets, and reporting recommendations. Montana was once a partner in the WCI, but by 2011 withdrew, along with several other western states.

In November 2008, the Governor of Kentucky issued a comprehensive energy plan including non-binding targets aimed at promoting improved energy efficiency, development of alternative energy, development of carbon capture and sequestration projects, and other actions to reduce GHG emissions. In December 2009, the Kentucky Climate Action Plan Council was established to develop an action plan addressing potential GHG reductions and related measures. To date, the state has not issued a final plan. The impact of any such plan is not now determinable, but the costs to comply with the plan could be significant.

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting plants, and the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of *AEP v. Connecticut* reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the lower court and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA. In addition, in *Comer v. Murphy Oil* (Comer case), the U.S. Court of Appeals for the Fifth Circuit (Fifth Circuit) declined to overturn a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The complaint in the Comer case named the previous indirect parent of LKE as a defendant based upon emissions from the Kentucky plants. In January 2011, the Supreme Court denied a petition to reverse the Fifth Circuit's ruling. In May 2011, the plaintiffs in the Comer case filed a substantially similar complaint in federal district court in Mississippi against 87 companies, including KU and three other indirect subsidiaries of LKE, under a Mississippi statute that allows the re-filing of an action in certain circumstances. In March 2012, the Mississippi federal court granted defendants' motions to dismiss the state common law claims because plaintiffs had previously raised the same claims, plaintiffs lacked standing, plaintiffs' claims were displaced by the Clean Air Act, and other grounds. In April 2012, plaintiffs filed a notice of appeal in the Fifth Circuit. Additional litigation in federal and state courts over these issues is continuing. PPL, LKE and KU cannot predict the outcome of this litigation or estimate a range of reasonably possible losses, if any.

In 2012, PPL's power plants emitted approximately 70 million tons of carbon dioxide compared with 74 million tons in 2011. The totals reflect 35 million tons from PPL Generation and 35 million tons from LG&E's and KU's generating fleet. All tons are U.S. short tons (2,000 pounds/ton).

#### *Renewable Energy Legislation (PPL, PPL Energy Supply, LKE, LG&E and KU)*

There has been interest in renewable energy legislation at both the state and federal levels. Federal legislation on renewable energy is not expected to be introduced this year. In Pennsylvania, bills were recently introduced in both the Senate and House amending the existing AEPS to accelerate the current solar generation obligation, but no action was taken before the end of the 2011-2012 legislative session. Future bills are expected calling for an increase in AEPS Tier I (renewable resources, such as wind and solar) obligations and to create a \$25 million permanent funding program for solar. Bills have also been introduced in Montana to add hydropower as a qualified source to the renewable portfolio standard.

PPL, PPL Energy Supply, LKE, LG&E and KU believe there are financial, regulatory and logistical uncertainties related to the implementation of renewable energy mandates that will need to be resolved before the impact of such requirements on them can be estimated. Such uncertainties, among others, include the need to provide back-up supply to augment intermittent renewable generation, potential generation over-supply that could result from such renewable generation and back-up, impacts to PJM's capacity market and the need for substantial changes to transmission and distribution systems to accommodate renewable energy sources. These uncertainties are not directly addressed by proposed legislation. PPL and PPL Energy Supply cannot predict at this time the effect on their merchant plants' future competitive position, results of operation, cash flows and financial position of renewable energy mandates that may be adopted, although the costs to implement and comply with any such requirements could be significant.

#### Water/Waste

#### *Coal Combustion Residuals (CCRs) (PPL, PPL Energy Supply, LKE, LG&E and KU)*

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous) under the Resource Conservation and Recovery Act (RCRA). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The first approach would regulate CCRs as a hazardous waste under Subtitle C of the RCRA. This approach would materially increase costs and result in early retirements of many coal-fired plants, as it would require plants to retrofit their operations to comply with full hazardous waste requirements for the generation of CCRs and associated waste waters through generation, transportation and disposal. This would also have a negative impact on the beneficial use of CCRs and could eliminate existing markets for CCRs. The second approach would regulate CCRs as a solid (non-hazardous) waste under Subtitle D of the RCRA. This approach would mainly affect disposal and most significantly affect any wet

disposal operations. Under this approach, many of the current markets for beneficial uses would not be affected. Currently, PPL expects that several of its plants in Kentucky and Montana could be significantly impacted by the requirements of Subtitle D of the RCRA, as these plants are using surface impoundments for management and disposal of CCRs.

The EPA has issued information requests on CCR management practices at numerous plants throughout the power industry as it considers whether or not to regulate CCRs as hazardous waste. PPL has provided information on CCR management practices at most of its plants in response to the EPA's requests. In addition, the EPA has conducted follow-up inspections to evaluate the structural stability of CCR management facilities at several PPL plants and PPL has implemented certain actions in response to recommendations from these inspections.

The EPA is continuing to evaluate the unprecedented number of comments it received on its June 2010 proposed regulations. In October 2011, the EPA issued a Notice of Data Availability (NODA) that requests comments on selected documents that the EPA received during the comment period for the proposed regulations. In addition, the U.S. House of Representatives in September 2012 approved a bill that was revised in the Senate to modify Subtitle D of the RCRA to provide for the proper management and disposal of CCRs and to preclude the EPA from regulating CCRs under Subtitle C of the RCRA. This revised bill is being considered in the Senate and the prospect for passage is uncertain.

In January 2012, a coalition of environmental groups filed a 60-day notice of intent to sue the EPA for failure to perform nondiscretionary duties under RCRA, which could require a deadline for the EPA to issue strict CCR regulations. In February 2012, two CCR recycling companies also issued a 60-day notice of intent to sue the EPA over its timeliness in issuing CCR regulations, but they requested that the EPA take a Subtitle D approach that would allow for continued recycling of CCRs. The coalition filed its lawsuit in April 2012 and litigation is continuing.

A final rulemaking is currently expected before the end of 2015. However, the timing of the final regulations could be accelerated by the outcome of the above litigation, which could require the EPA to issue its regulations sooner.

PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the final requirements of the EPA's CCR regulations or potential changes to the RCRA and what impact they would have on their facilities, but the financial impact could be material if regulated as a hazardous waste under Subtitle C and significant if regulated under Subtitle D.

#### *Martins Creek Fly Ash Release (PPL and PPL Energy Supply)*

In 2005, approximately 100 million gallons of water containing fly ash was released from a disposal basin at the Martins Creek plant used in connection with the operation of the plant's two 150 MW coal-fired generating units. This resulted in ash being deposited onto adjacent roadways and fields, and into a nearby creek and the Delaware River. PPL determined that the release was caused by a failure in the disposal basin's discharge structure. PPL conducted extensive clean-up and completed studies, in conjunction with a group of natural resource trustees and the Delaware River Basin Commission, evaluating the effects of the release on the river's sediment, water quality and ecosystem.

The PADEP filed a complaint in Pennsylvania Commonwealth Court against PPL Martins Creek and PPL Generation, alleging violations of various state laws and regulations and seeking penalties and injunctive relief. PPL and the PADEP have settled this matter. The settlement also required PPL to submit a report on the completed studies of possible natural resource damages. PPL subsequently submitted the assessment report to the Pennsylvania and New Jersey regulatory agencies and has continued discussing potential natural resource damages and mitigation options with the agencies. Subsequently, in August 2011 the PADEP submitted its National Resource Damage Assessment report to the court and to the interveners. In December 2011, the interveners commented on the PADEP report and in February 2012 the PADEP and PPL filed separate responses with the court. In March 2012, the court dismissed the interveners' case, but the interveners have appealed the dismissal to the Pennsylvania Supreme Court and a decision by the court is still pending.

Through December 31, 2012, PPL Energy Supply has spent \$28 million for remediation and related costs and an insignificant remediation liability remains on the balance sheet. PPL and PPL Energy Supply cannot be certain of the outcome of the natural resource damage assessment or the associated costs, the outcome of any lawsuit that may be brought by citizens or businesses or the nature of any other regulatory or legal actions that may be initiated against PPL, PPL Energy Supply or their subsidiaries as a result of the disposal basin release. However, PPL and PPL Energy Supply currently do not expect such outcomes to result in significant losses above the amounts currently recorded.

## *Seepages and Groundwater Infiltration - Pennsylvania, Montana and Kentucky*

*(PPL, PPL Energy Supply, LKE, LG&E and KU)*

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various PPL, PPL Energy Supply, LKE, LG&E and KU plants. PPL, PPL Energy Supply, LKE, LG&E and KU have completed or are completing assessments of seepages or groundwater infiltration at various facilities and have completed or are working with agencies to implement abatement measures, where required. A range of reasonably possible losses cannot currently be estimated.

*(PPL and PPL Energy Supply)*

In 2007, six plaintiffs filed a lawsuit in the Montana Sixteenth Judicial District Court against the Colstrip plant owners asserting property damage due to seepage from plant wastewater ponds. A settlement agreement was reached in July 2010 which would have resulted in a payment by PPL Montana, but certain of the plaintiffs later argued the settlement was not final. The Colstrip plant owners filed a motion to enforce the settlement and in October 2011 the court granted the motion and ordered the settlement to be completed in 60 days. The plaintiffs appealed the October 2011 order to the Montana Supreme Court, which affirmed the district court's order enforcing the settlement on December 31, 2012 and denied plaintiff's motion for rehearing on February 5, 2013. The parties have 60 days after the February 5, 2013 decision to complete the settlement. PPL Montana's share of the settlement is not expected to be significant.

In August 2012, PPL Montana entered into an Administrative Order on Consent (AOC) with the MDEQ which establishes a comprehensive process to investigate and remediate groundwater seepage impacts related to the wastewater facilities at the Colstrip power plant. The AOC requires that within five years, PPL Montana provide financial assurance to the MDEQ for the costs associated with closure and future monitoring of the waste-water treatment facilities. PPL Montana cannot predict at this time if the actions required under the AOC will create the need to adjust the existing ARO related to these facilities.

In September 2012, Earthjustice filed an affidavit pursuant to Montana's Major Facility Siting Act (MFSA) that sought review of the AOC by Montana's Board of Environmental Review (BER), on behalf of the Sierra Club, the MEIC, and the National Wildlife Federation (NWF). In September 2012, PPL Montana filed an election with the BER to have this proceeding conducted in Montana state district court as contemplated by the MFSA. In October 2012, Earthjustice filed a petition for review of the AOC in the Montana state district court in Rosebud County.

In late October 2012, Earthjustice filed a second complaint against the MDEQ and PPL Montana in state district court in Lewis and Clark County on behalf of the Sierra Club, the MEIC and the NWF. This complaint alleges that the defendants have failed to take action under the MFSA and the Montana Water Quality Act to effectively monitor and correct issues of coal ash disposal and wastewater ponds at the Colstrip plant. The complaint seeks a declaration that the operations of the impoundments violate the statutes addressed above, requests a writ of mandamus directing the MDEQ to enforce the same, and seeks recovery of attorneys' fees and costs. PPL is vigorously defending these allegations, and PPL and PPL Energy Supply cannot predict the outcome of this matter.

*Clean Water Act 316(b) (PPL, PPL Energy Supply, LKE, LG&E and KU)*

The EPA finalized requirements in 2004 for new or modified cooling water intake structures. These requirements affect where generating plants are built, establish intake design standards and could lead to requirements for cooling towers at new and modified power plants. In 2009, however, the U.S. Supreme Court ruled that the EPA has discretion to use cost-benefit analysis in determining the best technology available for minimizing adverse environmental impact to aquatic organisms. The EPA published the proposed rule on new or modified cooling water intake structures in April 2011. The industry and PPL reviewed the proposed rule and submitted comments. The EPA has been evaluating comments and meeting with industry groups to discuss options. Two NODAs have been issued on the rule that indicate the EPA may be willing to amend the rule based on certain industry group comments, and the EPA's comment period on the NODAs has ended. The final rule is expected to be issued in 2013. The proposed rule contains two requirements to reduce impact to aquatic organisms. The first requires all existing facilities to meet standards for the reduction of mortality of aquatic organisms that become trapped against water intake screens regardless of the levels of mortality actually occurring or the cost of achieving the requirements. The second requirement is to determine and install the best technology available to reduce mortality of aquatic organisms that are pulled through the plant's cooling water system. A form of cost-benefit analysis is allowed for this second requirement. This process involves a site-specific evaluation based on nine factors, including impacts to energy delivery reliability and the remaining useful life of the plant. PPL, PPL Energy Supply, LKE, LG&E and KU cannot reasonably estimate a range of reasonably possible costs, if any, until a final rule is issued, the required studies have been completed, and each state in which they operate has decided how to implement the rule.

### *Effluent Limitations Guidelines and Standards (PPL, PPL Energy Supply, LKE, LG&E and KU)*

In October 2009, the EPA released its Final Detailed Study of the Steam Electric Power Generating effluent limitations guidelines and standards. The EPA is expected to issue the final regulations in 2014. PPL, PPL Energy Supply, LKE, LG&E and KU expect the revised guidelines and standards to be more stringent than the current standards especially for sulfur dioxide scrubber wastewater. The guidelines are also expected to require dry ash handling, which could result in additional costs for technology retrofits for closure of wet basins. In the interim, states may impose more stringent limits on a case-by-case basis under existing authority as permits are renewed. Under the Clean Water Act, permits are subject to renewal every five years. PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

### *Other Issues (PPL, PPL Energy Supply, LKE, LG&E and KU)*

In 2006, the EPA significantly decreased to 10 parts per billion (ppb) the drinking water standards for arsenic. In Pennsylvania, Montana and Kentucky, this arsenic standard has been incorporated into the states' water quality standards and could result in more stringent limits in NPDES permits for PPL's Pennsylvania, Montana and Kentucky plants. Subsequently, the EPA developed a draft risk assessment for arsenic that increases the cancer risk exposure by more than 20, which would lower the current standard from 10 ppb to 0.1 ppb. If the lower standard becomes effective, costly treatment would be required to attempt to meet the standard and, at this time, there is no assurance that it could be achieved. PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the outcome of the draft risk assessment and what impact, if any, it would have on their plants, but the costs could be significant.

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxics Substance Control Act, which currently allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all PCB-containing equipment. The EPA is planning to propose the revised regulations in late 2013. PCBs are found, in varying degrees, in all of the Registrants' operations. The Registrants cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on their facilities, but the costs could be significant.

A PPL Energy Supply subsidiary signed a Consent Order and Agreement (COA) with the PADEP in July 2008 under which it agreed, under certain conditions, to take further actions to minimize the possibility of fish kills at its Brunner Island plant. Fish are attracted to warm water in the power plant discharge channel, especially during cold weather. Debris at intake pumps can result in a unit trip or reduction in load, causing a sudden change in water temperature and fish mortality. A barrier has been constructed to prevent debris from entering the river water intake area at a cost that was not significant.

PPL Energy Supply's subsidiary has also investigated alternatives to exclude fish from the discharge channel, but the subsidiary and the PADEP have concluded that a barrier method to exclude fish is not workable. In June 2012, a new COA was signed that allows the subsidiary to study a change in a cooling tower operational method that may keep fish from entering the channel. Should this approach fail, the new COA requires a retrofit of impingement control technology at the intakes to the cooling towers, the cost of which could be significant.

In May 2010, the subsidiary received a draft NPDES permit (renewed) for the Brunner Island plant from the PADEP. This permit includes new water quality-based limits for the scrubber wastewater plant. Some of these limits may not be achievable with the existing treatment system. Several agencies and environmental groups commented on the draft permit, raising issues that must be resolved to obtain a final permit for the plant. PPL Energy Supply cannot predict the outcome of the final resolution of the permit issues at this time, or what impact, if any, they would have on this facility, but the costs could be significant.

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 plant. In November 2010, the Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to the Trimble Circuit Court, but the case was subsequently transferred to the Franklin Circuit Court. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible losses, if any.

The EPA and the Army Corps of Engineers are working on a guidance document that will expand the federal government's interpretation of what constitutes "waters of the United States" subject to regulation under the Clean Water Act. This change has the potential to affect generation and delivery operations, with the most significant effect being the potential elimination of the existing regulatory exemption for plant waste water treatment systems. The costs that may be imposed on the

Registrants as a result of any eventual expansion of this interpretation cannot reliably be estimated at this time but could be significant.

**Superfund and Other Remediation** (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL Electric is potentially responsible for costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site, the Metal Bank site and the Ward Transformer site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been significant to PPL Electric. However, should the EPA require different or additional measures in the future, or should PPL Electric's share of costs at multi-party sites increase substantially more than currently expected, the costs could be significant.

PPL Electric, LG&E and KU are remediating or have completed the remediation of several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates, for which PPL Electric, LG&E and KU lack information on current site conditions and are therefore unable to predict what, if any, potential liability they may have.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which PPL Electric, LG&E and KU currently lack information, the costs of remediation and other liabilities could be material. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

Under the Pennsylvania Clean Streams Law, subsidiaries of PPL Generation are obligated to remediate acid mine drainage at former mine sites and may be required to take additional steps to prevent potential acid mine drainage at previously capped refuse piles. One PPL Generation subsidiary is pumping mine water at two mine sites and treating water at one of these sites. Another PPL Generation subsidiary has installed a passive wetlands treatment system at a third site. At December 31, 2012, PPL Energy Supply had accrued a discounted liability of \$26 million to cover the costs of pumping and treating groundwater at the two mine sites for 50 years and for operating and maintaining passive wetlands treatment at the third site. PPL Energy Supply discounted this liability based on risk-free rates at the time of the mine closures. The weighted-average rate used was 8.19%. Expected undiscounted payments are estimated at \$3 million for 2013, \$1 million for each of the years from 2014 through 2017, and \$139 million for work after 2017.

From time to time, PPL Energy Supply, PPL Electric, LG&E and KU undertake remedial action in response to spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiate with property owners and other third parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters which arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on their operations.

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in significant additional costs for the Registrants.

**Environmental Matters - WPD (PPL)**

WPD's distribution businesses are subject to environmental regulatory and statutory requirements. PPL believes that WPD has taken and continues to take measures to comply with the applicable laws and governmental regulations for the protection of the environment.

The U.K. Government has requested that utilities undertake projects to alleviate the impact of flooding on the U.K. utility infrastructure, including major electricity substations. WPD has agreed with the Ofgem to spend \$45 million on flood prevention, which will be recovered through rates during the ten-year period commencing April 2010. WPD is currently liaising on site-specific proposals with local offices of a U.K. Government agency.

There are no other material legal or administrative proceedings pending against or related to WPD with respect to environmental matters.

**Other**

Nuclear Insurance (PPL and PPL Energy Supply)

PPL Susquehanna is a member of certain insurance programs that provide coverage for property damage to members' nuclear generating plants. Facilities at the Susquehanna plant are insured against property damage losses up to \$2.75 billion under these programs. PPL Susquehanna is also a member of an insurance program that provides insurance coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the property and replacement power insurance programs, PPL Susquehanna could be assessed retroactive premiums in the event of the insurers' adverse loss experience. At December 31, 2012, this maximum assessment was \$48 million.

In the event of a nuclear incident at the Susquehanna plant, PPL Susquehanna's public liability for claims resulting from such incident would be limited to \$12.6 billion under provisions of The Price-Anderson Act as amended. PPL Susquehanna is protected against this liability by a combination of commercial insurance and an industry assessment program.

In the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act as amended, PPL Susquehanna could be assessed up to \$235 million per incident, payable at \$35 million per year.

Guarantees and Other Assurances

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

*(PPL)*

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

The table below details guarantees provided as of December 31, 2012. The total recorded liability at December 31, 2012 and 2011 was \$24 million and \$14 million for PPL and \$20 million and \$11 million for LKE. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." For reporting purposes, on a consolidated basis, all guarantees of PPL Energy Supply (other than the letters of credit), PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	<b>Exposure at December 31, 2012 (a)</b>	<b>Expiration Date</b>
<b>PPL</b>		
Indemnifications related to the WPD Midlands acquisition	(b)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 11 (c)	2015
WPD guarantee of pension and other obligations of unconsolidated entities	91 (d)	2015
<b>PPL Energy Supply</b>		
Letters of credit issued on behalf of affiliates	23 (e)	2013 - 2014
Retrospective premiums under nuclear insurance programs	48 (f)	
Nuclear claims assessment under The Price-Anderson Act Amendments under The Energy Policy Act of 2005	235 (g)	
Indemnifications for sales of assets	250 (h)	2025
Indemnification to operators of jointly owned facilities	6 (i)	
Guarantee of a portion of a divested unconsolidated entity's debt	22 (j)	2018

	Exposure at December 31, 2012 (a)	Expiration Date
<b>PPL Electric</b> Guarantee of inventory value	21 (k)	2016
<b>LKE</b> Indemnification of lease termination and other divestitures	301 (l)	2021 - 2023
<b>LG&amp;E and KU</b> LG&E and KU guarantee of shortfall related to OVEC	(m)	

- (a) Represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee.
- (b) Prior to PPL's acquisition, WPD Midlands Holdings Limited had agreed to indemnify certain former directors of a Turkish entity in which WPD Midlands Holdings Limited previously owned an interest, for any liabilities that may arise as a result of an investigation by Turkish tax authorities, and PPL WEM has received a cross-indemnity from E.ON AG with respect to these indemnification obligations. Additionally, PPL subsidiaries agreed to provide indemnifications to subsidiaries of E.ON AG for certain liabilities relating to properties and assets owned by affiliates of E.ON AG that were transferred to WPD Midlands in connection with the acquisition. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (c) In connection with the liquidation of wholly owned subsidiaries that have been deconsolidated upon turning the entities over to the liquidators, certain affiliates of PPL Global have agreed to indemnify the liquidators, directors and/or the entities themselves for any liabilities or expenses arising during the liquidation process, including liabilities and expenses of the entities placed into liquidation. In some cases, the indemnifications are limited to a maximum amount that is based on distributions made from the subsidiary to its parent either prior or subsequent to being placed into liquidation. In other cases, the maximum amount of the indemnifications is not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases in which the agreements provide for a specific limit on the amount of the indemnification, and the expiration date was based on an estimate of the dissolution date of the entities.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters. In addition, in connection with certain of these sales, WPD and its affiliates have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Finally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

- (d) As a result of the privatization of the utility industry in the U.K., certain electric associations' roles and responsibilities were discontinued or modified. As a result, certain obligations, primarily pension-related, associated with these organizations have been guaranteed by the participating members. Costs are allocated to the members based on predetermined percentages as outlined in specific agreements. However, if a member becomes insolvent, costs can be reallocated to and are guaranteed by the remaining members. At December 31, 2012, WPD has recorded an estimated discounted liability based on its current allocated percentage of the total expected costs for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements. Therefore, they have been estimated based on the types of obligations.
- (e) Standby letter of credit arrangements under PPL Energy Supply's credit facilities for the purposes of protecting various third parties against nonperformance by PPL. This is not a guarantee by PPL on a consolidated basis.
- (f) PPL Susquehanna is contingently obligated to pay this amount related to potential retrospective premiums that could be assessed under its nuclear insurance programs. See "Nuclear Insurance" above for additional information.
- (g) This is the maximum amount PPL Susquehanna could be assessed for each incident at any of the nuclear reactors covered by this Act. See "Nuclear Insurance" above for additional information.
- (h) PPL Energy Supply's maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because, in the case of certain indemnification provisions, the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitation. The exposure and expiration dates noted are only for those cases in which the agreements provide for specific limits. The indemnification provisions described below are in each case subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchaser of the Long Island generation business for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including liabilities relating to certain renewable energy facilities which were previously owned by one of the PPL subsidiaries sold in the transaction but which were unrelated to the Long Island generation business. The indemnification provisions for most representations and warranties expired in the third quarter of 2011.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchasers of the Maine hydroelectric facilities for damages arising out of any breach of the representations, warranties and covenants under the respective transaction agreements and for damages arising out of certain other matters, including liabilities of the PPL Energy Supply subsidiary relating to the pre-closing ownership or operation of those hydroelectric facilities. The indemnification provisions for most representations and warranties expired in the fourth quarter of 2012.

Subsidiaries of PPL Energy Supply have agreed to provide indemnification to the purchasers of certain non-core generation facilities sold in March 2011 for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreements and for damages arising out of certain other matters relating to the facilities that were the subject of the transaction, including certain reduced capacity payments (if any) at one of the facilities in the event specified PJM rule changes are proposed and become effective. The indemnification provisions for most representations and warranties expired in the first quarter of 2012.

- (i) In December 2007, a subsidiary of PPL Energy Supply executed revised owners agreements for two jointly owned facilities, the Keystone and Conemaugh generating plants. The agreements require that in the event of any default by an owner, the other owners fund contributions for the operation of the generating plants, based upon their ownership percentages. The non-defaulting owners, who make up the defaulting owner's obligations, are entitled to the generation entitlement of the defaulting owner, based upon their ownership percentage. The exposure shown reflects the PPL Energy Supply subsidiary's share of the maximum obligation. The agreements do not have an expiration date.



- (j) A PPL Energy Supply subsidiary owned a one-third equity interest in Safe Harbor Water Power Corporation (Safe Harbor) that was sold in March 2011. Beginning in 2008, PPL Energy Supply guaranteed one-third of any amounts payable with respect to certain senior notes issued by Safe Harbor. Under the terms of the sale agreement, PPL Energy Supply continues to guarantee the portion of Safe Harbor's debt, but received a cross-indemnity from the purchaser, secured by a lien on the purchaser's stock of Safe Harbor, in the event PPL Energy Supply is required to make a payment under the guarantee. The exposure noted reflects principal only. See Note 9 for additional information on the sale of this interest.
- (k) PPL Electric entered into a contract with a third party logistics firm that provides inventory procurement and fulfillment services. Under the contract, the logistics firm has title to the inventory purchased for PPL Electric's use. Upon termination of the contract, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold by the logistics firm at the weighted-average cost at which the logistics firm purchased the inventory, thus protecting the logistics firm from reductions in the fair value of the inventory.
- (l) LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. See Note 9 for additional information. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of \$200 million. Certain items such as government fines and penalties fall outside the cumulative cap. LKE has contested the applicability of the indemnification requirement relating to one matter presented by a counterparty under this guarantee. Another guarantee with a maximum exposure of \$100 million covering other indemnifications expires in 2023. In May 2012, LKE's indemnitee received an arbitration panel's decision affecting this matter, which granted LKE's indemnitee certain rights of first refusal to purchase excess power at a market-based price rather than at an absolute fixed price. In January 2013, LKE's indemnitee commenced a proceeding in the Kentucky Court of Appeals appealing a December 2012 order of the Henderson Circuit Court confirming the arbitration award. LKE believes its indemnification obligations in this matter remain subject to various uncertainties, including the potential for additional legal challenges regarding the arbitration decision as well as future prices, availability and demand for the subject excess power. LKE continues to evaluate various legal and commercial options with respect to this indemnification matter. The ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. In the second quarter of 2012, LKE adjusted its estimated liability for certain of these indemnifications by \$9 million (\$5 million after-tax), which is reflected in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statement of Income. The adjustment was recorded in the Kentucky Regulated segment for PPL. LKE cannot predict the ultimate outcomes of such indemnification circumstances, but does not currently expect such outcomes to result in significant losses above the amounts recorded.
- (m) As described in the "Energy Purchase Commitments" above, pursuant to the OVEC power purchase contract, expiring in June 2040, LG&E and KU are obligated to pay a demand charge which includes, among other charges, debt service and amortization toward principal retirement, decommissioning costs, post-retirement and post-employment benefits costs (other than pensions), and reimbursement of plant operating, maintenance and other expenses. The demand charge is expected to cover LG&E's and KU's shares of the cost of the listed items over the term of the contract. However, in the event there is a shortfall in covering these costs, LG&E and KU are obligated to pay their share of the excess debt service, post-retirement and decommissioning costs. The maximum exposure and the expiration date of these potential obligations are not presently determinable.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage requires a maximum \$4 million deductible per occurrence and provides maximum aggregate coverage of \$200 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

## 16. Related Party Transactions

*(PPL Energy Supply and PPL Electric)*

### PLR Contracts/Purchase of Accounts Receivable

PPL Electric holds competitive solicitations for PLR generating supply. PPL EnergyPlus has been awarded a portion of the PLR generation supply through these competitive solicitations. See Note 15 for additional information on the solicitations. The sales and purchases between PPL EnergyPlus and PPL Electric are included in the Statements of Income as "Wholesale energy marketing to affiliate" by PPL Energy Supply and as "Energy purchases from affiliate" by PPL Electric.

Under the standard Supply Master Agreement for the solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. PPL EnergyPlus is required to post collateral with PPL Electric: (a) when the market price of electricity to be delivered by PPL EnergyPlus exceeds the contract price for the forecasted quantity of electricity to be delivered and (b) this market price exposure exceeds a contractual credit limit. Based on the current credit rating of PPL Energy Supply, as guarantor, PPL EnergyPlus' credit limit was \$35 million at December 31, 2012. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts.

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 1 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including PPL EnergyPlus.

At December 31, 2012, PPL Energy Supply had a net credit exposure of \$27 million to PPL Electric from its commitment as a PLR supplier and from the sale of its accounts receivable to PPL Electric.

**Wholesale Sales and Purchases (LG&E and KU)**

LG&E and KU 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 reflected in the Statements of Income as "Electric revenue from affiliate" and "Energy purchases from affiliate" and are recorded at a price equal to the seller's fuel cost. Savings realized from such intercompany transactions are shared equally between both companies. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

**Allocations of PPL Services Costs (PPL Energy Supply, PPL Electric and LKE)**

PPL Services provides corporate functions such as financial, legal, human resources and information technology services. PPL Services charges the respective PPL subsidiaries for the cost of such services when they can be specifically identified. The cost of the services that is not directly charged to PPL subsidiaries is allocated to applicable subsidiaries based on an average of the subsidiaries' relative invested capital, operation and maintenance expenses and number of employees. PPL Services charged the following amounts for the years ended December 31, which PPL management believes are reasonable, including amounts applied to accounts that are further distributed between capital and expense.

	2012	2011	2010
PPL Energy Supply	\$ 212	\$ 189	\$ 232
PPL Electric	157	145	134
LKE	15	16	3 (a)

(a) Represents costs allocated during the two months ended December 31, 2010 as LKE was acquired November 1, 2010.

**Intercompany Billings by LKS (LG&E and KU)**

LKS provides LG&E and KU with a variety of centralized administrative, management and support services. The cost of these services is directly charged to the company or, for general costs that cannot be directly attributed, charged based on predetermined allocation factors, including the following measures: number of customers, total assets, revenues, number of employees and/or other statistical information. LKS charged the amounts in the table below, which LKE management believes are reasonable, including amounts that are further distributed between capital and expense.

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
LG&E	\$ 186	\$ 190	\$ 32	\$ 200
KU	161	204	34	222

In addition, LG&E and KU provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LKS.

**Intercompany Borrowings**

*(PPL Energy Supply)*

A PPL Energy Supply subsidiary periodically holds revolving lines of credit and demand notes from certain affiliates that are reflected in "Note receivable from affiliates" on the Balance Sheet. At December 31, 2012, there were no outstanding balances. At December 31, 2011, a note with PPL Energy Funding had an outstanding balance of \$198 million with an interest rate of 3.77%. Interest earned on these revolving facilities is included in "Interest Income from Affiliates" on the Statements of Income. For 2012, interest earned on borrowings was insignificant. For 2011, interest earned on borrowings,

which was substantially attributable to borrowings by PPL Energy Funding as discussed above, was \$8 million. For 2010, interest earned on borrowings, excluding the term notes discussed below, was \$5 million with interest rates equal to one-month LIBOR plus a spread.

*(PPL Energy Supply, LKE, LG&E and KU)*

In November 2010, a PPL Energy Supply subsidiary held term notes with LG&E and KU. These notes were subsequently repaid and therefore no balances were outstanding at December 31, 2010. Interest on these notes was included in "Interest Income from Affiliates" for PPL Energy Supply and "Interest Expense with Affiliate" for LKE, LG&E and KU. When balances were outstanding, interest on these notes was insignificant for 2010.

*(LKE)*

LKE maintains a \$300 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At December 31, 2012, \$25 million was outstanding and was reflected in "Notes payable with affiliates" on the Balance Sheet. The interest rate on the outstanding borrowing at December 31, 2012 was 1.71%. The line of credit was held by another PPL subsidiary in 2011. No balance was outstanding at December 31, 2011. Interest on the revolving line of credit was not significant for 2012 or 2011.

LKE maintains an agreement with a PPL affiliate that has a \$300 million borrowing limit whereby LKE can loan funds on a short-term basis at market-based rates. At December 31, 2012, there was no outstanding balance. At December 31, 2011, \$15 million was outstanding and was reflected in "Notes receivable from affiliates" on the Balance Sheet. The interest rates on loans are based on the PPL affiliate's credit rating and are currently equal to one-month LIBOR plus a spread. The interest rate on the outstanding borrowing at December 31, 2011 was 2.27%. Interest income on this note was not significant in 2012 or 2011.

*(LG&E)*

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At December 31, 2012 and 2011, there was no balance outstanding. Interest expense incurred and interest income earned on the money pool agreement with LKE and/or KU was not significant for 2012, 2011 or 2010.

*(KU)*

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At December 31, 2012 and 2011, there was no balance outstanding. Interest expense incurred and interest income earned on the money pool agreement with LKE and/or LG&E was not significant for 2012, 2011 or 2010.

#### **Intercompany Derivatives (LKE, LG&E and KU)**

In November 2012, LG&E and KU entered into forward-starting interest rate swaps with PPL for notional amounts of \$150 million each. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties. See Note 19 for additional information on intercompany derivatives.

*(PPL Energy Supply)*

#### **Trademark Royalties**

A PPL subsidiary owns PPL trademarks and billed certain affiliates for their use under a licensing agreement. This agreement was terminated in December 2011. PPL Energy Supply was charged \$40 million of license fees in 2011 and 2010. These charges are primarily included in "Other operation and maintenance" on the Statements of Income.

## Distribution of Interest in PPL Global to Parent

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 9 for additional information.

### Intercompany Insurance (PPL Electric)

PPL Power Insurance Ltd. (PPL Power Insurance) is a subsidiary of PPL that provides insurance coverage to PPL and its subsidiaries for property damage, general/public liability and workers' compensation.

Due to damages resulting from several PUC-reportable storms that occurred in 2012 and 2011, PPL Electric exceeded its deductible for both policy years. Probable recoveries on insurance claims with PPL Power Insurance of \$18.25 million for 2012 and \$26.5 million for 2011 were recorded in those years, of which \$14 million and \$16 million were included in "Other operation and maintenance" on the Statements of Income. In both years, the remainder was recorded in PP&E on the Balance Sheets. In September 2012, PPL Electric received \$26.5 million from the settlement of its 2011 claims.

Effective January 1, 2013, PPL Electric no longer has storm insurance with PPL Power Insurance.

### Other (PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

See Note 1 for discussions regarding the intercompany tax sharing agreement and Note 7 for a discussion regarding capital transactions by PPL Energy Supply, PPL Electric, LKE, LG&E and KU. For PPL Energy Supply, PPL Electric and LKE, refer to Note 1 for discussions regarding intercompany allocations of stock-based compensation expense. For PPL Energy Supply, PPL Electric, LG&E and KU, see Note 13 for discussions regarding intercompany allocations associated with defined benefits.

## 17. Other Income (Expense) - net

### (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The breakdown of "Other Income (Expense) - net" for the years ended December 31 was:

	PPL		
	2012	2011	2010
Other Income			
Earnings on securities in NDT funds	\$ 22	\$ 24	\$ 20
Interest income	5	7	8
AFUDC - equity component	10	7	5
Net hedge gains associated with the 2011 Bridge Facility (a)		55	
Earnings (losses) from equity method investments	(8)	1	2
Gain on redemption of debt (b)		22	
Miscellaneous - Domestic	11	10	3
Miscellaneous - U.K.	2	1	1
Total Other Income	<u>42</u>	<u>127</u>	<u>39</u>
Other Expense			
Economic foreign currency exchange contracts (Note 19)	52	(10)	(3)
Charitable contributions	10	9	4
Cash flow hedges (c)			29
LKE acquisition-related costs (Note 10)			31
WPD Midlands acquisition-related costs (Note 10)		34	
Foreign currency loss on 2011 Bridge Facility (d)		57	
U.K. stamp duty tax (Note 10)		21	
Miscellaneous - Domestic	16	9	7
Miscellaneous - U.K.	3	3	2
Total Other Expense	<u>81</u>	<u>123</u>	<u>70</u>
Other Income (Expense) - net	<u>\$ (39)</u>	<u>\$ 4</u>	<u>\$ (31)</u>

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>LKE</b>				
Other Income				
Net derivative gains (losses)				\$ 19
Interest income		\$ 1		
Earnings (losses) from equity method investments	\$ (8)	1		3
Life insurance	1			2
Miscellaneous	3	2		1
Total Other Income	(4)	4		25
Other Expense				
Charitable contributions	4	4	\$ 1	5
Joint-use-asset depreciation				3
Miscellaneous	7	1	1	3
Total Other Expense	11	5	2	11
Other Income (Expense) - net	\$ (15)	\$ (1)	\$ (2)	\$ 14
<b>LG&amp;E</b>				
Other Income				
Net derivative gains (losses)				\$ 19
Miscellaneous	\$ 1			1
Total Other Income	1			20
Other Expense				
Charitable contributions	2	\$ 1		2
Miscellaneous	2	1	\$ 3	1
Total Other Expense	4	2	3	3
Other Income (Expense) - net	\$ (3)	\$ (2)	\$ (3)	\$ 17
<b>KU</b>				
Other Income				
Earnings (losses) from equity method investments	\$ (8)	\$ 1		\$ 3
Life insurance	1			2
Miscellaneous	1			1
Total Other Income	(6)	1		6
Other Expense				
Charitable contributions	1	1		1
Joint-use-asset depreciation				3
Miscellaneous	1	1		1
Total Other Expense	2	2		5
Other Income (Expense) - net	\$ (8)	\$ (1)		\$ 1

- (a) Represents a gain on foreign currency contracts that hedged the repayment of the 2011 Bridge Facility borrowing.
- (b) In July 2011, as a result of PPL Electric's redemption of 7.125% Senior Secured Bonds due 2013, PPL recorded a gain on the accelerated amortization of the fair value adjustment to the debt recorded in connection with previously settled fair value hedges.
- (c) Represents losses reclassified from AOCI into earnings associated with discontinued hedges at PPL for debt that had been planned to be issued by PPL Energy Supply. As a result of the expected net proceeds from the sale of certain non-core generation facilities, coupled with the monetization of full-requirement sales contracts, the debt issuance was no longer needed.
- (d) Represents a foreign currency loss related to the repayment of the 2011 Bridge Facility borrowing.

"Other Income (Expense) - net" for the years ended December 31, 2012, 2011 and 2010 is primarily earnings on securities in NDT funds for PPL Energy Supply and the equity component of AFUDC for PPL Electric.

## 18. Fair Value Measurements and Credit Concentration

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions 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. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During 2012, there were no transfers between Level 1 and Level 2.

## Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	December 31, 2012				December 31, 2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>PPL</b>								
<b>Assets</b>								
Cash and cash equivalents	\$ 901	\$ 901			\$ 1,202	\$ 1,202		
Restricted cash and cash equivalents (a)	135	135			209	209		
Price risk management assets:								
Energy commodities	2,068	2	\$ 2,037	\$ 29	3,423	3	\$ 3,390	\$ 30
Interest rate swaps	15		15		3		3	
Foreign currency contracts					18		18	
Cross-currency swaps	14		13	1	24		20	4
Total price risk management assets	2,097	2	2,065	30	3,468	3	3,431	34
NDT funds:								
Cash and cash equivalents	11	11			12	12		
Equity securities								
U.S. large-cap	412	308	104		357	267	90	
U.S. mid/small-cap	60	25	35		52	22	30	
Debt securities								
U.S. Treasury	95	95			86	86		
U.S. government sponsored agency	9		9		10		10	
Municipality	82		82		83		83	
Investment-grade corporate	40		40		38		38	
Other	3		3		2		2	
Receivables (payables), net		(2)	2			(3)	3	
Total NDT funds	712	437	275		640	384	256	
Auction rate securities (b)	19		3	16	24			24
Total assets	\$ 3,864	\$ 1,475	\$ 2,343	\$ 46	\$ 5,543	\$ 1,798	\$ 3,687	\$ 58
<b>Liabilities</b>								
Price risk management liabilities:								
Energy commodities	\$ 1,566	\$ 2	\$ 1,557	\$ 7	\$ 2,345	1	\$ 2,327	\$ 17
Interest rate swaps	80		80		63		63	
Foreign currency contracts	44		44					
Cross-currency swaps	4		4		2		2	
Total price risk management liabilities	\$ 1,694	\$ 2	\$ 1,685	\$ 7	\$ 2,410	1	\$ 2,392	\$ 17
<b>PPL Energy Supply</b>								
<b>Assets</b>								
Cash and cash equivalents	\$ 413	\$ 413			\$ 379	\$ 379		
Restricted cash and cash equivalents (a)	63	63			145	145		
Price risk management assets:								
Energy commodities	2,068	2	\$ 2,037	\$ 29	3,423	3	\$ 3,390	\$ 30
Total price risk management assets	2,068	2	2,037	29	3,423	3	3,390	30
NDT funds:								
Cash and cash equivalents	11	11			12	12		
Equity securities								
U.S. large-cap	412	308	104		357	267	90	
U.S. mid/small-cap	60	25	35		52	22	30	
Debt securities								
U.S. Treasury	95	95			86	86		
U.S. government sponsored agency	9		9		10		10	
Municipality	82		82		83		83	
Investment-grade corporate	40		40		38		38	
Other	3		3		2		2	
Receivables (payables), net		(2)	2			(3)	3	
Total NDT funds	712	437	275		640	384	256	
Auction rate securities (b)	16		3	13	19			19
Total assets	\$ 3,272	\$ 915	\$ 2,315	\$ 42	\$ 4,606	\$ 911	\$ 3,646	\$ 49
<b>Liabilities</b>								
Price risk management liabilities:								
Energy commodities	\$ 1,566	\$ 2	\$ 1,557	\$ 7	\$ 2,345	\$ 1	\$ 2,327	\$ 17
Total price risk management liabilities	\$ 1,566	\$ 2	\$ 1,557	\$ 7	\$ 2,345	\$ 1	\$ 2,327	\$ 17

	December 31, 2012				December 31, 2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>PPL Electric</b>								
Assets								
Cash and cash equivalents	\$ 140	\$ 140			\$ 320	\$ 320		
Restricted cash and cash equivalents (c)	13	13			13	13		
Total assets	<u>\$ 153</u>	<u>\$ 153</u>			<u>\$ 333</u>	<u>\$ 333</u>		
<b>LKE</b>								
Assets								
Cash and cash equivalents	\$ 43	\$ 43			\$ 59	\$ 59		
Restricted cash and cash equivalents (d)	32	32			29	29		
Price risk management assets:								
Interest rate swaps	14		\$ 14					
Total price risk management assets	14		14					
Total assets	<u>\$ 89</u>	<u>\$ 75</u>	<u>\$ 14</u>		<u>\$ 88</u>	<u>\$ 88</u>		
Liabilities								
Price risk management liabilities:								
Interest rate swaps (e)	\$ 58		\$ 58		\$ 60		\$ 60	
Total price risk management liabilities	<u>\$ 58</u>		<u>\$ 58</u>		<u>\$ 60</u>		<u>\$ 60</u>	
<b>L&amp;G&amp;E</b>								
Assets								
Cash and cash equivalents	\$ 22	\$ 22			\$ 25	\$ 25		
Restricted cash and cash equivalents (d)	32	32			29	29		
Price risk management assets:								
Interest rate swaps	7		\$ 7					
Total price risk management assets	7		7					
Total assets	<u>\$ 61</u>	<u>\$ 54</u>	<u>\$ 7</u>		<u>\$ 54</u>	<u>\$ 54</u>		
Liabilities								
Price risk management liabilities:								
Interest rate swaps (e)	\$ 58		\$ 58		\$ 60		\$ 60	
Total price risk management liabilities	<u>\$ 58</u>		<u>\$ 58</u>		<u>\$ 60</u>		<u>\$ 60</u>	
<b>KU</b>								
Assets								
Cash and cash equivalents	\$ 21	\$ 21			\$ 31	\$ 31		
Price risk management assets:								
Interest rate swaps	7		\$ 7					
Total price risk management assets	7		7					
Total assets	<u>\$ 28</u>	<u>\$ 21</u>	<u>\$ 7</u>		<u>\$ 31</u>	<u>\$ 31</u>		

- (a) Current portion is included in "Restricted cash and cash equivalents" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.  
(b) Included in "Other investments" on the Balance Sheets.  
(c) Current portion is included in "Other current assets" and the long-term portion is included in "Other noncurrent assets" on the Balance Sheets.  
(d) Included in "Other noncurrent assets" on the Balance Sheets.  
(e) Current portion is included in "Other current liabilities" on the Balance Sheets. The long-term portion is included in "Price risk management liabilities" on the Balance Sheets.

A reconciliation of net assets and liabilities classified as Level 3 for the years ended is as follows:

	PPL			
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
<b>December 31, 2012</b>				
Balance at beginning of period	\$ 13	\$ 24	\$ 4	\$ 41
Total realized/unrealized gains (losses)				
Included in earnings	2		(1)	1
Included in OCI (a)	1		1	2
Sales		(5)		(5)
Settlements	(13)			(13)
Transfers into Level 3	8			8
Transfers out of Level 3	11	(3)	(3)	5
Balance at end of period	<u>\$ 22</u>	<u>\$ 16</u>	<u>\$ 1</u>	<u>\$ 39</u>

	PPL			Total
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	
<b>December 31, 2011</b>				
Balance at beginning of period	\$ (3)	\$ 25		\$ 22
Total realized/unrealized gains (losses)				
Included in earnings	(65)			(65)
Included in OCI (a)	(1)	(1)	(10)	(12)
Purchases	1			1
Sales	(3)			(3)
Settlements	20			20
Transfers into Level 3	(10)		14	4
Transfers out of Level 3	74			74
Balance at end of period	<u>\$ 13</u>	<u>\$ 24</u>	<u>\$ 4</u>	<u>\$ 41</u>

(a) "Energy Commodities" and "Cross-Currency Swaps" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

A reconciliation of net assets and liabilities classified as Level 3 for the years ended is as follows:

	PPL Energy Supply			Total
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Energy Commodities, net	Auction Rate Securities		
<b>December 31, 2012</b>				
Balance at beginning of period	\$ 13	\$ 19		\$ 32
Total realized/unrealized gains (losses)				
Included in earnings	2			2
Included in OCI (a)	1			1
Sales		(3)		(3)
Settlements	(13)			(13)
Transfers into Level 3	8			8
Transfers out of Level 3	11	(3)		8
Balance at end of period	<u>\$ 22</u>	<u>\$ 13</u>		<u>\$ 35</u>
<b>December 31, 2011</b>				
Balance at beginning of period	\$ (3)	\$ 20		\$ 17
Total realized/unrealized gains (losses)				
Included in earnings	(65)			(65)
Included in OCI (a)	(1)	(1)		(2)
Purchases	1			1
Sales	(3)			(3)
Settlements	20			20
Transfers into Level 3	(10)			(10)
Transfers out of Level 3	74			74
Balance at end of period	<u>\$ 13</u>	<u>\$ 19</u>		<u>\$ 32</u>

(a) "Energy Commodities" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

The significant unobservable inputs used in the fair value measurement of assets and liabilities classified as Level 3 at December 31, 2012 are as follows:



**Quantitative Information about Level 3 Fair Value Measurements**

	<b>Fair Value, net Asset (Liability)</b>	<b>Valuation Technique</b>	<b>Unobservable Input(s)</b>	<b>Range (Weighted Average) (a)</b>
<b>PPL</b>				
Energy commodities				
Retail natural gas sales contracts (b)	24	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	21% - 100% (75%)
Power sales contracts (c)	(4)	Discounted cash flow	Proprietary model used to calculate forward basis prices	24% (24%)
FTR purchase contracts (d)	2	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Auction rate securities (e)	16	Discounted cash flow	Modeled from SIFMA Index	54% - 74% (64%)
Cross-currency swaps (f)	1	Discounted cash flow	Credit valuation adjustment	22% (22%)

**PPL Energy Supply**

Energy commodities

Retail natural gas sales contracts (b)	24	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	21% - 100% (75%)
Power sales contracts (c)	(4)	Discounted cash flow	Proprietary model used to calculate forward basis prices	24% (24%)
FTR purchase contracts (d)	2	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Auction rate securities (e)	13	Discounted cash flow	Modeled from SIFMA Index	57% - 74% (65%)

- (a) For energy commodities and auction rate securities, the range and weighted average represent the percentage of fair value derived from the unobservable inputs. For cross-currency swaps, the range and weighted average represent the percentage decrease in fair value due to the unobservable inputs used in the model to calculate the credit valuation adjustment.
- (b) Retail natural gas sales contracts extend into 2017. \$11 million of the fair value is scheduled to deliver within the next 12 months. As the forward price of natural gas increases/(decreases), the fair value of the contracts (decreases)/increases.
- (c) Power sales contracts extend into 2014. \$(4) million of the fair value is scheduled to deliver within the next 12 months. As the forward price of basis increases/(decreases), the fair value of the contracts (decreases)/increases.
- (d) FTR purchase contracts extend into 2015. \$2 million of the fair value is scheduled to deliver within the next 12 months. As the forward implied spread increases/(decreases), the fair value of the contracts increases/(decreases).
- (e) Auction rate securities have a weighted average contractual maturity of 23 years. The model used to calculate fair value incorporates an assumption that the auctions will continue to fail. As the modeled forward rates of the SIFMA Index increase/(decrease), the fair value of the securities increases/(decreases).
- (f) Cross-currency swaps extend into 2017. The credit valuation adjustment incorporates projected probabilities of default and estimated recovery rates. As the credit valuation adjustment increases/(decreases), the fair value of the swaps (decreases)/increases.

Net gains and losses on assets and liabilities classified as Level 3 and included in earnings for the years ended December 31 were reported in the Statements of Income as follows:

	Energy Commodities, net								Cross-Currency Swaps	
	Unregulated Retail Electric and Gas		Wholesale Energy Marketing		Net Energy Trading Margins		Energy Purchases		Interest Expense	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
<b>PPL</b>										
Total gains (losses) included in earnings	\$ 26	\$ 32	\$ (7)		\$ (12)	\$ (1)	\$ (5)	\$ (96)	\$ (1)	
Change in unrealized gains (losses) relating to positions still held at the reporting date	29	23	(4)	5	1	1	1	(2)		
<b>PPL Energy Supply</b>										
Total gains (losses) included in earnings	26	32	(7)		(12)	(1)	(5)	(96)		
Change in unrealized gains (losses) relating to positions still held at the reporting date	29	23	(4)	5	1	1	1	(2)		

**Price Risk Management Assets/Liabilities - Energy Commodities (PPL and PPL Energy Supply)**

Energy commodity contracts are generally valued using the income approach, except for exchange-traded derivative gas and oil contracts, which are valued using the market approach and are classified as Level 1. When the lowest level inputs that are significant to the fair value measurement of a contract are observable, the contract is classified as Level 2. Level 2 contracts are valued using inputs which may include quotes obtained from an exchange (where there is insufficient market liquidity to warrant inclusion in Level 1), binding and non-binding broker quotes, prices posted by ISOs or published tariff rates. Furthermore, independent quotes are obtained from the market to validate the forward price curves. These contracts include

forwards, swaps, options and structured transactions for electricity, gas, oil and/or emission allowances and may be offset with similar positions in exchange-traded markets. To the extent possible, fair value measurements utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these contracts may be valued using models, including standard option valuation models and standard industry models. For example, the fair value of a full-requirement sales contract that delivers power to an illiquid delivery point may be measured by valuing the nearest liquid trading point plus the value of the basis between the two points. The basis input may be from market quotes or historical prices.

When unobservable inputs are significant to the fair value measurement, a contract is classified as Level 3. The fair value of contracts classified as Level 3 has been calculated using PPL proprietary models which include significant unobservable inputs such as delivery at a location where pricing is unobservable, assumptions for customer migration or delivery dates that are beyond the dates for which independent quotes are available. Forward transactions, including forward transactions classified as Level 3, are analyzed by PPL's Risk Management department, which reports to the Chief Financial Officer (CFO). Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the forward transactions in the fair value hierarchy. Valuation techniques are evaluated periodically. Additionally, Level 2 and Level 3 fair value measurements include adjustments for credit risk based on PPL's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). PPL's credit department assesses all reasonably available market information which is used by accounting personnel to calculate the credit valuation adjustment.

In certain instances, energy commodity contracts are transferred between Level 2 and Level 3. The primary reasons for the transfers during 2012 and 2011 were changes in the availability of market information and changes in the significance of the unobservable inputs utilized in the valuation of the contract. As the delivery period of a contract becomes closer, market information may become available. When this occurs, the model's unobservable inputs are replaced with observable market information.

#### Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Exchange Contracts/Cross-Currency Swaps (PPL, LKE, LG&E and KU)

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency exchange risk, PPL uses foreign currency contracts such as forwards, options, and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP and Euro), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3. The primary reason for the transfers during 2012 and 2011 was the change in the significance of the credit valuation adjustment. Cross-currency swaps classified as Level 3 are valued by PPL's Corporate Finance department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret analysis quarterly to appropriately classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

*(PPL and PPL Energy Supply)*

#### NDT Funds

The market approach is used to measure the fair value of equity securities held in the NDT funds.

- The fair value measurements of equity securities classified as Level 1 are based on quoted prices in active markets and are comprised of securities that are representative of the Wilshire 5000 Total Market Index.
- Investments in commingled equity funds are classified as Level 2 and represent securities that track the S&P 500 Index, Dow Jones U.S. Total Stock Market Index and the Dow Jones U.S. Completion Total Stock Market Index. These fair value measurements are based on firm quotes of net asset values per share, which are not obtained from a quoted price in an active market.

Debt securities are generally measured using a market approach, including the use of matrix pricing. Common inputs include reported trades, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as benchmark yields, credit valuation adjustments, reference data from market research publications, monthly payment data, collateral performance and new issue data.

The debt securities held by the NDT funds at December 31, 2012 have a weighted-average coupon of 4.11% and a weighted-average maturity of 8.26 years.

### Auction Rate Securities

Auction rate securities include Federal Family Education Loan Program guaranteed student loan revenue bonds, as well as various municipal bond issues. The exposure to realize losses on these securities is not significant.

The fair value of auction rate securities is estimated using an income approach that includes readily observable inputs, such as principal payments and discount curves for bonds with credit ratings and maturities similar to the securities, and unobservable inputs, such as future interest rates that are estimated based on the SIFMA Index, creditworthiness, and liquidity assumptions driven by the impact of auction failures. When the present value of future interest payments is significant to the overall valuation, the auction rate securities are classified as Level 3. The primary reason for the transfer out of Level 3 in 2012 was the change in the significance of the present value of future interest payments as maturity dates approach.

Auction rate securities are valued by PPL's Treasury department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

### Nonrecurring Fair Value Measurements (PPL, PPL Energy Supply, LKE and KU)

The following nonrecurring fair value measurements occurred during the reporting periods, resulting in asset impairments.

	Carrying Amount (a)	Fair Value Measurements Using		Loss (b)
		Level 2	Level 3	
<b><u>PPL, LKE and KU</u></b>				
Equity investment in EEI:				
December 31, 2012	\$ 25			\$ 25
<b><u>PPL and PPL Energy Supply</u></b>				
Sulfur dioxide emission allowances (c):				
December 31, 2010	2		\$ 1	1
September 30, 2010	6		2	4
June 30, 2010	11		3	8
March 31, 2010	13		10	3
RECs (c):				
September 30, 2011	1			1
June 30, 2011	2	\$ 1		1
March 31, 2011	3			3
Certain non-core generation facilities:				
September 30, 2010	473	381		96

- (a) Represents carrying value before fair value measurement.  
 (b) The loss on the EEI investment was recorded in the Kentucky Regulated segment and included in "Other-Than-Temporary Impairments" on the Statement of Income. Losses on sulfur dioxide emission allowances and RECs were recorded in the Supply segment and included in "Other operation and maintenance" on the Statements of Income. Losses on certain non-core generation facilities were recorded in the Supply segment and included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statement of Income.  
 (c) Current and long-term sulfur dioxide emission allowances and RECs are included in "Other current assets" and "Other intangibles" in their respective areas on the Balance Sheets.

The significant unobservable inputs used in the nonrecurring fair value measurement of assets and liabilities classified as Level 3 at December 31, 2012 are as follows:

	Quantitative Information about Level 3 Fair Value Measurements			Range (Weighted Average)
	Fair Value, net Asset (Liability)	Valuation Technique	Unobservable Input(s)	
<b><u>PPL, LKE, and KU</u></b>				
Equity investment in EEI	\$	Discounted cash flow	Long-term forward price curves and capital expenditure projections	100% (100%)
		368		

### Equity Investment in EEI (PPL, LKE and KU)

During the fourth quarter 2012, KU recorded an other-than-temporary decline in the value of its equity investment in EEI. KU performed an internal analysis using an income approach based on discounted cash flows to assess the current fair value of its investment based on several factors. KU considered the following factors: long-dated forward power and fuel price curves, the cost of compliance with environmental standards, and the majority owner and operator's announcement in the fourth quarter 2012 to exit from the merchant generation business. Assumptions used in the fair value assessment were forward energy price curves, expectations for capacity (demand) for energy in EEI's market, and expected capital expenditures used in the calculation that were comparable to assumptions used by KU for internal budgeting and forecasting purposes. Through this analysis, KU determined the fair value to be zero.

*(PPL and PPL Energy Supply)*

### Sulfur Dioxide Emission Allowances

Due to declines in market prices, PPL Energy Supply assessed the recoverability of sulfur dioxide emission allowances not expected to be consumed. When available, observable market prices were used to value the sulfur dioxide emission allowances. When observable market prices were not available, fair value was modeled using prices from observable transactions and appropriate discount rates. The modeled values were significant to the overall fair value measurement, resulting in the Level 3 classification.

### RECs

Due to declines in forecasted full-requirement obligations in certain markets as well as declines in market prices, PPL Energy Supply assessed the recoverability of certain RECs not expected to be used. Observable market prices (Level 2) were used to value the RECs.

### Certain Non-Core Generation Facilities

Certain non-core generation facilities met the held for sale criteria at September 30, 2010. As a result, net assets held for sale were written down to their estimated fair value less cost to sell. The fair value in the table above excludes \$4 million of estimated costs to sell and was based on the negotiated sales price (achieved through an active auction process). See Note 9 for additional information on the completed sale.

### Financial Instruments Not Recorded at Fair Value (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The carrying amounts of contract adjustment payments related to the Purchase Contract component of the Equity Units and long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values of these instruments were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of the Registrants. These instruments are classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<b><u>PPL</u></b>				
Contract adjustment payments (a)	\$ 105	\$ 106	\$ 198	\$ 198
Long-term debt	19,476	21,671	17,993	19,392
<b><u>PPL Energy Supply</u></b>				
Long-term debt	3,272	3,556	3,024	3,397
<b><u>PPL Electric</u></b>				
Long-term debt	1,967	2,333	1,718	2,012
<b><u>LKE</u></b>				
Long-term debt	4,075	4,423	4,073	4,306
<b><u>LG&amp;E</u></b>				
Long-term debt	1,112	1,178	1,112	1,164
<b><u>KU</u></b>				
Long-term debt	1,842	2,056	1,842	2,000

(a) Included in "Other current liabilities" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

The carrying value of short-term debt (including notes between affiliates), when outstanding, represents or approximates fair value due to the variable interest rates associated with the financial instruments and is classified as Level 2. The carrying value of held-to-maturity, short-term investments at December 31, 2011 approximated fair value due to the liquid nature and short-term duration of these instruments.

#### **Credit Concentration Associated with Financial Instruments**

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Contracts are entered into with many entities for the purchase and sale of energy. Many of these contracts qualify for NPNS and, as such, the fair value of these contracts is not reflected in the financial statements. However, the fair value of these contracts is considered when committing to new business from a credit perspective. See Note 19 for information on credit policies used to manage credit risk, including master netting arrangements and collateral requirements.

*(PPL)*

At December 31, 2012, PPL had credit exposure of \$1.8 billion from energy trading partners, excluding the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, PPL's credit exposure was reduced to \$688 million. The top ten counterparties accounted for \$367 million, or 53%, of the net exposure and all had investment grade credit ratings from S&P or Moody's.

*(PPL Energy Supply)*

At December 31, 2012, PPL Energy Supply had credit exposure of \$1.8 billion from energy trading partners, excluding exposure from related parties and the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, this credit exposure was reduced to \$688 million. The top ten counterparties accounted for \$367 million, or 53%, of the net exposure and all had investment grade credit ratings from S&P or Moody's. See Note 16 for information regarding the related party credit exposure.

*(PPL Electric)*

At December 31, 2012, PPL Electric had no credit exposure under energy supply contracts (including its supply contracts with PPL EnergyPlus).

*(LKE, LG&E and KU)*

At December 31, 2012, LKE's, LG&E's and KU's credit exposure was not significant.

#### **19. Derivative Instruments and Hedging Activities**

##### **Risk Management Objectives**

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

PPL has a risk management policy approved by the Board of Directors to manage market risk (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The RMC, comprised of senior management and chaired by the Chief Risk Officer, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, VaR analyses, portfolio stress tests, gross margin at risk analyses, sensitivity analyses and daily portfolio reporting, including open positions, determinations of fair value and other risk management metrics.

##### **Market Risk**

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions, such as tolling agreements, are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, volumes of full-requirement sales contracts, basis exposure, interest rates and/or foreign currency exchange rates. Many of the contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless they qualify for NPNS.

The table below summarizes the market risks that affect PPL and its subsidiaries.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&amp;E</u>	<u>KU</u>
Commodity price risk (including basis and volumetric risk)	X	X	M	M	M	M
Interest rate risk:						
Debt issuances	X	X	M	M	M	M
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Equity securities price risk:						
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Future stock transactions	X					
Foreign currency risk - WPD investment	X					

X = PPL and PPL Energy Supply actively mitigate market risks through their risk management programs described above.

M = The regulatory environments for PPL's regulated entities, by definition, significantly mitigate market risk.

#### *Commodity price and volumetric risks*

- PPL Energy Supply is exposed to commodity price, basis and volumetric risks for energy and energy-related products associated with the sale of electricity from its generating assets and other electricity and gas marketing activities (including full-requirement sales contracts) and the purchase of fuel and fuel-related commodities for generating assets, as well as for proprietary trading activities;
- PPL Electric is exposed to commodity price and volumetric risks from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to market risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the volumetric risk associated with the PLR obligation to the energy suppliers; and
- LG&E's and KU's rates include certain mechanisms for fuel, gas supply and environmental expenses. These mechanisms generally provide for timely recovery of market price and volumetric fluctuations associated with these expenses.

#### *Interest rate risk*

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. WPD holds over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from foreign currency exchange rates. LG&E utilizes over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt and LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates.
- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities held by defined benefit plans. Additionally, PPL Energy Supply is exposed to interest rate risk associated with debt securities held by the NDT.

#### *Equity securities price risk*

- PPL and its subsidiaries are exposed to equity securities price risk associated with equity securities held by defined benefit plans. Additionally, PPL Energy Supply is exposed to equity securities price risk in the NDT funds.
- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

#### *Foreign currency risk*

- PPL is exposed to foreign currency exchange risk primarily associated with its investments in U.K. affiliates.

#### **Credit Risk**

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance, including defaults on payments and energy commodity deliveries.

PPL is exposed to credit risk from "in-the-money" interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

PPL Energy Supply is exposed to credit risk from "in-the-money" commodity derivatives with its energy trading partners, which include other energy companies, fuel suppliers and financial institutions.

LKE, LG&E and KU are exposed to credit risk from "in-the-money" interest rate derivatives with financial institutions.

The majority of credit risk stems from commodity derivatives for multi-year contracts for energy sales and purchases. If PPL Energy Supply's counterparties fail to perform their obligations under such contracts and PPL Energy Supply could not replace the sales or purchases at the same or better prices as those under the defaulted contracts, PPL Energy Supply would incur financial losses. Those losses would be recognized immediately or through lower revenues or higher costs in future years, depending on the accounting treatment for the defaulted contracts. In the event a supplier of LKE (through its subsidiaries LG&E and KU) or PPL Electric defaults on its obligation, those entities would be required to seek replacement power or replacement fuel in the market. In general, incremental costs incurred by these entities would be recoverable from customers in future rates, thus mitigating the risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade or their exposures exceed an established credit limit. See Note 18 for credit concentration associated with energy trading partners.

#### **Master Netting Arrangements**

Net derivative positions are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL's and PPL Energy Supply's obligation to return counterparty cash collateral under master netting arrangements was \$112 million and \$147 million at December 31, 2012 and December 31, 2011.

PPL Electric, LKE, and LG&E had no obligation to return cash collateral under master netting arrangements at December 31, 2012 and December 31, 2011.

PPL, LKE and LG&E had posted cash collateral under master netting arrangements of \$32 million at December 31, 2012 and \$29 million at December 31, 2011.

PPL Energy Supply and PPL Electric had not posted any cash collateral under master netting arrangements at December 31, 2012 and December 31, 2011.

*(PPL and PPL Energy Supply)*

#### **Commodity Price Risk (Non-trading)**

Commodity price risk, including basis and volumetric risk, is among PPL's and PPL Energy Supply's most significant risks due to the level of investment that PPL and PPL Energy Supply maintain in their competitive generation assets, as well as the extent of their marketing activities. Several factors influence price levels and volatilities. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation/transmission availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations.

PPL Energy Supply maximizes the value of its wholesale and retail energy portfolios through the use of non-trading strategies that include sales of competitive baseload generation, optimization of competitive intermediate and peaking generation and marketing activities.

PPL Energy Supply has a formal hedging program to economically hedge the forecasted purchase and sale of electricity and related fuels for its competitive baseload generation fleet, which includes 7,275 MW (summer rating) of nuclear, coal and hydroelectric generating capacity. PPL Energy Supply attempts to optimize the overall value of its competitive intermediate and peaking fleet, which includes 3,316 MW (summer rating) of natural gas and oil-fired generation. PPL Energy Supply's marketing portfolio is comprised of full-requirement sales contracts and related supply contracts, retail natural gas and electricity sales contracts and other marketing activities. The strategies that PPL Energy Supply uses to hedge its full-

requirement sales contracts include purchasing energy (at a liquid trading hub or directly at the load delivery zone), capacity and RECs in the market and/or supplying the energy, capacity and RECs from its generation assets.

PPL and PPL Energy Supply enter into financial and physical derivative contracts, including forwards, futures, swaps and options, to hedge the price risk associated with electricity, natural gas, oil and other commodities. Certain contracts qualify for NPNS or are non-derivatives and are therefore not reflected in the financial statements until delivery. PPL and PPL Energy Supply segregate their non-trading activities into two categories: cash flow hedges and economic activity. In addition, the monetization of certain full-requirement sales contracts in 2010 impacted both the cash flow hedge and economic activity, as discussed below.

#### Monetization of Certain Full-Requirement Sales Contracts

In July 2010, in order to raise additional cash for the LKE acquisition, PPL Energy Supply monetized certain full-requirement sales contracts that resulted in cash proceeds of \$249 million and triggered certain accounting:

- A portion of these sales contracts had previously been accounted for as NPNS and received accrual accounting treatment. PPL Energy Supply could no longer assert that it was probable that any contracts with these counterparties would result in physical delivery. Therefore, the fair value of the NPNS contracts of \$160 million was recorded on the Balance Sheet in "Price risk management assets," with a corresponding gain of \$144 million recorded to "Wholesale energy marketing - Realized" on the Statement of Income, and \$16 million recorded to "Wholesale energy marketing - Unrealized economic activity," related to full-requirement sales contracts that had not been monetized.
- The related purchases to supply these sales contracts were accounted for as cash flow hedges, with the effective portion of the change in fair value being recorded in AOCI and the ineffective portion recorded in "Energy purchases - Unrealized economic activity." The corresponding cash flow hedges were redesignated and all amounts previously recorded in AOCI were reclassified to earnings. This resulted in a pre-tax reclassification of \$(173) million of losses from AOCI into "Energy purchases - Unrealized economic activity" on the Statement of Income. An additional charge of \$(39) million was also recorded in "Wholesale energy marketing - Unrealized economic activity" on the Statement of Income to reflect the fair value of the sales contracts previously accounted for as economic activity.
- The net result of these transactions, excluding the full-requirement sales contracts that have not been monetized, was a loss of \$(68) million, or \$(40) million, after tax.

The proceeds of \$249 million from these monetizations are reflected in the Statement of Cash Flows as a component of "Net cash provided by operating activities."

#### Cash Flow Hedges

Certain derivative contracts have qualified for hedge accounting so that the effective portion of a derivative's gain or loss is deferred in AOCI and reclassified into earnings when the forecasted transaction occurs. The cash flow hedges that existed at December 31, 2012 range in maturity through 2016. At December 31, 2012, the accumulated net unrecognized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were \$124 million for PPL and PPL Energy Supply. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedge transaction is probable of not occurring. For 2012 and 2011 such reclassifications were insignificant. For 2010, such reclassifications were after-tax gains (losses) of \$(89) million. The amounts recorded in 2010 were primarily due to the monetization of certain full-requirement sales contracts, for which the associated hedges are no longer required, as discussed above.

Hedge ineffectiveness associated with energy derivatives was insignificant in 2012. For 2011 and 2010, after-tax gains (losses) from hedge ineffectiveness were \$(22) million and \$(30) million.

Prior to the adoption of new accounting guidance, in 2010, after-tax gains of \$82 million, which had been recognized in a previous period due to ineffectiveness on cash flow hedges, were reversed from earnings based on prospective regression analysis demonstrating that these hedges were expected to be highly effective over their term.



## Economic Activity

Many derivative contracts economically hedge the commodity price risk associated with electricity, natural gas, oil and other commodities but do not receive hedge accounting treatment because they were not eligible for hedge accounting or for which hedge accounting was not elected. These derivatives hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and unregulated full-requirement and retail contracts, which are subject to changes in fair value due to market price volatility and volume expectations. Additionally, economic activity includes the ineffective portion of qualifying cash flow hedges (see "Cash Flow Hedges" above). The derivative contracts in this category that existed at December 31, 2012 range in maturity through 2019.

Examples of economic activity include hedges on sales of baseload generation, certain purchase contracts used to supply full-requirement sales contracts, FTRs or basis swaps used to hedge basis risk associated with the sale of competitive generation or supplying unregulated full-requirement sales contracts, Spark Spread hedging contracts, retail electric and natural gas activities, and fuel oil swaps used to hedge price escalation clauses in coal transportation and other fuel-related contracts. PPL Energy Supply also uses options, which include the sale of call options and the purchase of put options tied to a particular generating unit. Since the physical generating capacity is owned, price exposure is generally limited to the cost of the generating unit and does not expose PPL Energy Supply to uncovered market price risk.

Unrealized activity associated with monetizing certain full-requirement sales contracts was also included in economic activity during 2012, 2011 and 2010.

The net fair value of economic positions at December 31, 2012 and December 31, 2011 was a net asset (liability) of \$346 million and \$(63) million for PPL and PPL Energy Supply. The unrealized gains (losses) for economic activity were as follows.

	2012	2011	2010
Operating Revenues			
Unregulated retail electric and gas	\$ (17)	\$ 31	\$ 1
Wholesale energy marketing	(311)	1,407	(805)
Operating Expenses			
Fuel	(14)	6	29
Energy purchases	442	(1,123)	286

The net gains (losses) recorded in "Wholesale energy marketing" resulted primarily from hedges of baseload generation, from certain full-requirement sales contracts, from hedge ineffectiveness, as discussed in "Cash Flow Hedges" above, and from the monetization of certain full-requirement sales contracts in 2010, also discussed above. The net gains (losses) recorded in "Energy purchases" resulted primarily from certain purchase contracts to supply the full-requirement sales contracts noted above, from hedge ineffectiveness, and from purchase contracts that no longer hedge the full-requirement sales contracts that were monetized in 2010.

*(PPL and PPL Energy Supply)*

## **Commodity Price Risk (Trading)**

PPL Energy Supply also has a proprietary trading strategy which is utilized to take advantage of market opportunities. As a result, PPL Energy Supply may at times create a net open position in its portfolio that could result in significant losses if prices do not move in the manner or direction anticipated. The proprietary trading portfolio is not a significant part of PPL Energy Supply's business and is shown in "Net energy trading margins" on the Statements of Income.

## **Commodity Volumetric Activity**

As of December 31, 2012, the net notional volumes of derivative (sales)/purchase contracts used in support of the various strategies discussed above were as follows.

Commodity	Unit of Measure	Volume			
		2013	2014	2015	Thereafter
Power	MWh	(38,791,951)	(16,720,361)	1,636,197	3,871,199
Capacity	MW-Month	(8,248,465)	(135,110)	(37,208)	525
Gas	MMBtu	18,419,599	(21,663,269)	(10,386,745)	(5,027,288)
Coal	Tons	(240,000)			
FTRs	MW-Month	28,690	6,389	1,465	
Oil	Barrels	(4,022,000)	240,000	300,000	180,000

## Interest Rate Risk

*(PPL, LKE, LG&E and KU)*

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. Various financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolio, adjust the duration of the debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the subsidiaries' debt portfolio due to changes in benchmark interest rates.

### Cash Flow Hedges

*(PPL)*

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. Outstanding interest rate swap contracts ranged in maturity through 2024 for WPD and through 2043 for PPL's domestic interest rate swaps. These swaps had an aggregate notional value of \$1.2 billion at December 31, 2012, of which £290 million (approximately \$465 million based on spot rates) was related to WPD. Included in this total are forward-starting interest rate swaps entered into by PPL on behalf of LG&E and KU. LG&E and KU believe that realized gains and losses from the swaps are probable of recovery through regulated rates; as such, the fair value of these derivatives have been reclassified from AOCI to regulatory assets or liabilities. The gains and losses will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt when the hedged transaction occurs.

PPL holds a notional position in cross-currency interest rate swaps totaling \$1.3 billion that mature through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For 2012, hedge ineffectiveness associated with interest rate derivatives was insignificant. For 2011, hedge ineffectiveness associated with these derivatives resulted in a net after-tax gain (loss) of \$(9) million, which included a gain (loss) of \$(4) million attributable to certain interest rate swaps that failed hedge effectiveness testing during the second quarter of 2011. For 2010, hedge ineffectiveness associated with these derivatives resulted in a net after-tax gain (loss) of \$(9) million.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is probable of not occurring. PPL had no such reclassifications for 2012 and 2011. As a result of the expected net proceeds from the anticipated sale of certain non-core generation facilities, coupled with the monetization of certain full-requirement sales contracts, debt that had been planned to be issued by PPL Energy Supply in 2010 was no longer needed. As a result, hedge accounting associated with interest rate swaps entered into by PPL in anticipation of a debt issuance by PPL Energy Supply was discontinued. PPL reclassified into earnings a net after-tax gain (loss) of \$(19) million in 2010.

At December 31, 2012, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives that are expected to be reclassified into earnings during the next 12 months were \$(13) million. Amounts are reclassified as the hedged interest payments are made.

*(LKE, LG&E and KU)*

In November 2012, LG&E and KU entered into forward-starting interest rate swaps with PPL that hedge the interest payments on new debt that is expected to be issued in 2013. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties. LG&E and KU believe that realized gains and losses from the swaps are probable of recovery through regulated rates; as such, the fair value of these derivatives have been reclassified from AOCI to regulatory assets or liabilities. The gains and losses will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt when the hedged transaction occurs. At December 31, 2012, LG&E and KU each held contracts with aggregate notional amounts of \$150 million that range in maturity through 2043.

*(PPL Energy Supply)*

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. Therefore, effective January 2011, PPL Energy Supply is no longer subject to interest rate risk associated with investments in U.K. affiliates. For 2010, hedge ineffectiveness associated with these derivatives was insignificant for

interest rate cross-currency swaps contracts. For 2010, PPL Energy Supply had no reclassifications for cash flows hedges that were discontinued when it was no longer probable that the original forecasted transaction would occur by the end of the originally specified period.

#### Fair Value Hedges

*(PPL)*

PPL is exposed to changes in the fair value of its debt portfolio. To manage this risk, financial contracts may be entered into to hedge fluctuations in the fair value of existing debt issuances due to changes in benchmark interest rates. In July 2012, contracts held by PPL that ranged in maturity through 2047 and had a notional value of \$99 million were canceled without penalties by the counterparties. PPL did not hold any such contracts at December 31, 2012. PPL did not recognize gains or losses resulting from the ineffective portion of fair value hedges or from a portion of the hedging instrument being excluded from the assessment of hedge effectiveness or from hedges of debt issuances that no longer qualified as fair value hedges for 2012, 2011 and 2010.

In 2011, PPL Electric redeemed \$400 million of 7.125% Senior Secured Bonds due 2013. As a result of this redemption, PPL recorded a gain (loss) of \$22 million, or \$14 million after tax, for 2011 in "Other Income (Expense) - net" on the Statement of Income as a result of accelerated amortization of the fair value adjustments to the debt in connection with previously settled fair value hedges.

*(PPL Energy Supply)*

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. Therefore, effective January 2011, PPL Energy Supply is no longer subject to interest rate risk associated with investments in U.K. affiliates. PPL Energy Supply did not recognize gains or losses resulting from the ineffective portion of fair value hedges or from a portion of the hedging instrument being excluded from the assessment of hedge effectiveness or resulting from hedges of debt issuances that no longer qualified as fair value hedges for 2010.

#### Economic Activity (PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including a terminated swap contract, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income when the hedged transaction occurs. At December 31, 2012, LG&E held contracts with aggregate notional amounts of \$179 million that range in maturity through 2033. The fair value of these contracts were recorded as liabilities of \$58 million and \$60 million at December 31, 2012 and 2011, with equal offsetting amounts recorded as regulatory assets.

#### **Foreign Currency Risk**

*(PPL)*

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

#### Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. The contracts outstanding at December 31, 2012 had an aggregate notional amount of £162 million (approximately \$261 million based on contracted rates). The settlement dates of these contracts range from May 2013 through December 2013. At December 31, 2012 and 2011, the fair value of these positions was a net asset (liability) of \$(2) million and \$7 million.

Additionally, in 2012, a PPL Global subsidiary that has a U.S. dollar functional currency entered into a GBP intercompany loan payable with a PPL WEM subsidiary that has a GBP functional currency. The loan qualifies as a net investment hedge for the PPL Global subsidiary. As such, the foreign currency gains and losses on the intercompany loan for the PPL Global subsidiary are recorded to the foreign currency translation adjustment component of AOCI. At December 31, 2012, the intercompany loan outstanding was £47 million (approximately \$76 million based on spot rates).

For 2012, PPL recognized after-tax net investment hedge gains (losses) of \$(5) million in the foreign currency translation adjustment component of AOCI. For 2011 and 2010, PPL recognized after-tax net investment hedge gains (losses) of \$4 million in the foreign currency translation adjustment component of AOCI. At December 31, 2012 and 2011, PPL had \$14 million and \$19 million of accumulated net investment hedge after-tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

*(PPL Energy Supply)*

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. Therefore, effective January 2011, PPL Energy Supply is no longer subject to foreign currency exchange risk associated with investments in U.K. affiliates. For 2010, PPL Energy Supply recognized insignificant amounts in the foreign currency translation adjustment component of AOCI.

Cash Flow Hedges

*(PPL)*

PPL may enter into foreign currency derivatives associated with foreign currency-denominated debt and the exchange rate associated with firm commitments (including those for the purchase of equipment) denominated in foreign currencies; however, at December 31, 2012, there were no existing contracts of this nature. Amounts previously settled and recorded in AOCI are reclassified as the hedged interest payments are made and as the related equipment is depreciated. Insignificant amounts are expected to be reclassified into earnings during the next 12 months.

During 2012, 2011 and 2010, no cash flow hedges were discontinued because it was probable that the original forecasted transaction would not occur by the end of the originally specified time periods.

Fair Value Hedges

PPL enters into foreign currency forward contracts to hedge the exchange rate risk associated with firm commitments denominated in foreign currencies; however, at December 31, 2012, there were no existing contracts of this nature and no gains or losses recorded for 2012, 2011 and 2010 related to hedge ineffectiveness, or from a portion of the hedging instrument being excluded from the assessment of hedge effectiveness, or from hedges of firm commitments that no longer qualified as fair value hedges.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At December 31, 2012, the total exposure hedged by PPL was approximately £1.3 billion (approximately \$2.0 billion based on contracted rates) and the net fair value of these positions was an asset (liability) of \$(42) million. These contracts had termination dates ranging from January 2013 through February 2015. Realized and unrealized gains (losses) on these contracts are included in "Other Income (Expense) - net" on the Statements of Income and were \$(52) million for 2012. At December 31, 2011, the total exposure hedged by PPL was £288 million and the net fair value of these positions was an asset (liability) of \$11 million. Realized and unrealized gains (losses) were \$10 million for 2011 and insignificant for 2010.

In anticipation of the repayment of a portion of the GBP-denominated borrowings under the 2011 Bridge Facility with U.S. dollar proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. When these trades were settled in April 2011, PPL recorded \$55 million of pre-tax, net gains (losses) in "Other Income (Expense) - net" on the Statements of Income.

*(PPL Energy Supply)*

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. Therefore, effective January 2011, PPL Energy Supply is no longer subject to earnings denominated in British pounds sterling. PPL Energy Supply recorded gains (losses) on these contracts, both realized and unrealized, in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income. For 2010, PPL Energy Supply recorded insignificant gains (losses).

## Accounting and Reporting

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless they qualify for NPNS. NPNS contracts for PPL and PPL Energy Supply include full-requirement sales contracts, other physical purchases and sales contracts and certain retail energy and physical capacity contracts, and for PPL Electric include full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized currently in earnings unless specific hedge accounting criteria are met, except for the changes in fair value of LG&E's and KU's interest rate swaps, which beginning in the third quarter of 2010, are recognized as regulatory assets or liabilities. See Note 6 for amounts recorded in regulatory assets at December 31, 2012 and 2011.

See Note 1 for additional information on accounting policies related to derivative instruments.

(PPL)

The following tables present the fair value and location of derivative instruments recorded on the Balance Sheets.

	December 31, 2012				December 31, 2011			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>Current:</b>								
Price Risk Management								
Assets/Liabilities (b):								
Interest rate swaps	\$ 14	\$ 22	\$ 5	\$ 3	\$ 3	\$ 2	\$ 5	
Cross-currency swaps		3						
Foreign currency contracts		2		23	7		11	
Commodity contracts	59		1,452	1,010	872	3	1,655	1,557
Total current	73	27	1,452	1,038	882	8	1,666	1,562
<b>Noncurrent:</b>								
Price Risk Management								
Assets/Liabilities (b):								
Interest rate swaps	1			53				55
Cross-currency swaps	14	1			24			
Foreign currency contracts				19				
Commodity contracts	27		530	556	42	2	854	783
Total noncurrent	42	1	530	628	66	2	854	838
Total derivatives	\$ 115	\$ 28	\$ 1,982	\$ 1,666	\$ 948	\$ 10	\$ 2,520	\$ 2,400

- (a) \$300 million and \$237 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at December 31, 2012 and 2011.  
(b) Represents the location on the Balance Sheet.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were \$132 million, \$527 million and \$695 million at December 31, 2012, 2011 and 2010.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Related Item
<b>2012</b>				
Interest rate swaps	Fixed rate debt	Interest Expense	\$	3
<b>2011</b>				
Interest rate swaps	Fixed rate debt	Interest Expense	\$	25
		Other Income	2	
		(Expense) - net		22
<b>2010</b>				
Interest rate swaps	Fixed rate debt	Interest Expense	\$	(6)

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
<b>2012</b>				
Cash Flow Hedges:				
Interest rate swaps	\$ (28)	Interest Expense	\$ (18)	
		Other Income (Expense) - net	1	
Cross-currency swaps	(15)	Interest Expense	(2)	
		Other Income (Expense) - net	(23)	
Commodity contracts	114	Wholesale energy marketing	891	\$ (1)
		Depreciation	2	
		Energy purchases	(139)	(2)
Total	<u>\$ 71</u>		<u>\$ 712</u>	<u>\$ (3)</u>
Net Investment Hedges:				
Foreign currency contracts	\$ (7)			
<b>2011</b>				
Cash Flow Hedges:				
Interest rate swaps	\$ (55)	Interest Expense	\$ (13)	\$ (13)
Cross-currency swaps	(35)	Interest Expense	5	
		Other Income (Expense) - net	29	
Commodity contracts	431	Wholesale energy marketing	835	(39)
		Fuel	1	
		Depreciation	2	
		Energy purchases	(243)	1
Total	<u>\$ 341</u>		<u>\$ 616</u>	<u>\$ (51)</u>
Net Investment Hedges:				
Foreign currency contracts	\$ 6			
<b>2010</b>				
Cash Flow Hedges:				
Interest rate swaps	\$ (145)	Interest Expense	\$ (4)	\$ (17)
		Other Income (Expense) - net	(30)	
Cross-currency swaps	25	Interest Expense	2	
		Other Income (Expense) - net	16	
Commodity contracts	487	Wholesale energy marketing	680	(201)
		Fuel	2	
		Depreciation	2	
		Energy purchases	(458)	3
Total	<u>\$ 367</u>		<u>\$ 210</u>	<u>\$ (215)</u>
Net Investment Hedges:				
Foreign currency contracts	\$ 5			

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	2012			2011			2010		
Foreign currency contracts	Other Income (Expense) - net	\$	(52)	\$	65	\$	3			
Interest rate swaps	Interest Expense		(8)		(8)					
Commodity contracts	Utility				(1)		(2)			
	Unregulated retail electric and gas		30		39		11			
	Wholesale energy marketing		1,191		1,606		(70)			
	Net energy trading margins (a)		8		(6)		1			
	Fuel				(1)		12			
	Energy purchases		(965)		(1,493)		(405)			
Total		<u>\$</u>	<u>204</u>	<u>\$</u>	<u>201</u>	<u>\$</u>	<u>(450)</u>			

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2012		2011	
Interest rate swaps	Regulatory assets - noncurrent	\$	1	\$	(26)

Derivatives Designated as Cash Flow Hedges	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2012		2011	
Interest rate swaps	Regulatory liabilities - noncurrent	\$	14		

(a) Differs from the Statement of Income due to intra-month transactions that PPL defines as spot activity, which is not accounted for as a derivative.

(PPL Energy Supply)

The following tables present the fair value and location of derivative instruments recorded on the Balance Sheets.

	December 31, 2012				December 31, 2011			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>Current:</b>								
Price Risk Management Assets/Liabilities (b):								
Commodity contracts	\$ 59		\$ 1,452	\$ 1,010	\$ 872	\$ 3	\$ 1,655	\$ 1,557
Total current	59		1,452	1,010	872	3	1,655	1,557
<b>Noncurrent:</b>								
Price Risk Management Assets/Liabilities (b):								
Commodity contracts	27		530	556	42	2	854	783
Total noncurrent	27		530	556	42	2	854	783
Total derivatives	\$ 86		\$ 1,982	\$ 1,566	\$ 914	\$ 5	\$ 2,509	\$ 2,340

- (a) \$300 million and \$237 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at December 31, 2012 and 2011.  
(b) Represents the location on the Balance Sheet.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were \$210 million, \$605 million and \$733 million at December 31, 2012, 2011 and 2010. The December 31, 2011 AOCI balance reflects the effect of PPL Energy Supply's distribution of its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 9 for additional information.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI. There were no gains (losses) on interest rate swaps for 2012.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Related Item
<b>2011</b>				
Interest rate swaps	Fixed rate debt	Interest Expense		\$ 2
<b>2010</b>				
Interest rate swaps	Fixed rate debt	Interest Expense		\$ 2
Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
<b>2012</b>				
Cash Flow Hedges:				
Commodity contracts	\$ 114	Wholesale energy marketing Depreciation Energy purchases	\$ 891 2 (139)	\$ (1) (2)
Total	\$ 114		\$ 754	\$ (3)
<b>2011</b>				
Cash Flow Hedges:				
Commodity contracts	\$ 431	Wholesale energy marketing Fuel Depreciation Energy purchases	\$ 835 1 2 (243)	\$ (39) 1
Total	\$ 431		\$ 595	\$ (38)
<b>2010</b>				
Cash Flow Hedges:				
Interest rate swaps		Discontinued Operations (net of income taxes)		\$ (3)
Cross-currency swaps	\$ 25	Discontinued Operations (net of income taxes)	\$ 18	
Commodity contracts	487	Wholesale energy marketing Fuel Depreciation Energy purchases	680 2 2 (458)	(201) 3
Total	\$ 512		\$ 244	\$ (201)
Net Investment Hedges:				
Foreign currency contracts	\$ 5			

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	2012	2011	2010
Foreign currency contracts	Discontinued Operations (net of income taxes)			\$ 3
Commodity contracts	Unregulated retail electric and gas	\$ 30	\$ 39	11
	Wholesale energy marketing	1,191	1,606	(70)
	Net energy trading margins (a)	8	(6)	1
	Fuel		(1)	12
	Energy purchases	(965)	(1,493)	(405)
	Total	\$ 264	\$ 145	\$ (448)

(a) Differs from the Statement of Income due to intra-month transactions that PPL Energy Supply defines as spot activity, which is not accounted for as a derivative.

(LKE)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets:

	December 31, 2012				December 31, 2011			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Other Current								
Assets/Liabilities (a):								
Interest rate swaps	\$ 14			\$ 5				\$ 5
Total current	14			5				5
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps				53				55
Total noncurrent				53				55
Total derivatives	\$ 14			\$ 58				\$ 60

(a) Represents the location on the Balance Sheet.

The following tables present the pre-tax effect of derivative instruments recognized in income or regulatory assets and regulatory liabilities for the periods ended December 31, 2012, 2011 and 2010, for the Successor and Predecessor.

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Successor			Predecessor
		December 31, 2012	December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Interest rate swaps	Interest Expense	\$ (8)	\$ (8)	\$ (1)	\$ (7)
Commodity contracts	Operating Revenues		(1)	(2)	3
	Total	\$ (8)	\$ (9)	\$ (3)	\$ (4)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	December 31, 2012		December 31, 2011	
Interest rate swaps	Regulatory assets - noncurrent	\$	1	\$	(26)

Derivatives Designated as Cash Flow Hedges	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	December 31, 2012		December 31, 2011	
Interest rate swaps	Regulatory liabilities - noncurrent	\$	14		

(LG&E)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets:



	December 31, 2012				December 31, 2011			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Other Current								
Assets/Liabilities (a):								
Interest rate swaps	\$ 7			\$ 5				\$ 5
Total current	7			5				5
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps				53				55
Total noncurrent				53				55
Total derivatives	\$ 7			\$ 58				\$ 60

(a) Represents the location on the balance sheet.

The following tables present the pre-tax effect of derivative instruments recognized in income or regulatory assets and regulatory liabilities for the periods ended December 31, 2012, 2011 and 2010, for the Successor and Predecessor.

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Successor			Predecessor
		Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
Interest rate swaps	Interest Expense	\$ (8)	\$ (8)	\$ (1)	\$ (7)
Commodity contracts	Operating Revenues		(1)	(2)	3
	Total	\$ (8)	\$ (9)	\$ (3)	\$ (4)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	December 31, 2012		December 31, 2011	
		Interest rate swaps	Regulatory assets - noncurrent	\$ 1	\$ (26)

Derivatives Designated as Cash Flow Hedges	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	December 31, 2012		December 31, 2011	
		Interest rate swaps	Regulatory liabilities - noncurrent	\$ 7	

(KU)

At December 31, 2012, KU had interest rate swaps, which were designated as hedging instruments, of \$7 million recorded in "Other current assets" on the Balance Sheet. KU recognized a \$7 million, pre-tax gain on the derivative instruments in "Noncurrent regulatory liabilities" at December 31, 2012.

#### Credit Risk-Related Contingent Features (PPL, PPL Energy Supply, LKE, LG&E and KU)

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, PPL Energy Supply, LKE, LG&E, KU or certain of their subsidiaries. Most of these provisions would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these provisions also would 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 the applicable credit rating were to fall below investment grade (i.e., below BBB- for S&P and Fitch, 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 on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent provisions that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's 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. This would typically involve negotiations among

the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" provisions.

At December 31, 2012, the effect of a decrease in credit ratings below investment grade on derivative contracts that contain credit risk-related contingent features and were in a net liability position is summarized as follows:

	PPL	PPL Energy Supply	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent provisions	\$ 219	\$ 142	\$ 39	\$ 39
Aggregate fair value of collateral posted on these derivative instruments	39	7	32	32
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	202	155	9	9

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

## 20. Goodwill and Other Intangible Assets

### Goodwill

(PPL and PPL Energy Supply)

The changes in the carrying amount of goodwill by segment were:

	Kentucky Regulated		U.K. Regulated		Supply		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
<b>PPL</b>								
Balance at beginning of period (a)	\$ 662	\$ 662	\$ 3,032	\$ 679	\$ 420	\$ 420	\$ 4,114	\$ 1,761
Goodwill recognized during the period (b)			(14)	2,391			(14)	2,391
Effect of foreign currency exchange rates			58	(38)			58	(38)
Balance at end of period (a)	<u>\$ 662</u>	<u>\$ 662</u>	<u>\$ 3,076</u>	<u>\$ 3,032</u>	<u>\$ 420</u>	<u>\$ 420</u>	<u>\$ 4,158</u>	<u>\$ 4,114</u>
<b>PPL Energy Supply</b>								
Balance at beginning of period (a)				\$ 679	\$ 86	\$ 86	\$ 86	\$ 765
Derecognition (c)				(679)				(679)
Balance at end of period (a)				<u>\$</u>	<u>\$ 86</u>	<u>\$ 86</u>	<u>\$ 86</u>	<u>\$ 86</u>

(a) There were no accumulated impairment losses related to goodwill.

(b) Represents goodwill recognized as a result of the acquisition of WPD Midlands. See Note 10 for additional information.

(c) Represents the amount of goodwill derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 9 for additional information on the distribution. Subsequent to the distribution, PPL Energy Supply operates in a single reportable segment and reporting unit.

### Other Intangibles

(PPL)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Subject to amortization:</b>				
Contracts (a) (b) (c)	\$ 408	\$ 150	\$ 611	\$ 155
Land and transmission rights	284	113	263	110
Emission allowances/RECs (d) (e) (f)	17		20	
Licenses and other (g)	287	39	265	35
<b>Total subject to amortization</b>	<u>996</u>	<u>302</u>	<u>1,159</u>	<u>300</u>
<b>Not subject to amortization due to indefinite life:</b>				
Land and transmission rights	18		16	
Easements (h)	220		199	
<b>Total not subject to amortization due to indefinite life</b>	<u>238</u>		<u>215</u>	
<b>Total</b>	<u>\$ 1,234</u>	<u>\$ 302</u>	<u>\$ 1,374</u>	<u>\$ 300</u>

- (a) In 2012, intangible assets related to a tolling agreement were eliminated in consolidation as a result of the Ironwood Acquisition. See Note 10 for additional information.
- (b) Gross carrying amount for 2011 includes \$10 million, which represents the fair value of customer contracts with terms favorable to market recognized as a result of the 2011 acquisition of WPD Midlands. The weighted-average amortization period of these contracts was ten years at the acquisition date. See Note 10 for additional information.
- (c) The gross carrying amount includes \$269 million of coal contracts related to LKE, which represents the fair value of contracts with terms that are favorable to market recognized as a result of the 2010 acquisition of LKE by PPL. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
- (d) PPL Energy Supply emission allowances/RECs are expensed when consumed or sold. Consumption expense was \$12 million, \$16 million, and \$45 million in 2012, 2011 and 2010. Consumption expense is expected to be insignificant in future periods.
- (e) Includes emission allowances of LKE. An offsetting regulatory liability is recorded related to these emission allowances, which is being amortized as the emission allowances are consumed, eliminating any income statement impact. The carrying amounts of these emission allowances were insignificant at December 31, 2012 and 2011. Consumption related to these emission allowances was insignificant in 2012 and \$11 million in 2011.
- (f) During 2011, PPL recorded \$7 million of impairment charges. See Note 18 for additional information.
- (g) "Other" includes costs for the development of licenses, the most significant of which is the COLA. Amortization of these costs begins when the related asset is placed in service. See Note 8 for additional information on the COLA.
- (h) Gross carrying amount for 2011 includes \$88 million, which represents the fair value of easements recognized as a result of the 2011 acquisition of WPD Midlands. See Note 10 for additional information.

Current intangible assets are included in "Other current assets" and long-term intangible assets are included in "Other intangibles" in their respective areas on the Balance Sheets.

Amortization expense, excluding consumption of emission allowances/RECs, was as follows:

	2012	2011	2010
Intangible assets with no regulatory offset	\$ 14	\$ 25	\$ 24
Intangible assets with regulatory offset	47	87	11
<b>Total</b>	<b>\$ 61</b>	<b>\$ 112</b>	<b>\$ 35</b>

Amortization expense for each of the next five years, excluding consumption of emission allowances/RECs, is estimated to be:

	2013	2014	2015	2016	2017
Intangible assets with no regulatory offset	\$ 10	\$ 10	\$ 10	\$ 8	\$ 8
Intangible assets with a regulatory offset	52	46	51	27	9
<b>Total</b>	<b>\$ 62</b>	<b>\$ 56</b>	<b>\$ 61</b>	<b>\$ 35</b>	<b>\$ 17</b>

(PPL Energy Supply)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Subject to amortization:</b>				
Contracts (a)			\$ 203	\$ 53
Land and transmission rights	\$ 17	\$ 13	17	13
Emission allowances/RECs (b) (c)	13		15	
Licenses and other (d)	277	35	255	30
<b>Total subject to amortization</b>	<b>\$ 307</b>	<b>\$ 48</b>	<b>\$ 490</b>	<b>\$ 96</b>

- (a) In 2012, intangible assets related to a tolling agreement were eliminated in consolidation as a result of the Ironwood acquisition. See Note 10 for additional information.
- (b) These emission allowances/RECs are expensed when consumed or sold. Consumption expense was \$12 million, \$16 million, and \$46 million in 2012, 2011, and 2010. Consumption expense is expected to be insignificant in future periods.
- (c) During 2011, PPL Energy Supply recorded \$7 million of impairment charges. See Note 18 for additional information.
- (d) "Other" includes costs for the development of licenses, the most significant of which is the COLA. Amortization of these costs begins when the related asset is placed in service. See Note 8 for additional information on the COLA.

Current intangible assets are included in "Other current assets" and long-term intangible assets are presented as "Other intangibles" in their respective areas on the Balance Sheets.

Amortization expense, excluding consumption of emission allowances/RECs, was as follows:

	2012	2011	2010
Amortization expense	\$ 9	\$ 20	\$ 20

Amortization expense for each of the next five years, excluding consumption of emission allowances/RECs, is estimated to be:

	2013	2014	2015	2016	2017
Estimated amortization expense	\$ 5	\$ 5	\$ 5	\$ 3	\$ 3

(PPL Electric)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Subject to amortization:</b>				
Land and transmission rights	\$ 249	\$ 99	\$ 232	\$ 96
Licenses and other	4	1	4	1
<b>Total subject to amortization</b>	<u>253</u>	<u>100</u>	<u>236</u>	<u>97</u>
<b>Not subject to amortization due to indefinite life:</b>				
Land and transmission rights	18		16	
<b>Total</b>	<u>\$ 271</u>	<u>\$ 100</u>	<u>\$ 252</u>	<u>\$ 97</u>

Intangible assets are shown as "Intangibles" on the Balance Sheets.

Amortization expense was insignificant in 2012, 2011 and 2010, and is expected to be insignificant in future years.

(LKE)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Subject to amortization:</b>				
Coal contracts (a)	\$ 269	\$ 128	\$ 269	\$ 89
Land and transmission rights (b)	18	1	14	1
Emission allowances (c)	4		5	
OVEC power purchase agreement (d)	126	17	126	9
<b>Total subject to amortization</b>	<u>\$ 417</u>	<u>\$ 146</u>	<u>\$ 414</u>	<u>\$ 99</u>

- (a) Gross carrying amount represents the fair value of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
- (b) Gross carrying amount includes \$14 million, which represents the fair value of land and transmission rights recognized as an intangible asset as a result of adopting PPL's accounting policies in the Successor period. Amortization expense is recovered through base rates and is expected to be insignificant for future periods.
- (c) Represents the fair value of emission allowances recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability is recorded related to these emission allowances, which is being amortized as the emission allowances are consumed, eliminating any income statement impact. Consumption related to these emission allowances was insignificant in 2012 and \$11 million in 2011.
- (d) Gross carrying amount represents the fair value of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. See Note 6 for additional information.

Current intangible assets are included in "Other current assets" on the Balance Sheets. Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense for the Successor, excluding consumption of emission allowances, was as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Intangible assets with no regulatory offset		\$ 1	
Intangible assets with regulatory offset	\$ 47	87	\$ 11
<b>Total</b>	<u>\$ 47</u>	<u>\$ 88</u>	<u>\$ 11</u>

Amortization expense for each of the next five years, excluding consumption of emission allowances, is estimated to be:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Intangibles with regulatory offset	\$ 52	\$ 46	\$ 51	\$ 27	\$ 9

(LG&E)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Subject to amortization:</b>				
Coal contracts (a)	\$ 124	\$ 62	\$ 124	\$ 46
Land and transmission rights (b)	8	1	6	1
Emission allowances (c)	1		2	
OVEC power purchase agreement (d)	87	13	87	6
<b>Total subject to amortization</b>	<u>\$ 220</u>	<u>\$ 76</u>	<u>\$ 219</u>	<u>\$ 53</u>

- (a) Gross carrying amount represents the fair value of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
- (b) Gross carrying amount includes \$6 million, which represents the fair value of land and transmission rights recognized as an intangible asset as a result of adopting PPL's accounting policies in the Successor period. Amortization expense is recovered through base rates and is expected to be insignificant for future periods.
- (c) Represents the fair value of emission allowances recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability is recorded related to these emission allowances, which is being amortized as the emission allowances are consumed, eliminating any income statement impact. Consumption related to these emission allowances was insignificant in 2012 and \$5 million in 2011.
- (d) Gross carrying amount represents the fair value of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. See Note 6 for additional information.

Current intangible assets are included in "Other current assets" on the Balance Sheets. Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense for the Successor, excluding consumption of emission allowances, was as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Intangible assets with no regulatory offset		\$ 1	
Intangible assets with regulatory offset	\$ 23	45	\$ 7
<b>Total</b>	<u>\$ 23</u>	<u>\$ 46</u>	<u>\$ 7</u>

Amortization expense for each of the next five years, excluding consumption of emission allowances, is estimated to be:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Intangibles with regulatory offset	\$ 25	\$ 23	\$ 24	\$ 14	\$ 6

(KU)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Subject to amortization:</b>				
Coal contracts (a)	\$ 145	\$ 66	\$ 145	\$ 43
Land and transmission rights (b)	10		8	
Emission allowances (c)	3		3	
OVEC power purchase agreement (d)	39	4	39	3
<b>Total subject to amortization</b>	<b>\$ 197</b>	<b>\$ 70</b>	<b>\$ 195</b>	<b>\$ 46</b>

- (a) Gross carrying amount represents the fair value of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
- (b) Gross carrying amount includes \$8 million, which represents the fair value of land and transmission rights recognized as an intangible asset as a result of adopting PPL's accounting policies in the Successor period. Amortization expense is recovered through base rates and is expected to be insignificant for future periods.
- (c) Represents the fair value of emission allowances recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability is recorded related to these emission allowances, which is being amortized as the emission allowances are consumed, eliminating any income statement impact. Consumption related to these emission allowances was \$6 million for 2011. KU had no consumption related to these emission allowances in 2012.
- (d) Gross carrying amount represents the fair value of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. See Note 6 for additional information.

Current intangible assets are included in "Other current assets" on the Balance Sheets. Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense for the Successor, excluding consumption of emission allowances, was as follows:

	2012	2011	2010
Intangible assets with regulatory offset	\$ 24	\$ 42	\$ 4

Amortization expense for each of the next five years, excluding consumption of emission allowances, is estimated to be:

	2013	2014	2015	2016	2017
Intangibles with regulatory offset	\$ 27	\$ 23	\$ 27	\$ 13	\$ 3

## 21. Asset Retirement Obligations

(PPL)

WPD has recorded conditional AROs required by U.K. law related to treated wood poles, gas-filled switchgear and fluid-filled cables.

(PPL and PPL Energy Supply)

PPL Energy Supply has recorded liabilities in the financial statements to reflect various legal obligations associated with the retirement of long-lived assets, the most significant of which relates to the decommissioning of the Susquehanna nuclear plant. The accrued nuclear decommissioning obligation was \$316 million and \$292 million at December 31, 2012 and 2011. The fair value of investments that are legally restricted for the decommissioning of the Susquehanna nuclear plant was \$712 million and \$640 million at December 31, 2012 and 2011, and is included in "Nuclear plant decommissioning trust funds" on the Balance Sheets. See Notes 18 and 23 for additional information on the nuclear decommissioning trust funds. Other AROs recorded relate to various environmental requirements for coal piles, ash basins and other waste basin retirements.

PPL Energy Supply has recorded several conditional AROs, the most significant of which related to the removal and disposal of asbestos-containing material. In addition to the AROs that were recorded for asbestos-containing material, PPL Energy Supply identified other asbestos-related obligations, but was unable to reasonably estimate their fair values. PPL Energy Supply management was unable to reasonably estimate a settlement date or range of settlement dates for the remediation of all of the asbestos-containing material at certain of the generation plants. If economic events or other circumstances change that enable PPL Energy Supply to reasonably estimate the fair value of these retirement obligations, they will be recorded at that time.

PPL Energy Supply also identified legal retirement obligations associated with the retirement of a reservoir that could not be reasonably estimated due to an indeterminable settlement date.

*(PPL and PPL Electric)*

PPL Electric has identified legal retirement obligations for the retirement of certain transmission assets that could not be reasonably estimated due to indeterminable settlement dates. These assets are located on rights-of-way that allow the grantor to require PPL Electric to relocate or remove the assets. Since this option is at the discretion of the grantor of the right-of-way, PPL Electric is unable to determine when these events may occur.

*(PPL, LKE, LG&E and KU)*

LG&E's and KU's AROs are primarily related to the final retirement of assets associated with generating units. LG&E also has AROs related to natural gas mains and wells. LG&E's and KU's transmission and distribution lines largely operate under perpetual property easement agreements which do not generally require restoration upon removal of the property. Therefore, no material AROs are recorded for transmission and distribution assets. As described in Notes 1 and 6, the accretion and depreciation expense recorded by LG&E and KU is offset with a regulatory credit on the income statement, such that there is no earnings impact.

*(PPL, PPL Energy Supply, LKE, LG&E and KU)*

The changes in the carrying amounts of AROs were as follows.

	PPL		PPL Energy Supply	
	2012	2011	2012	2011
ARO at beginning of period	\$ 497	\$ 448	\$ 359	\$ 345
Accretion expense	36	33	28	26
Obligations assumed in acquisition of WPD Midlands (a)		15		
Derecognition (b)				(5)
Obligations incurred	9	14	3	11
Changes in estimated cash flow or settlement date	31	5	(7)	(1)
Effect of foreign currency exchange rates	1			
Obligations settled	(22)	(18)	(8)	(17)
ARO at end of period	<u>\$ 552</u>	<u>\$ 497</u>	<u>\$ 375</u>	<u>\$ 359</u>

	LKE		LG&E		KU	
	2012	2011	2012	2011	2012	2011
ARO at beginning of period	\$ 118	\$ 103	\$ 57	\$ 49	\$ 61	\$ 54
Accretion expense	6	6	3	3	3	3
Obligations incurred	6	3		2	6	1
Changes in estimated cash flow or settlement date	15	7	5	4	10	3
Obligations settled	(14)	(1)	(3)	(1)	(11)	
ARO at end of period	<u>\$ 131</u>	<u>\$ 118</u>	<u>\$ 62</u>	<u>\$ 57</u>	<u>\$ 69</u>	<u>\$ 61</u>

- (a) Obligations required under U.K. law related to treated wood poles, gas-filled switchgear and fluid-filled cables. See Note 10 for additional information on the acquisition.  
(b) Represents AROs derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 9 for additional information on the distribution.

Substantially all of the ARO balances are classified as noncurrent at December 31, 2012 and 2011.

## 22. Variable Interest Entities

*(PPL and PPL Energy Supply)*

In December 2001, a subsidiary of PPL Energy Supply entered into a \$455 million operating lease arrangement, as lessee, for the development, construction and operation of a gas-fired combined-cycle generation facility located in Lower Mt. Bethel Township, Northampton County, Pennsylvania. The owner/lessor of this generation facility, LMB Funding, LP, was created to own/lease the facility and incur the related financing costs. The initial lease term commenced on the date of commercial operation, which occurred in May 2004, and ends in December 2013. Under a residual value guarantee, if the generation facility is sold at the end of the lease term and the cash proceeds from the sale are less than the original acquisition cost, the subsidiary of PPL Energy Supply is obligated to pay up to 70.52% of the original acquisition cost. This residual value guarantee protects the other variable interest holders from losses related to their investments. LMB Funding, LP cannot

extend or cancel the lease or sell the facility without the prior consent of the PPL Energy Supply subsidiary. As a result, LMB Funding, LP was determined to be a VIE and the subsidiary of PPL Energy Supply was considered the primary beneficiary that consolidates this VIE.

The lease financing, which includes \$437 million of debt and \$18 million of "Noncontrolling interests" at December 31, 2012 and December 31, 2011, is secured by, among other things, the generation facility, the carrying amount of which is disclosed on the Balance Sheets. The debt matures in December 2013, the end of the initial lease term, and therefore has been classified in "Long-term debt due within one year" at December 31, 2012. As a result of the consolidation, PPL Energy Supply has recorded interest expense in lieu of rent expense. For 2012, 2011 and 2010, additional depreciation on the generation facility of \$16 million was recorded each year.

### 23. Available-for-Sale Securities

(PPL, PPL Energy Supply, LKE and LG&E)

Certain short-term investments, securities held by the NDT funds and auction rate securities are classified as available-for-sale.

The following table shows the amortized cost, the gross unrealized gains and losses recorded in AOCI and the fair value of available-for-sale securities.

	December 31, 2012				December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>PPL</b>								
NDT funds:								
Cash and cash equivalents	\$ 11			\$ 11	\$ 12			\$ 12
Equity securities:								
U.S. large-cap	222	\$ 190		412	211	\$ 146		357
U.S. mid/small-cap	30	30		60	29	23		52
Debt securities:								
U.S. Treasury	86	9		95	76	10		86
U.S. government sponsored agency	8	1		9	9	1		10
Municipality	78	5	\$ 1	82	80	4	\$ 1	83
Investment-grade corporate	36	4		40	35	3		38
Other	3			3	2			2
Total NDT funds	474	239	1	712	454	187	1	640
Auction rate securities	20		1	19	25		1	24
Total	\$ 494	\$ 239	\$ 2	\$ 731	\$ 479	\$ 187	\$ 2	\$ 664
<b>PPL Energy Supply</b>								
NDT funds:								
Cash and cash equivalents	\$ 11			\$ 11	\$ 12			\$ 12
Equity securities:								
U.S. large-cap	222	\$ 190		412	211	\$ 146		357
U.S. mid/small-cap	30	30		60	29	23		52
Debt securities:								
U.S. Treasury	86	9		95	76	10		86
U.S. government sponsored agency	8	1		9	9	1		10
Municipality	78	5	\$ 1	82	80	4	\$ 1	83
Investment-grade corporate	36	4		40	35	3		38
Other	3			3	2			2
Total NDT funds	474	239	1	712	454	187	1	640
Auction rate securities	17		1	16	20		1	19
Total	\$ 491	\$ 239	\$ 2	\$ 728	\$ 474	\$ 187	\$ 2	\$ 659

There were no securities with credit losses at December 31, 2012 and 2011.

The following table shows the scheduled maturity dates of debt securities held at December 31, 2012.



	Maturity Less Than 1 Year	Maturity 1-5 Years	Maturity 6-10 Years	Maturity in Excess of 10 Years	Total
<b>PPL</b>					
Amortized cost	\$ 12	\$ 79	\$ 62	\$ 78	\$ 231
Fair value	12	83	68	85	248
<b>PPL Energy Supply</b>					
Amortized cost	\$ 12	\$ 79	\$ 62	\$ 75	\$ 228
Fair value	12	83	68	82	245

The following table shows proceeds from and realized gains and losses on sales of available-for-sale securities.

	2012	2011	2010
<b>PPL</b>			
Proceeds from sales of NDT securities (a)	\$ 139	\$ 156	\$ 114
Other proceeds from sales	5	163	
Gross realized gains (b)	29	28	13
Gross realized losses (b)	21	16	5
<b>PPL Energy Supply</b>			
Proceeds from sales of NDT securities (a)	\$ 139	\$ 156	\$ 114
Other proceeds from sales	3		
Gross realized gains (b)	29	28	13
Gross realized losses (b)	21	16	5

(a) These proceeds are used to pay income taxes and fees related to managing the trust. Remaining proceeds are reinvested in the trust.

(b) Excludes the impact of other-than-temporary impairment charges recognized on the Statements of Income.

#### Short-term Investments (PPL, LKE and LG&E)

At December 31, 2010, LG&E held \$163 million aggregate principal amount of tax-exempt revenue bonds issued by Louisville/Jefferson County, Kentucky on behalf of LG&E that were purchased from the remarketing agent in 2008. In 2011, LG&E received \$163 million for its investments in these bonds when they were remarketed to unaffiliated investors. No realized or unrealized gains (losses) were recorded on these securities, as the difference between carrying value and fair value was not significant.

#### NDT Funds (PPL and PPL Energy Supply)

Amounts previously collected from PPL Electric's customers for decommissioning the Susquehanna nuclear plant, less applicable taxes, were deposited in external trust funds for investment and can only be used for future decommissioning costs. To the extent that the actual costs for decommissioning exceed the amounts in the nuclear decommissioning trust funds, PPL Susquehanna would be obligated to fund 90% of the shortfall.

When the fair value of a security is less than amortized cost, PPL and PPL Energy Supply must make certain assertions to avoid recording an other-than-temporary impairment that requires a current period charge to earnings. The NRC requires that nuclear decommissioning trusts be managed by independent investment managers, with discretion to buy and sell securities in the trusts. As a result, PPL and PPL Energy Supply have been unable to demonstrate the ability to hold an impaired security until it recovers its value; therefore, unrealized losses on equity securities for all periods presented, represented other-than-temporary impairments that required a current period charge to earnings. PPL and PPL Energy Supply recorded impairments for certain securities invested in the NDT funds of \$1 million, \$6 million and \$3 million for 2012, 2011 and 2010. These impairments are reflected on the Statements of Income in "Other-Than-Temporary Impairments."

#### **24. New Accounting Guidance Pending Adoption**

*(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

#### Improving Disclosures about Offsetting Balance Sheet Items

Effective January 1, 2013, the Registrants will retrospectively adopt accounting guidance issued to enhance disclosures about derivative instruments that either (1) offset on the balance sheet or (2) are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the balance sheet.

Upon adoption, the enhanced disclosure requirements are not expected to have a significant impact on the Registrants.

#### Testing Indefinite-Lived Intangible Assets for Impairment

Effective January 1, 2013, the Registrants will prospectively adopt accounting guidance that allows an entity to elect the option to first make a qualitative evaluation about the likelihood of an impairment of an indefinite-lived intangible asset. If, based on this assessment, the entity determines that it is more likely than not that the fair value of the indefinite-lived intangible asset exceeds the carrying amount, the fair value of that asset does not need to be calculated. If the entity concludes otherwise, a quantitative impairment test must be performed by determining the fair value of the asset and comparing it with the carrying value. The entity would record an impairment charge, if necessary.

Upon adoption, the guidance is not expected to have a significant impact on the Registrants.

#### Reporting Amounts Reclassified Out of AOCI

Effective January 1, 2013, the Registrants will prospectively adopt accounting guidance issued to improve the reporting of reclassifications out of AOCI. The Registrants will be required to provide information about the effects on net income of significant amounts reclassified out of AOCI by their respective statement of income line item, if the item is required to be reclassified to net income in its entirety. For items not reclassified to net income in their entirety, the Registrants will be required to reference other disclosures that provide details on these amounts.

Upon adoption, the enhanced disclosure requirements are not expected to have a significant impact on the Registrants.

**SCHEDULE I - LG&E and KU Energy LLC**  
**CONDENSED UNCONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
*(Millions of Dollars)*

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Operating Revenues</b>				
<b>Operating Expenses</b>				
Other operation and maintenance	\$ 3			\$ (3)
Total Operating Expenses	<u>3</u>			<u>(3)</u>
<b>Operating Income (Loss)</b>	(3)			3
Equity in Earnings of Subsidiaries	234	\$ 267	\$ 48	204
Other Income (Expense) - net				(1)
Interest Income with Affiliate	10	29	5	29
Interest Expense	39	31	4	
Interest Expense with Affiliate	<u>2</u>	<u>2</u>	<u>1</u>	<u>47</u>
<b>Income (Loss) Before Income Taxes</b>	200	263	48	188
Income Tax Expense (Benefit)	<u>(19)</u>	<u>(2)</u>	<u>1</u>	<u>(2)</u>
<b>Net Income (Loss) Attributable to Member</b>	<u>\$ 219</u>	<u>\$ 265</u>	<u>\$ 47</u>	<u>\$ 190</u>
<b>Comprehensive Income (Loss) Attributable to Member</b>	<u>\$ 200</u>	<u>\$ 263</u>	<u>\$ 53</u>	<u>\$ 180</u>

*The accompanying Notes to Condensed Unconsolidated Financial Statements are an integral part of the financial statements.*

**SCHEDULE 1 - LG&E and KU Energy LLC**  
**CONDENSED UNCONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Millions of Dollars)

	Successor			Predecessor
	Year Ended December 31, 2012	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
<b>Cash Flows from Operating Activities</b>				
Net cash provided by (used in) operating activities	\$ 364	\$ 346	\$ 53	\$ 156
<b>Cash Flows from Investing Activities</b>				
Capital contributions to affiliated subsidiaries			(3)	(525)
Net decrease (increase) in notes receivable from affiliates	(15)	(63)	313	234
Net cash provided by (used in) investing activities	(15)	(63)	310	(291)
<b>Cash Flows from Financing Activities</b>				
Net increase (decrease) in debt with affiliates			(208)	243
Net (decrease) increase in notes payable with affiliates	(196)			
Repayment of short-term borrowings			(2,103)	
Retirement of long-term debt			(400)	
Issuance of long-term debt		250	870	
Debt-issuance costs			(6)	
Contribution from member			1,565	
Distribution to member	(155)	(533)	(100)	
Payment of common stock dividends				(87)
Net cash provided by (used in) financing activities	(351)	(283)	(382)	156
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(2)		(19)	21
Cash and Cash Equivalents at Beginning of Period	2	2	21	
Cash and Cash Equivalents at End of Period	\$ 2	\$ 2	\$ 2	\$ 21
<b>Supplemental disclosures of cash flow information:</b>				
Cash Dividends Received from Affiliated Subsidiaries	\$ 175	\$ 207	\$	\$ 105

*The accompanying Notes to Condensed Unconsolidated Financial Statements are an integral part of the financial statements.*

**SCHEDULE I - LG&E and KU Energy LLC**  
**CONDENSED UNCONSOLIDATED BALANCE SHEETS AT DECEMBER 31,**  
*(Millions of Dollars)*

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$	2
Accounts receivable from affiliates	\$ 4	11
Notes receivable from affiliates	1,560	1,520
Other current assets	1	4
<b>Total Current Assets</b>	<u>1,565</u>	<u>1,537</u>
<b>Investments</b>		
Affiliated companies at equity	<u>4,096</u>	<u>4,056</u>
<b>Other Noncurrent Assets</b>		
Deferred income taxes	184	163
Other noncurrent assets	7	8
<b>Total Other Noncurrent Assets</b>	<u>191</u>	<u>171</u>
<b>Total Assets</b>	<u>\$ 5,852</u>	<u>\$ 5,764</u>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Notes payable to affiliates	\$ 25	
Accounts payable to affiliates	906	\$ 701
Taxes	8	
Other current liabilities	6	6
<b>Total Current Liabilities</b>	<u>945</u>	<u>707</u>
<b>Long-term Debt</b>		
Long-term debt	1,121	1,120
Notes payable to affiliates		196
<b>Total Long-term Debt</b>	<u>1,121</u>	<u>1,316</u>
<b>Equity</b>	<u>3,786</u>	<u>3,741</u>
<b>Total Liabilities and Equity</b>	<u>\$ 5,852</u>	<u>\$ 5,764</u>

*The accompanying Notes to Condensed Unconsolidated Financial Statements are an integral part of the financial statements.*

**Schedule I - LG&E and KU Energy LLC**  
**Notes to Condensed Unconsolidated Financial Statements**

**1. Basis of Presentation**

LG&E and KU Energy LLC (LKE) is a holding company and conducts substantially all of its business operations through its subsidiaries. Substantially all of its consolidated assets are held by such subsidiaries. Accordingly, its cash flow and its ability to meet its obligations are largely dependent upon the earnings of these subsidiaries and the distribution or other payment of such earnings to it in the form of dividends or repayment of loans and advances from the subsidiaries. These condensed financial statements and related footnotes have been prepared in accordance with Reg. §210.12-04 of Regulation S-X. These statements should be read in conjunction with the consolidated financial statements and notes thereto of LKE.

LKE indirectly or directly owns all of the ownership interests of its significant subsidiaries. LKE relies primarily on dividends from its subsidiaries to fund LKE's dividends to its member and to meet its other cash requirements.

**2. Commitments and Contingencies**

See Note 15 to LKE's consolidated financial statements for commitments and contingencies of its subsidiaries.

Guarantees

LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. See Note 9 to LKE's consolidated financial statements for additional information. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of \$200 million. Certain items such as government fines and penalties fall outside the cumulative cap. LKE has contested the applicability of the indemnification requirement relating to one matter presented by a counterparty under this guarantee. Another guarantee with a maximum exposure of \$100 million covering other indemnifications expires in 2023. In May 2012, LKE's indemnitee received an arbitration panel's decision affecting this matter, which granted LKE's indemnitee certain rights of first refusal to purchase excess power at a market-based price rather than at an absolute fixed price. In January 2013, LKE's indemnitee commenced a proceeding in the Kentucky Court of Appeals appealing a December 2012 order of the Henderson Circuit Court confirming the arbitration award. LKE believes its indemnification obligations in this matter remain subject to various uncertainties, including the potential for additional legal challenges regarding the arbitration decision as well as future prices, availability and demand for the subject excess power. LKE continues to evaluate various legal and commercial options with respect to this indemnification matter. The ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. In the second quarter of 2012, LKE adjusted its investments in subsidiaries for certain of these indemnifications by \$9 million (\$5 million after-tax), which is reflected in "Equity in Earnings of Subsidiaries" on the Statement of Income. LKE cannot predict the ultimate outcomes of such indemnification circumstances, but does not currently expect such outcomes to result in significant losses above the amounts recorded.

**QUARTERLY FINANCIAL, COMMON STOCK PRICE AND DIVIDEND DATA (Unaudited)**
**PPL Corporation and Subsidiaries**
*(Millions of Dollars, except per share data)*

	2012	For the Quarters Ended (a)			
		March 31	June 30	Sept. 30	Dec. 31
Operating revenues		\$ 4,112	\$ 2,549	\$ 2,403	\$ 3,222
Operating income		1,051	572	664	822
Income from continuing operations after income taxes		545	277	355	360
Income (loss) from discontinued operations			(6)		
Net income		545	271	355	360
Net income attributable to PPL		541	271	355	359
Income from continuing operations after income taxes available to PPL common shareowners: (b)					
Basic EPS		0.93	0.47	0.61	0.61
Diluted EPS		0.93	0.47	0.61	0.60
Net income available to PPL common shareowners: (b)					
Basic EPS		0.93	0.46	0.61	0.61
Diluted EPS		0.93	0.46	0.61	0.60
Dividends declared per share of common stock (c)		0.360	0.360	0.360	0.360
Price per common share:					
High		\$ 29.85	\$ 28.44	\$ 29.98	\$ 30.18
Low		27.29	26.68	27.72	27.74
	2011				
Operating revenues		\$ 2,910	\$ 2,489	\$ 3,120	\$ 4,218
Operating income		805	595	767	934
Income from continuing operations after income taxes		402	201	449	458
Income (loss) from discontinued operations		3	(1)		
Net income		405	200	449	458
Net income attributable to PPL		401	196	444	454
Income from continuing operations after income taxes available to PPL common shareowners: (b)					
Basic EPS		0.82	0.35	0.76	0.78
Diluted EPS		0.82	0.35	0.76	0.78
Net income available to PPL common shareowners: (b)					
Basic EPS		0.82	0.35	0.76	0.78
Diluted EPS		0.82	0.35	0.76	0.78
Dividends declared per share of common stock (c)		0.350	0.350	0.350	0.350
Price per common share:					
High		\$ 26.98	\$ 28.38	\$ 29.61	\$ 30.27
Low		24.10	25.23	25.00	27.00

- (a) Quarterly results can vary depending on, among other things, weather and the forward pricing of power. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.
- (b) The sum of the quarterly amounts may not equal annual earnings per share due to changes in the number of common shares outstanding during the year or rounding.
- (c) PPL has paid quarterly cash dividends on its common stock in every year since 1946. Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial requirements and other factors.

**QUARTERLY FINANCIAL DATA (Unaudited)**  
**PPL Electric Utilities Corporation and Subsidiaries**  
*(Millions of Dollars)*

		For the Quarters Ended (a)			
		March 31	June 30	Sept. 30	Dec. 31
	<b>2012</b>				
Operating revenues		\$ 458	\$ 404	\$ 444	\$ 457
Operating income		79	63	71	81
Net income		37	29	33	37
Net income available to PPL		33	29	33	37
	<b>2011</b>				
Operating revenues		\$ 558	\$ 440	\$ 455	\$ 439
Operating income		103	82	69	94
Net income		56	40	32	61
Net income available to PPL		52	36	28	57

(a) PPL Electric's business is seasonal in nature, with peak sales periods generally occurring in the winter and summer months. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.



**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS  
ON ACCOUNTING AND FINANCIAL DISCLOSURE**

**PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

(a) Evaluation of disclosure controls and procedures.

**PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company**

The registrants' principal executive officers and principal financial officers, based on their evaluation of the registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of December 31, 2012, the registrants' disclosure controls and procedures are effective to ensure that material information relating to the registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this annual report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

**PPL Corporation**

The registrant's principal executive officer and principal financial officer have concluded that there were no changes in the registrant's internal control over financial reporting during the registrant's fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

As reported in the 2011 Form 10-K, PPL's principal executive officer and principal financial officer concluded that a systems migration related to the WPD Midlands acquisition created a material change to its internal control over financial reporting in 2012. In December 2011, the use of legacy information technology systems at WPD Midlands was discontinued and the related data, processes and internal controls were migrated to the systems, processes and controls currently in place at PPL WW.

Risks related to the systems migration were partially mitigated by PPL's expanded internal control over financial reporting that were implemented subsequent to the acquisition and PPL's existing policy of consolidating foreign subsidiaries on a one-month lag, which provided management additional time for review and analysis of WPD Midlands' results and their incorporation into PPL's consolidated financial statements.

**PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company**

The registrants' principal executive officers and principal financial officers have concluded that there were no changes in the registrants' internal control over financial reporting during the registrants' fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrants' internal control over financial reporting.

**Management's Report on Internal Control over Financial Reporting**

## **PPL Corporation**

PPL's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). PPL's internal control over financial reporting is a process designed to provide reasonable assurance to PPL's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework," our management concluded that our internal control over financial reporting was effective as of December 31, 2012. The effectiveness of our internal control over financial reporting has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report contained on page 197.

## **PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company**

Management of PPL's non-accelerated filer companies, PPL Energy Supply, PPL Electric, LKE, LG&E and KU, are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). Each of the aforementioned companies' internal control over financial reporting is a process designed to provide reasonable assurance to management and Board of Directors of these companies regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including the principal executive officers and principal financial officers of the companies listed above, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework," management of these companies concluded that our internal control over financial reporting was effective as of December 31, 2012. This annual report does not include an attestation report of Ernst & Young LLP, the companies' independent registered public accounting firm regarding internal control over financial reporting for these non-accelerated filer companies. The effectiveness of internal control over financial reporting for the aforementioned companies was not subject to attestation by the companies' registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit these companies to provide only management's report in this annual report.

### **ITEM 9B. OTHER INFORMATION**

#### **PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company**

None.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

#### **PPL Corporation**

Additional information for this item will be set forth in the sections entitled "Nominees for Directors," "Board Committees - Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance" in PPL's 2013 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2012, and which information is incorporated herein by reference. There have been no changes to the procedures by which shareowners may recommend nominees to PPL's board of directors since the filing with the SEC of PPL's 2012 Notice of Annual Meeting and Proxy Statement. Information required by this item concerning the executive officers of PPL is set forth at the end of Part I of this report.

PPL has adopted a code of ethics entitled "Standards of Integrity" that applies to all directors, managers, trustees, officers (including the principal executive officers, principal financial officers and principal accounting officers (each, a "principal officer")), employees and agents of PPL and PPL's subsidiaries for which it has operating control (including PPL Energy Supply, PPL Electric, LKE, LG&E and KU). The "Standards of Integrity" are posted on PPL's Internet website: [www.pplweb.com/about-us/corporate-governance](http://www.pplweb.com/about-us/corporate-governance). A description of any amendment to the "Standards of Integrity" (other than a technical, administrative or other non-substantive amendment) will be posted on PPL's Internet website within four business days following the date of the amendment. In addition, if a waiver constituting a material departure from a provision of the "Standards of Integrity" is granted to one of the principal officers, a description of the nature of the waiver, the name of the person to whom the waiver was granted and the date of the waiver will be posted on PPL's Internet website within four business days following the date of the waiver.

PPL also has adopted its "Guidelines for Corporate Governance," which address, among other things, director qualification standards and director and board committee responsibilities. These guidelines, and the charters of each of the committees of PPL's board of directors, are posted on PPL's Internet website: [www.pplweb.com/about-us/corporate-governance](http://www.pplweb.com/about-us/corporate-governance).

#### **PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company**

Item 10 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K

## EXECUTIVE OFFICERS OF THE REGISTRANTS

Officers of the Registrants are elected annually by their Boards of Directors (or Board of Managers for PPL Energy Supply) to serve at the pleasure of the respective Boards. 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.

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, 2012.

### **PPL Corporation**

Name	Age	Positions Held During the Past Five Years	Dates
William H. Spence (a)	55	Chairman, President and Chief Executive Officer President and Chief Executive Officer President and Chief Operating Officer Executive Vice President and Chief Operating Officer	April 2012 - present November 2011 - March 2012 July 2011 - November 2011 June 2006 - July 2011
Paul A. Farr	45	Executive Vice President and Chief Financial Officer Senior Vice President-Financial	April 2007 - present January 2006 - March 2007
Robert J. Grey (b)	62	Executive Vice President, General Counsel and Secretary Senior Vice President, General Counsel and Secretary	November 2012 - present March 1996 - November 2012
David G. DeCampli (c) (f)	55	President-PPL Energy Supply President-PPL Electric	March 2012 - present April 2007 - March 2012
Gregory N. Dudkin (d) (f)	55	President-PPL Electric Senior Vice President-Operations-PPL Electric Independent Consultant Senior Vice-President of Technical Operations and Fulfillment-Comcast Corporation	March 2012 - present June 2009 - March 2012 February 2009 - June 2009 June 2006 - January 2009
Robert D. Gabbard (f)	53	President-PPL EnergyPlus Senior Vice President-Trading-PPL EnergyPlus  Senior Vice President Merchant Trading Operations-Conectiv Energy	June 2008 - present June 2008 - June 2008 June 2005 - May 2008
Rick L. Klingensmith (f)	52	President-PPL Global	August 2004 - present
Victor A. Staffieri (f)	57	Chairman of the Board, President and Chief Executive Officer-LKE	May 2001 - present
Mark F. Wilten (e)	45	Vice President-Finance and Treasurer Treasurer-Nissan North America and Nissan Motor Acceptance Corporation Assistant Treasurer-Nissan Motor Acceptance Corporation Group Treasurer-Kensington Group plc	June 2012 - present August 2010 - May 2012  August 2008 - August 2010 October 2004 - January 2008
Vincent Sorgi	41	Vice President and Controller Controller-Supply Accounting Controller-PPL EnergyPlus	March 2010 - present June 2008 - March 2010 April 2007 - June 2008

- (a) On April 1, 2012, William H. Spence was elected Chairman, President and Chief Executive Officer.  
 (b) On November 1, 2012, Robert J. Grey was elected Executive Vice President, General Counsel and Secretary.  
 (c) On March 4, 2012, David G. DeCampli resigned as President of PPL Electric. On March 5, 2012, Mr. DeCampli was elected as President of PPL Energy Supply.  
 (d) On March 4, 2012, Gregory N. Dudkin resigned as Senior Vice President-Operations of PPL Electric. On March 5, 2012, Mr. Dudkin was elected as President of PPL Electric.  
 (e) On June 4, 2012, Mark F. Wilten was elected Vice President-Finance and Treasurer.  
 (f) Designated an executive officer of PPL by virtue of their respective positions at a PPL subsidiary.

## ITEM 11. EXECUTIVE COMPENSATION

### PPL Corporation

Information for this item will be set forth in the sections entitled "Compensation of Directors," "Compensation Committee Interlocks and Insider Participation" and "Executive Compensation" in PPL's 2013 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2012, and which information is incorporated herein by reference.

### PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 11 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

### PPL Corporation

Information for this item will be set forth in the section entitled "Stock Ownership" in PPL's 2013 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2012, and which information is incorporated herein by reference. In addition, provided below in tabular format is information as of December 31, 2012, with respect to compensation plans (including individual compensation arrangements) under which equity securities of PPL are authorized for issuance.

#### Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (3)	Weighted-average exercise price of outstanding options, warrants and rights (3)	Number of securities remaining available for future issuance under equity compensation plans (4)
Equity compensation plans approved by security holders (1)	4,968,849 - ICP 413,210 - SIP <u>3,752,486</u> - ICPKE 9,134,545 - Total	\$ 30.72- ICP \$ 28.19- SIP \$ 30.12- ICPKE \$ 30.36- Combined	334,877 - ICP 5,688,059 - ICPKE 9,541,170 - SIP <u>1,948,928</u> - DDCP 17,513,034 - Total
Equity compensation plans not approved by security holders (2)			

- (1) Includes (a) the Amended and Restated Incentive Compensation Plan (ICP), under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to executive officers of PPL; (b) the Amended and Restated Incentive Compensation Plan for Key Employees (ICPKE), under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to non-executive key employees of PPL and its subsidiaries; (c) the PPL 2012 SIP approved by shareowners in 2012 under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to executive officers of PPL and its subsidiaries; and (d) the Directors Deferred Compensation Plan (DDCP), under which stock units may be awarded to directors of PPL. See Note 12 to the Financial Statements for additional information.
- (2) All of PPL's current compensation plans under which equity securities of PPL are authorized for issuance have been approved by PPL's shareowners.
- (3) Relates to common stock issuable upon the exercise of stock options awarded under the ICP, SIP and ICPKE as of December 31, 2012. In addition, as of December 31, 2012, the following other securities had been awarded and are outstanding under the ICP, SIP, ICPKE and DDCP: 30,400 shares of restricted stock, 400,660 restricted stock units and 324,387 performance units under the ICP; 40,000 shares of restricted stock, 1,856 restricted stock units and 3,927 performance units under the SIP; 24,600 shares of restricted stock, 2,006,254 restricted stock units and 265,889 performance units under the ICPKE; and 467,741 stock units under the DDCP.

- (4) Based upon the following aggregate award limitations under the ICP, SIP, ICPKE and DDCP: (a) under the ICP, 15,769,431 awards (i.e., 5% of the total PPL common stock outstanding as of April 23, 1999) granted after April 23, 1999; (b) under the SIP, 10,000,000 awards; (c) under the ICPKE, 16,573,608 awards (i.e., 5% of the total PPL common stock outstanding as of January 1, 2003) granted after April 25, 2003, reduced by outstanding awards for which common stock was not yet issued as of such date of 2,373,812 resulting in a limit of 14,199,796; and (d) under the DDCP, the number of shares available for issuance was reduced to 2,000,000 shares in March 2012. In addition, each of the ICP and ICPKE includes an annual award limitation of 2% of total PPL common stock outstanding as of January 1 of each year.

**PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company**

Item 12 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

**PPL Corporation**

Information for this item will be set forth in the sections entitled "Transactions with Related Persons" and "Independence of Directors" in PPL's 2013 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2012, and is incorporated herein by reference.

**PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company**

Item 13 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

**PPL Corporation**

Information for this item will be set forth in the section entitled "Fees to Independent Auditor for 2012 and 2011" in PPL's 2013 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2012, and which information is incorporated herein by reference.

**PPL Energy Supply, LLC**

The following table presents an allocation of fees billed, including expenses, by Ernst & Young LLP (EY) to PPL for the fiscal years ended December 31, 2012 and 2011, for professional services rendered for the audit of PPL Energy Supply's annual financial statements and for fees billed for other services rendered by EY.

	<u>2012</u>	<u>2011</u>
	(in thousands)	
Audit fees (a)	\$ 2,132	\$ 1,701
Audit-related fees (b)	54	9
Tax fees (c)	163	518

- (a) Includes estimated fees for audit of annual financial statements and review of financial statements included in PPL Energy Supply's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.
- (b) Fees for performance of specific agreed-upon procedures.
- (c) Includes fees for tax advice in connection with a tax basis and earnings and profit study, a private letter ruling related to the sale of Safe Harbor, Ironwood purchase accounting, and review, consultation and analysis related to investment tax credits and related capital expenditures on certain hydro-electric plant upgrades.

### PPL Electric Utilities Corporation

The following table presents an allocation of fees billed, including expenses, by EY to PPL for the fiscal years ended December 31, 2012 and 2011, for professional services rendered for the audit of PPL Electric's annual financial statements and for fees billed for other services rendered by EY.

	<u>2012</u>	<u>2011</u>
	(in thousands)	
Audit fees (a)	\$ 1,319	\$ 1,193
Audit-related fees (b)	10	45
Tax fees (c)	207	19

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in PPL Electric's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

(b) Fees for consultation on a transmission and distribution study and performance of specific agreed-upon procedures.

(c) Includes fees for tax advice in connection with non-income tax processes, sales and use tax matters and analysis related to the deductibility of certain transmission and distribution costs.

### LG&E and KU Energy LLC

The following table presents an allocation of fees billed, including expenses, by EY to LKE for the fiscal years ended December 31, 2012 and 2011, for professional services rendered for the audits of LKE's annual financial statements and for fees billed for other services rendered by EY.

	<u>2012</u>	<u>2011</u>
	(in thousands)	
Audit fees (a)	\$ 1,715	\$ 1,528

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in LKE's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

### Louisville Gas and Electric Company

The following table presents an allocation of fees billed, including expenses, by EY to LG&E for the fiscal years ended December 31, 2012 and 2011, for professional services rendered for the audits of LG&E's annual financial statements and for fees billed for other services rendered by EY.

	<u>2012</u>	<u>2011</u>
	(in thousands)	
Audit fees (a)	\$ 731	\$ 552

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in LG&E's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

### Kentucky Utilities Company

The following table presents an allocation of fees billed, including expenses, by EY to KU for the fiscal years ended December 31, 2012 and 2011, for professional services rendered for the audits of KU's annual financial statements and for fees billed for other services rendered by EY.

	<u>2012</u>	<u>2011</u>
	(in thousands)	
Audit fees (a)	\$ 626	\$ 552

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in KU's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

**PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company**

Approval of Fees The Audit Committee of PPL has procedures for pre-approving audit and non-audit services to be provided by the independent auditor. These procedures are designed to ensure the continued independence of the independent auditor. More specifically, the use of the independent auditor to perform either audit or non-audit services is prohibited unless specifically approved in advance by the Audit Committee of PPL. As a result of this approval process, the Audit Committee of PPL has pre-approved specific categories of services and authorization levels. All services outside of the specified categories and all amounts exceeding the authorization levels are approved by the Chair of the Audit Committee of PPL, who serves as the Committee designee to review and approve audit and non-audit related services during the year. A listing of the approved audit and non-audit services is reviewed with the full Audit Committee of PPL no later than its next meeting.

The Audit Committee of PPL approved 100% of the 2012 and 2011 services provided by EY.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

**PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company**

(a) The following documents are filed as part of this report:

1. Financial Statements - Refer to the "Table of Contents" for an index of the financial statements included in this report.
2. Supplementary Data and Supplemental Financial Statement Schedule - included in response to Item 8.

Schedule I - LG&E and KU Energy LLC Condensed Unconsolidated Financial Statements.

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.

3. Exhibits

See Exhibit Index immediately following the signature pages.



## SHAREOWNER AND INVESTOR INFORMATION

**Annual Meetings:** The 2013 annual meeting of shareowners of PPL will be held on Wednesday, May 15, 2013, at the Zoellner Arts Center, on the campus of Lehigh University in Bethlehem, Pennsylvania, in Northampton County.

**Proxy and Information Statement Material:** A proxy statement and notice of PPL's annual meeting is mailed to all shareowners of record as of February 28, 2013.

**PPL Annual Report:** The report is published and mailed in the beginning of April to all shareowners of record. The latest annual report can be accessed at [www.pplweb.com](http://www.pplweb.com). If you have more than one account, or if there is more than one investor in your household, you may call the PPL Shareowner Information Line to request that only one annual report be delivered to your address. Please provide account numbers for all duplicate mailings.

**Dividends:** Subject to the declaration of dividends on PPL common stock by the PPL Board of Directors or its Executive Committee and PPL Electric preference stock by the PPL Electric Board of Directors, dividends are paid on the first business day of April, July, October and January. The 2013 record dates for dividends are expected to be March 8, June 10, September 10 and December 10.

**PPL Shareowner Information Line (1-800-345-3085):** Shareowners can obtain corporate and financial information 24 hours a day using the PPL Shareowner Information Line. Earnings, dividends and other company news releases are available by fax or mail. Other PPL publications, such as the annual and quarterly reports to the Securities and Exchange Commission (Forms 10-K and 10-Q), will be mailed upon request, or write to:

Manager - PPL Investor Services  
Two North Ninth Street (GENTW13)  
Allentown, PA 18101

FAX: 610-774-5106  
Via email: [invserv@pplweb.com](mailto:invserv@pplweb.com)

**PPL's Website ([www.pplweb.com](http://www.pplweb.com)):** Shareowners can access PPL Securities and Exchange Commission filings, corporate governance materials, news releases, stock quotes and historical performance. Visitors to our website can provide their email address and indicate their desire to receive future earnings or news releases automatically.

### **Shareowner Inquiries:**

PPL Shareowner Services  
Wells Fargo Bank, N.A.  
1110 Centre Pointe Curve, Suite 101  
Mendota Heights, MN 55120

Toll Free: 1-800-345-3085  
Outside U.S.: 651-453-2129  
FAX: 651-450-4085  
[shareowneronline.com](http://shareowneronline.com)

**Online Account Access:** Registered shareowners can activate their account for online access by visiting [shareowneronline.com](http://shareowneronline.com).

**Dividend Reinvestment and Direct Stock Purchase Plan (Plan):** PPL offers investors the opportunity to acquire shares of PPL common stock through its Plan. Through the Plan, participants are eligible to invest up to \$25,000 per calendar month in PPL common stock. Shareowners may choose to have dividends on their PPL common stock fully or partially reinvested in PPL common stock or can receive full payment of cash dividends by check or EFT. Participants in the Plan may choose to have their common stock certificates deposited into their Plan account.

**Direct Registration System:** PPL participates in the Direct Registration System (DRS). Shareowners may choose to have their common stock certificates converted to book entry form within the DRS by submitting their certificates to PPL's transfer agent.

**Listed Securities:**

**New York Stock Exchange**

**PPL Corporation:**

Common Stock (Code: PPL)

Corporate Units issued 2010 (Code: PPLPRU)

Corporate Units issued 2011 (Code: PPLPRW)

**PPL Capital Funding, Inc.:**

2007 Series A Junior Subordinated Notes due 2067 (Code: PPL/67)

**Fiscal Agents:**

**Stock Transfer Agent and Registrar; Dividend Reinvestment Plan Agent**

Wells Fargo Bank, N.A.  
Shareowner Services  
1110 Centre Pointe Curve, Suite 101  
Mendota Heights, MN 55120

Toll Free: 1-800-345-3085  
Outside U.S.: 651-453-2129

**Dividend Disbursing Office**

PPL Investor Services  
Two North Ninth Street (GENTW13)  
Allentown, PA 18101

FAX: 610-774-5106  
Via email: [invserv@pplweb.com](mailto:invserv@pplweb.com)

Or call the PPL Shareowner Information Line  
Toll Free: 1-800-345-3085

**1945 Mortgage Bond Trustee, Transfer and Bond Interest Paying Agent**

Deutsche Bank Trust Company Americas  
5022 Gate Parkway (Suite 200)  
Jacksonville, FL 32256

Toll Free: 1-800-735-7777  
FAX: 615-866-3887

**Indenture Trustee**

The Bank of New York Mellon  
101 Barclay Street  
New York, NY 10286

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Corporation  
(Registrant)

By /s/ William H. Spence  
William H. Spence -  
Chairman, President and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ William H. Spence  
William H. Spence -  
Chairman, President and  
Chief Executive Officer  
(Principal Executive Officer)

By /s/ Paul A. Farr  
Paul A. Farr -  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

By /s/ Vincent Sorgi  
Vincent Sorgi -  
Vice President and Controller  
(Principal Accounting Officer)

Directors:

Frederick M. Bernthal	Venkata Rajamannar Madabhushi
John W. Conway	Craig A. Rogerson
Steven G. Elliott	William H. Spence
Louise K. Goeser	Natica von Althann
Stuart E. Graham	Keith H. Williamson
Stuart Heydt	

By /s/ William H. Spence  
William H. Spence, Attorney-in-fact

Date: February 28, 2013

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**PPL Energy Supply, LLC**  
(Registrant)

By /s/ David G. DeCampli  
David G. DeCampli -  
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ David G. DeCampli  
David G. DeCampli -  
President  
(Principal Executive Officer)

By /s/ Paul A. Farr  
Paul A. Farr -  
Executive Vice President  
(Principal Financial Officer)

By /s/ Vincent Sorgi  
Vincent Sorgi -  
Vice President and Controller  
(Principal Accounting Officer)

Managers:

/s/ David G. DeCampli  
David G. DeCampli

/s/ Paul A. Farr  
Paul A. Farr

/s/ Robert J. Grey  
Robert J. Grey

/s/ William H. Spence  
William H. Spence

Date: February 28, 2013

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Electric Utilities Corporation  
(Registrant)

By /s/ Gregory N. Dudkin  
Gregory N. Dudkin -  
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Gregory N. Dudkin  
Gregory N. Dudkin -  
President  
(Principal Executive Officer)

By /s/ Vincent Sorgi  
Vincent Sorgi -  
Vice President and Chief Accounting Officer  
(Principal Financial and Accounting Officer)

Directors:

/s/ William H. Spence  
William H. Spence

/s/ Gregory N. Dudkin  
Gregory N. Dudkin

/s/ Paul A. Farr  
Paul A. Farr

/s/ Dean A. Christiansen  
Dean A. Christiansen

/s/ Robert J. Grey  
Robert J. Grey

Date: February 28, 2013

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LG&E and KU Energy LLC  
(Registrant)

By /s/ Victor A. Staffieri  
Victor A. Staffieri -  
Chairman of the Board, Chief Executive Officer and  
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Victor A. Staffieri  
Victor A. Staffieri -  
Chairman of the Board, Chief Executive Officer and  
President  
(Principal Executive Officer)

By /s/ Kent W. Blake  
Kent W. Blake -  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

Directors:

/s/ Paul A. Farr  
Paul A. Farr

/s/ William H. Spence  
William H. Spence

/s/ Chris Hermann  
Chris Hermann

/s/ Victor A. Staffieri  
Victor A. Staffieri

/s/ S. Bradford Rives  
S. Bradford Rives

/s/ Paul W. Thompson  
Paul W. Thompson

Date: February 28, 2013

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Louisville Gas and Electric Company  
(Registrant)

By /s/ Victor A. Staffieri  
Victor A. Staffieri -  
Chairman of the Board, Chief Executive Officer and  
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Victor A. Staffieri  
Victor A. Staffieri -  
Chairman of the Board, Chief Executive Officer and  
President  
(Principal Executive Officer)

By /s/ Kent W. Blake  
Kent W. Blake -  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

Directors:

<u>/s/ Paul A. Farr</u> Paul A. Farr	<u>/s/ William H. Spence</u> William H. Spence
<u>/s/ Chris Hermann</u> Chris Hermann	<u>/s/ Victor A. Staffieri</u> Victor A. Staffieri
<u>/s/ S. Bradford Rives</u> S. Bradford Rives	<u>/s/ Paul W. Thompson</u> Paul W. Thompson

Date: February 28, 2013

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Kentucky Utilities Company  
(Registrant)

By /s/ Victor A. Staffieri  
Victor A. Staffieri -  
Chairman of the Board, Chief Executive Officer and  
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Victor A. Staffieri  
Victor A. Staffieri -  
Chairman of the Board, Chief Executive Officer and  
President  
(Principal Executive Officer)

By /s/ Kent W. Blake  
Kent W. Blake -  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

Directors:

/s/ Paul A. Farr  
Paul A. Farr

/s/ William H. Spence  
William H. Spence

/s/ Chris Hermann  
Chris Hermann

/s/ Victor A. Staffieri  
Victor A. Staffieri

/s/ S. Bradford Rives  
S. Bradford Rives

/s/ Paul W. Thompson  
Paul W. Thompson

Date: February 28, 2013



## EXHIBIT INDEX

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits have heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [ ] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

- 3(a) - Amended and Restated Articles of Incorporation of PPL Corporation, effective as of May 21, 2008 (Exhibit 3(i) to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 21, 2008)
- 3(b) - Amended and Restated Articles of Incorporation of PPL Electric Utilities Corporation, effective as of May 2, 2006 (Exhibit 3(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended March 31, 2006)
- 3(c)-1 - Certificate of Formation of PPL Energy Supply, LLC, effective as of November 14, 2000 (Exhibit 3.1 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
- 3(c)-2 - Certificate of Amendment of PPL Energy Supply, LLC, effective as of November 12, 2002 (Exhibit 3(c)-2 to PPL Energy Supply, LLC Form 10-K Report (File No. 1-32944) for the year ended December 31, 2011)
- 3(d) - Amended and Restated Bylaws of PPL Corporation, effective as of May 19, 2010 (Exhibit 99.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2010)
- 3(e) - Amended and Restated Bylaws of PPL Electric Utilities Corporation, effective as of March 30, 2006 (Exhibit 3.2 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated March 30, 2006)
- 3(f) - Limited Liability Company Agreement of PPL Energy Supply, LLC, effective as of March 20, 2001 (Exhibit 3.2 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
- 3(g) - Articles of Organization of LG&E and KU Energy LLC, effective as of December 29, 2003 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173665))
- 3(h) - Amended and Restated Operating Agreement of LG&E and KU Energy LLC, effective as of November 1, 2010 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173665))
- 3(i)-1 - Amended and Restated Articles of Incorporation of Louisville Gas and Electric Company, effective as of November 6, 1996 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173676))
- 3(i)-2 - Articles of Amendment to Articles of Incorporation of Louisville Gas and Electric Company, effective as of April 6, 2004 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173676))
- 3(j) - Bylaws of Louisville Gas and Electric Company, effective as of December 16, 2003 (Exhibit 3(c) to Registration Statement filed on Form S-4 (File No. 333-173676))
- 3(k)-1 - Amended and Restated Articles of Incorporation of Kentucky Utilities Company, effective as of December 14, 1993 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173675))
- 3(k)-2 - Articles of Amendment to Articles of Incorporation of Kentucky Utilities Company, effective as of April 8, 2004 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173675))
- 3(l) - Bylaws of Kentucky Utilities Company, effective as of December 16, 2003 (Exhibit 3(c) to Registration Statement filed on Form S-4 (File No. 333-173675))
- 4(a) - Pollution Control Facilities Loan Agreement, dated as of May 1, 1973, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 5(z) to Registration Statement No. 2-60834)
- 4(b)-1 - Amended and Restated Employee Stock Ownership Plan, dated January 12, 2007 (Exhibit 4(a) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)

- 4(b)-2 - Amendment No. 1 to said Employee Stock Ownership Plan, dated July 2, 2007 (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2007)
- 4(b)-3 - Amendment No. 2 to said Employee Stock Ownership Plan, dated December 13, 2007 (Exhibit 4(a)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2007)
- 4(b)-4 - Amendment No. 3 to said Employee Stock Ownership Plan, dated August 19, 2009 (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2009)
- 4(b)-5 - Amendment No. 4 to said Employee Stock Ownership Plan, dated December 2, 2009 (Exhibit 4(a)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2009)
- 4(b)-6 - Amendment No. 5 to said Employee Stock Ownership Plan, dated November 17, 2010 (Exhibit 4(b)-6 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(b)-7 - Amendment No. 6 to said Employee Stock Ownership Plan, dated January 18, 2012 (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2012)
- 4(b)-8 - Amendment No. 7 to said Employee Stock Ownership Plan, dated May 30, 2012 (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2012)
- 4(b)-9 - Amendment No. 8 to said Employee Stock Ownership Plan, dated July 17, 2012 (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2012)
- \*4(b)-10 - Amendment No. 9 to said Employee Stock Ownership Plan, dated December 21, 2012
- 4(c) - Trust Deed constituting £150 million 9 ¼ percent Bonds due 2020, dated November 9, 1995, between South Wales Electric plc and Bankers Trustee Company Limited (Exhibit 4(k) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(d)-1 - Indenture, dated as of November 1, 1997, among PPL Corporation, PPL Capital Funding, Inc. and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 12, 1997)
- 4(d)-2 - Supplemental Indenture No. 7, dated as of July 1, 2007, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated July 16, 2007)
- 4(d)-3 - Supplemental Indenture No. 8, dated as of June 14, 2012, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 14, 2012)
- 4(d)-4 - Supplemental Indenture No. 9, dated as of October 15, 2012, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 15, 2012)
- 4(e) - Indenture, dated as of March 16, 2001, among WPD Holdings UK, Bankers Trust Company, as Trustee, Principal Paying Agent, and Transfer Agent and Deutsche Bank Luxembourg, S.A., as Paying and Transfer Agent (Exhibit 4(g) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2009)
- 4(f)-1 - Indenture, dated as of August 1, 2001, by PPL Electric Utilities Corporation and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 21, 2001)
- 4(f)-2 - Supplemental Indenture No. 4, dated as of February 1, 2005, to said Indenture (Exhibit 4(g)-5 to PPL Electric Utilities Corporation Form 10-K Report (File No. 1-905) for the year ended December 31, 2004)

- 4(f)-3 - Supplemental Indenture No. 5, dated as of May 1, 2005, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2005)
- 4(f)-4 - Supplemental Indenture No. 6, dated as of December 1, 2005, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated December 22, 2005)
- 4(f)-5 - Supplemental Indenture No. 7, dated as of August 1, 2007, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 14, 2007)
- 4(f)-6 - Supplemental Indenture No. 9, dated as of October 1, 2008, to said Indenture (Exhibit 4(c) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 31, 2008)
- 4(f)-7 - Supplemental Indenture No. 10, dated as of May 1, 2009, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated May 22, 2009)
- 4(f)-8 - Supplemental Indenture No. 11, dated as of July 1, 2011, to said Indenture (Exhibit 4.1 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 13, 2011)
- 4(f)-9 - Supplemental Indenture No. 12, dated as of July 1, 2011, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 18, 2011)
- 4(f)-10 - Supplemental Indenture No. 13, dated as of August 1, 2011, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 23, 2011)
- 4(f)-11 - Supplemental Indenture No. 14, dated as of August 1, 2012, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 24, 2012)
- 4(g)-1 - Indenture, dated as of October 1, 2001, by PPL Energy Supply, LLC and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
- 4(g)-2 - Supplemental Indenture No. 2, dated as of August 15, 2004, to said Indenture (Exhibit 4(h)-4 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2004)
- 4(g)-3 - Supplemental Indenture No. 3, dated as of October 15, 2005, to said Indenture (Exhibit 4(a) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated October 28, 2005)
- 4(g)-4 - Form of Note for PPL Energy Supply, LLC's \$300 million aggregate principal amount of 5.70% REset Put Securities due 2035 (REPS<sup>SM</sup>) (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated October 28, 2005)
- 4(g)-5 - Supplemental Indenture No. 4, dated as of May 1, 2006, to said Indenture (Exhibit 4(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended June 30, 2006)
- 4(g)-6 - Supplemental Indenture No. 6, dated as of July 1, 2006, to said Indenture (Exhibit 4(c) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended June 30, 2006)
- 4(g)-7 - Supplemental Indenture No. 7, dated as of December 1, 2006, to said Indenture (Exhibit 4(f)-10 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2006)
- 4(g)-8 - Supplemental Indenture No. 8, dated as of December 1, 2007, to said Indenture (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated December 20, 2007)
- 4(g)-9 - Supplemental Indenture No. 9, dated as of March 1, 2008, to said Indenture (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated March 14, 2008)

- 4(g)-10 - Supplemental Indenture No. 10, dated as of July 1, 2008, to said Indenture (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated July 21, 2008)
- 4(g)-11 - Supplemental Indenture No. 11, dated as of December 1, 2011, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-1149) dated December 16, 2011)
- 4(h)-1 - Trust Deed constituting £200 million 5.875 percent Bonds due 2027, dated March 25, 2003, between Westem Power Distribution (South West) plc and J.P. Morgan Corporate Trustee Services Limited (Exhibit 4(o)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(h)-2 - Supplement, dated May 27, 2003, to said Trust Deed, constituting £50 million 5.875 percent Bonds due 2027 (Exhibit 4(o)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(i)-1 - Pollution Control Facilities Loan Agreement, dated as of February 1, 2005, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 10(ff) to PPL Electric Utilities Corporation Form 10-K Report (File No. 1-905) for the year ended December 31, 2004)
- 4(i)-2 - Pollution Control Facilities Loan Agreement, dated as of May 1, 2005, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 10(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2005)
- 4(i)-3 - Pollution Control Facilities Loan Agreement, dated as of October 1, 2008, between Pennsylvania Economic Development Financing Authority and PPL Electric Utilities Corporation (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 31, 2008)
- 4(j) - Trust Deed constituting £105 million 1.541 percent Index-Linked Notes due 2053, dated December 1, 2006, between Westem Power Distribution (South West) plc and HSBC Trustee (CI) Limited (Exhibit 4(i) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 4(k) - Trust Deed constituting £120 million 1.541 percent Index-Linked Notes due 2056, dated December 1, 2006, between Westem Power Distribution (South West) plc and HSBC Trustee (CI) Limited (Exhibit 4(j) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 4(l) - Trust Deed constituting £225 million 4.80436 percent Notes due 2037, dated December 21, 2006, between Western Power Distribution (South Wales) plc and HSBC Trustee (CI) Limited (Exhibit 4(k) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 4(m)-1 - Subordinated Indenture, dated as of March 1, 2007, between PPL Capital Funding, Inc., PPL Corporation and The Bank of New York, as Trustee (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 20, 2007)
- 4(m)-2 - Supplemental Indenture No. 1, dated as of March 1, 2007, to said Subordinated Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 20, 2007)
- 4(m)-3 - Supplemental Indenture No. 2, dated as of June 28, 2010, to said Subordinated Indenture (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 30, 2010)
- 4(m)-4 - Supplemental Indenture No. 3, dated as of April 15, 2011, to said Subordinated Indenture (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 19, 2011)
- 4(n)-1 - Series 2009A Exempt Facilities Loan Agreement, dated as of April 1, 2009, between PPL Energy Supply, LLC and Pennsylvania Economic Development Financing Authority (Exhibit 4(a) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 9, 2009)

- 4(n)-2 - Series 2009B Exempt Facilities Loan Agreement, dated as of April 1, 2009, between PPL Energy Supply, LLC and Pennsylvania Economic Development Financing Authority (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 9, 2009)
- 4(n)-3 - Series 2009C Exempt Facilities Loan Agreement, dated as of April 1, 2009, between PPL Energy Supply, LLC and Pennsylvania Economic Development Financing Authority (Exhibit 4(c) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 9, 2009)
- 4(o) - Trust Deed constituting £200 million 5.75 percent Notes due 2040, dated March 23, 2010, between Western Power Distribution (South Wales) plc and HSBC Corporate Trustee Company (UK) Limited (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2010)
- 4(p) - Trust Deed constituting £200 million 5.75 percent Notes due 2040, dated March 23, 2010, between Western Power Distribution (South West) plc and HSBC Corporate Trustee Company (UK) Limited (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2010)
- 4(q)-1 - Indenture, dated as of October 1, 2010, between Kentucky Utilities Company and The Bank of New York Mellon, as Trustee (Exhibit 4(q)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(q)-2 - Supplemental Indenture No. 1, dated as of October 15, 2010, to said Indenture (Exhibit 4(q)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(q)-3 - Supplemental Indenture No. 2, dated as of November 1, 2010, to said Indenture (Exhibit 4(q)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(r)-1 - Indenture, dated as of October 1, 2010, between Louisville Gas and Electric Company and The Bank of New York Mellon, as Trustee (Exhibit 4(r)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(r)-2 - Supplemental Indenture No. 1, dated as of October 15, 2010, to said Indenture (Exhibit 4(r)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(r)-3 - Supplemental Indenture No. 2, dated as of November 1, 2010, to said Indenture (Exhibit 4(r)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(s)-1 - Indenture, dated as of November 1, 2010, between LG&E and KU Energy LLC and The Bank of New York Mellon, as Trustee (Exhibit 4(s)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(s)-2 - Supplemental Indenture No. 1, dated as of November 1, 2010, to said Indenture (Exhibit 4(s)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(s)-3 - Supplemental Indenture No. 2, dated as of September 1, 2011, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 30, 2011)
- 4(t)-1 - 2002 Series A Carroll County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(w)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(t)-2 - Amendment No. 1 dated as of September 1, 2010 to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(w)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(u)-1 - 2002 Series B Carroll County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(x)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(u)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(x)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(v)-1 - 2002 Series C Carroll County Loan Agreement, dated July 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(y)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(v)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(y)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(w)-1 - 2004 Series A Carroll County Loan Agreement, dated October 1, 2004 and amended and restated as of September 1, 2008, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(z)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(w)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(z)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(x)-1 - 2006 Series B Carroll County Loan Agreement, dated October 1, 2006 and amended and restated September 1, 2008, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(aa)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(x)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(aa)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(y)-1 - 2007 Series A Carroll County Loan Agreement, dated March 1, 2007, by and between Kentucky Utilities Company and County of Carroll, Kentucky (Exhibit 4(bb)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(y)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(bb)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(z)-1 - 2008 Series A Carroll County Loan Agreement, dated August 1, 2008 by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(cc)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(z)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(cc)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(aa)-1 - 2000 Series A Mercer County Loan Agreement, dated May 1, 2000 and amended and restated as of September 1, 2008, by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(dd)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(aa)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(dd)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(bb)-1 - 2002 Series A Mercer County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(ee)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(bb)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(ee)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(cc)-1 - 2002 Series A Muhlenberg County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Muhlenberg, Kentucky (Exhibit 4(ff)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(cc)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Muhlenberg, Kentucky (Exhibit 4(ff)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(dd)-1 - 2007 Series A Trimble County Loan Agreement, dated March 1, 2007, by and between Kentucky Utilities Company, and County of Trimble, Kentucky (Exhibit 4(gg)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(dd)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Trimble, Kentucky (Exhibit 4(gg)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ee)-1 - 2000 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated May 1, 2000 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(hh)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ee)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(hh)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ee)-3 - Amendment No. 2 dated as of October 1, 2011, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ee)-3 to Louisville Gas and Electric Company Form 10-K Report (File No. 1-2893) for the year ended December 31, 2011)
- 4(ff)-1 - 2001 Series A Jefferson County Loan Agreement, dated July 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(ii)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ff)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(ii)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(gg)-1 - 2001 Series A Jefferson County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(jj)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(gg)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(jj)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(hh)-1 - 2001 Series B Jefferson County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(kk)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(hh)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(kk)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ii)-1 - 2003 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated October 1, 2003, by and between Louisville Gas and Electric Company and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ll)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ii)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ll)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ij)-1 - 2005 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated February 1, 2005 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(mm)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ij)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(mm)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(kk)-1 - 2007 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated as of March 1, 2007 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(nn)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(kk)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(nn)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ll) - 2007 Series B Louisville/Jefferson County Metro Government Amended and Restated Loan Agreement, dated November 1, 2010, by and between Louisville Gas and Electric Company and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(oo) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(mm)-1 - 2000 Series A Trimble County Loan Agreement, dated August 1, 2000, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(pp)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(mm)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(pp)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(nn)-1 - 2001 Series A Trimble County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(qq)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(nn)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and the County of Trimble, Kentucky (Exhibit 4(qq)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(oo)-1 - 2001 Series B Trimble County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(rr)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)



- 4(oo)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(rr)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(pp)-1 - 2002 Series A Trimble County Loan Agreement, dated July 1, 2002, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(ss)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(pp)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(ss)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(qq)-1 - 2007 Series A Trimble County Loan Agreement, dated March 1, 2007, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(tt)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(qq)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(tt)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(rr)-1 - Indenture, dated April 21, 2011, between PPL WEM Holdings PLC, as Issuer, and The Bank of New York Mellon, as Trustee (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)
- 4(rr)-2 - Supplemental Indenture No. 1, dated April 21, 2011, to said Indenture (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)
- 4(ss)-1 - Trust Deed, dated April 27, 2011, by and among Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc, as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)
- 4(ss)-2 - Final Terms of WPD West Midlands £800,000,000 5.75 per cent Notes due 2032 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)
- 4(ss)-3 - Final Terms of WPD East Midlands £600,000,000 5.25 per cent Notes due 2023 (Exhibit 1.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)
- 4(ss)-4 - Final Terms of WPD East Midlands £100,000,000 Index Linked Notes due 2043 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 2, 2011)
- 4(ss)-5 - Final Terms of WPD East Midlands £100,000,000 5.25% Notes due 2023 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 19, 2012)
- 4(tt) - Agency Agreement, dated April 27, 2011, by and among Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc, as Issuers, and HSBC Corporate Trustee Company (UK) Limited and HSBC Bank plc (Exhibit 4.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)
- 10(a) - Generation Supply Agreement, dated as of June 20, 2001, between PPL Electric Utilities Corporation and PPL EnergyPlus, LLC (Exhibit 10.5 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
- 10(b)-1 - Master Power Purchase and Sale Agreement, dated as of October 15, 2001, between NorthWestern Energy Division (successor in interest to The Montana Power Company) and PPL Montana, LLC (Exhibit 10(g) to PPL Montana, LLC Form 10-K Report (File No. 333-50350) for the year ended December 31, 2001)

- 10(b)-2 - Confirmation Letter, dated July 5, 2006, between PPL Montana, LLC and NorthWestern Corporation (PPL Corporation and PPL Energy Supply, LLC Form 8-K Reports (File Nos. 1-11459 and 333-74794) dated July 6, 2006)
- 10(c) - Guaranty, dated as of December 21, 2001, from PPL Energy Supply, LLC in favor of LMB Funding, Limited Partnership (Exhibit 10(j) to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2001)
- 10(d)-1 - Agreement for Lease, dated as of December 21, 2001, between LMB Funding, Limited Partnership and Lower Mt. Bethel Energy, LLC (Exhibit 10(m) to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2003)
- 10(d)-2 - Amendment No. 1 to said Agreement for Lease, dated as of September 16, 2002, between LMB Funding, Limited Partnership and Lower Mt. Bethel Energy, LLC (Exhibit 10(m)-1 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2003)
- 10(e)-1 - Lease Agreement, dated as of December 21, 2001, between LMB Funding, Limited Partnership and Lower Mt. Bethel Energy, LLC (Exhibit 10(n) to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2003)
- 10(e)-2 - Amendment No. 1 to said Lease Agreement, dated as of September 16, 2002, between LMB Funding, Limited Partnership and Lower Mt. Bethel Energy, LLC (Exhibit 10(n)-1 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2003)
- 10(f) - Facility Lease Agreement (BA 1/2) between PPL Montana, LLC and Montana OL3, LLC (Exhibit 4.7a to PPL Montana, LLC Form S-4 (Registration Statement No. 333-50350))
- 10(g) - Facility Lease Agreement (BA 3) between PPL Montana, LLC and Montana OL4, LLC (Exhibit 4.8a to PPL Montana, LLC Form S-4 (Registration Statement No. 333-50350))
- 10(h) - Services Agreement, dated as of July 1, 2000, among PPL Corporation, PPL Energy Funding Corporation and its direct and indirect subsidiaries in various tiers, PPL Capital Funding, Inc., PPL Gas Utilities Corporation, PPL Services Corporation and CEP Commerce, LLC (Exhibit 10.20 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
- 10(i)-1 - Asset Purchase Agreement, dated as of June 1, 2004, by and between PPL Sundance Energy, LLC, as Seller, and Arizona Public Service Company, as Purchaser (Exhibit 10(a) to PPL Corporation and PPL Energy Supply, LLC Form 10-Q Reports (File Nos. 1-11459 and 333-74794) for the quarter ended June 30, 2004)
- 10(i)-2 - Amendment No. 1, dated December 14, 2004, to said Asset Purchase Agreement (Exhibit 99.1 to PPL Corporation and PPL Energy Supply, LLC Form 8-K Reports (File Nos. 1-11459 and 333-74794) dated December 15, 2004)
- 10(j)-1 - Receivables Sale Agreement, dated as of August 1, 2004, between PPL Electric Utilities Corporation, as Originator, and PPL Receivables Corporation, as Buyer (Exhibit 10(d) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2004)
- 10(j)-2 - Amendment No. 1, dated as of August 5, 2008, to said Receivables Sale Agreement, between PPL Electric Utilities Corporation, as Originator, and PPL Receivables Corporation, as Buyer (Exhibit 10(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 6, 2008)
- 10(j)-3 - Credit and Security Agreement, dated as of August 5, 2008, among PPL Receivables Corporation, PPL Electric Utilities Corporation, Victory Receivables Corporation, the Liquidity Banks from time to time party thereto and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch (Exhibit 10(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 6, 2008)

- 10(j)-4 - Amendment No. 1, dated as of July 28, 2009, to said Credit and Security Agreement (Exhibit 10(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2009)
- 10(j)-5 - Amendment No. 2, dated as of July 27, 2010, to said Credit and Security Agreement (Exhibit 10(g) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2010)
- 10(j)-6 - Amendment No. 3, dated as of December 23, 2010, to said Credit and Security Agreement (Exhibit 10(j)-6 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 10(j)-7 - Amendment No. 4, dated as of March 31, 2011, to said Credit and Security Agreement (Exhibit 10(c) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2011)
- 10(j)-8 - Amendment No. 5, dated as of July 26, 2011, to said Credit and Security Agreement (Exhibit 10(c) to PPL Corporation Form 10-Q/A Report (File No. 1-11459) for the quarter ended June 30, 2011)
- 10(j)-9 - Amendment No. 6, dated as of July 24, 2012, to said Credit and Security Agreement (Exhibit 10(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2012)
- 10(j)-10 - Amendment No. 7, dated as of September 24, 2012, to said Credit and Security Agreement (Exhibit 10(b) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2012)
- 10(k)-1 - Reimbursement Agreement, dated as of March 31, 2005, among PPL Energy Supply, LLC, The Bank of Nova Scotia, as Issuer and Administrative Agent, and the Lenders party thereto from time to time (Exhibit 10(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended March 31, 2005)
- 10(k)-2 - First Amendment, dated as of June 16, 2005, to said Reimbursement Agreement (Exhibit 10(b) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended June 30, 2005)
- 10(k)-3 - Second Amendment, dated as of September 1, 2005, to said Reimbursement Agreement (Exhibit 10(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended September 30, 2005)
- 10(k)-4 - Third Amendment, dated as of March 30, 2006, to said Reimbursement Agreement (Exhibit 10(a) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated April 5, 2006)
- 10(k)-5 - Fourth Amendment, dated as of April 12, 2006, to said Reimbursement Agreement (Exhibit 10(b) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended September 30, 2006)
- 10(k)-6 - Fifth Amendment, dated as of November 1, 2006, to said Reimbursement Agreement (Exhibit 10(q)-6 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2006)
- 10(k)-7 - Sixth Amendment, dated as of March 29, 2007, to said Reimbursement Agreement (Exhibit 10(q)-7 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2007)
- 10(k)-8 - Seventh Amendment, dated as of March 1, 2008, to said Reimbursement Agreement (Exhibit 10(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended March 31, 2008)

- 10(k)-9 - Eighth Amendment, dated as of March 30, 2009, to said Reimbursement Agreement (Exhibit 10(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 1-32944) for the quarter ended March 31, 2009)
- 10(k)-10 - Ninth Amendment, dated as of March 31, 2010, to said Reimbursement Agreement (Exhibit 99.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 6, 2010)
- 10(k)-11 - Tenth Amendment, dated as of February 22, 2012, to said Reimbursement Agreement (Exhibit 10(k)-11 to PPL Energy Supply, LLC Form 10-K Report (File No. 1-32944) for the year ended December 31, 2011)
- \*10(k)-12 - Eleventh Amendment, dated as of February 28, 2013, to said Reimbursement Agreement
- 10(l) - Purchase and Sale Agreement, dated as of April 28, 2010, by and between E.ON US Investments Corp., PPL Corporation and E.ON AG (Exhibit No. 99.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 30, 2010)
- 10(m) - \$500 million Facility Agreement, dated as of May 14, 2010, among PPL Energy Supply, LLC, as Borrower, and Morgan Stanley Bank, as Issuer (Exhibit 10(b) to PPL Energy Supply, LLC Form 10-Q Report (File No. 1-32944) for the quarter ended June 30, 2010)
- 10(n) - Purchase and Sale Agreement, dated as of September 9, 2010, by and between PPL Holtwood, LLC and LSP Safe Harbor Holdings, LLC (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 13, 2010)
- 10(o) - Purchase and Sale Agreement, dated as of September 9, 2010, by and between PPL Generation, LLC and Harbor Gen Holdings, LLC (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 13, 2010)
- 10(p) - Open-End Mortgage, Security Agreement and Fixture Filing from PPL Montour, LLC to Wilmington Trust FSB, as Collateral Agent, dated as of October 26, 2010 (Exhibit 10(w) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 10(q) - Open-End Mortgage, Security Agreement and Fixture Filing from PPL Brunner Island, LLC to Wilmington Trust FSB, as Collateral Agent, dated as of October 26, 2010 (Exhibit 10(x) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 10(r) - Guaranty of PPL Montour, LLC and PPL Brunner Island, LLC, dated as of November 3, 2010, in favor of Wilmington Trust FSB, as Collateral Agent, for itself as Beneficiary and for the Secured Counterparties described therein (Exhibit 10(y) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 10(s) - £300,000,000 Multicurrency Revolving Credit Facility Agreement, dated April 4, 2011, among Western Power Distribution (West Midlands) plc and Royal Bank of Canada as Lead Arranger, Bank of America Securities Limited as Bookrunner and Facility Agent, Bank of America, N.A. as Issuing Bank and the other banks party thereto as Mandated Lead Arrangers (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 8, 2011)
- 10(t) - £300,000,000 Multicurrency Revolving Credit Facility Agreement, dated April 4, 2011, among Western Power Distribution (East Midlands) plc and Royal Bank of Canada as Lead Arranger, Bank of America Securities Limited as Bookrunner and Facility Agent, Bank of America, N.A. as Issuing Bank and the other banks party thereto as Mandated Lead Arrangers (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 8, 2011)
- 10(u) - Amendment and Restatement Agreement, dated as of August 16, 2012, regarding \$198,309,583.05 Amended and Restated Letter of Credit Agreement, dated as of August 16, 2012, among Kentucky Utilities Company, the Lenders from time to time party hereto, and Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, as Administrative Agent (Exhibit 10(c) to Kentucky Utilities Company Form 10-Q Report (File No. 1-3464) for the quarter ended September 30, 2012)

- 10(v) - £245,000,000 Revolving Credit Facility Agreement, dated January 12, 2012, among Western Power Distribution (South West) plc, the lenders party thereto and Lloyds TSB Bank Plc and Mizuho Corporate Bank, Ltd. as Joint Coordinators (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated January 18, 2012)
- 10(w)-1 - Confirmation of Forward Sale Transaction, dated April 9, 2012, between PPL Corporation and Morgan Stanley & Co. LLC (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 13, 2012)
- 10(w)-2 - Confirmation of Forward Sale Transaction, dated April 20, 2012, between PPL Corporation and Morgan Stanley & Co. LLC (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 26, 2012)
- 10(x)-1 - Confirmation of Forward Sale Transaction, dated April 9, 2012, between PPL Corporation and Merrill Lynch International (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 13, 2012)
- 10(x)-2 - Confirmation of Forward Sale Transaction, dated April 20, 2012, between PPL Corporation and Merrill Lynch International (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 26, 2012)
- 10(y) - Commitment Increase Agreement, dated as of April 20, 2012, entered into by and among PPL Electric Utilities Corporation, the Lenders who are increasing their Commitments, the JLA Issuing Banks, who are consenting to the increase in Fronting Sublimit, and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender (Exhibit 10(f) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2012)
- 10(z)-1 - Uncommitted Line of Credit Letter Agreement, dated as of July 1, 2012, between PPL Energy Supply, LLC, the Borrower, and Banco Bilbao Vizcaya Argentaria, S.A., the Bank (Exhibit 10(b) to PPL Energy Supply, LLC Form 10-Q Report (File No. 1-32944) for the quarter ended June 30, 2012)
- 10(z)-2 - Reimbursement Agreement, dated as of July 1, 2012, between PPL Energy Supply, LLC and Banco Bilbao Vizcaya Argentaria, S.A. (Exhibit 10(c) to PPL Energy Supply, LLC Form 10-Q Report (File No. 1-32944) for the quarter ended June 30, 2012)
- 10(aa) - Letter of Credit Issuance and Reimbursement Agreement, dated as of July 27, 2012, between PPL Energy Supply, LLC and Canadian Imperial Bank of Commerce, New York Agency (Exhibit 10(e) to PPL Energy Supply, LLC Form 10-Q Report (File No. 1-32944) for the quarter ended June 30, 2012)
- \*10(bb) - \$300,000,000 Amended and Restated Revolving Credit Agreement, dated as of November 6, 2012, among PPL Electric Utilities Corporation, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender
- \*10(cc) - \$3,000,000,000 Amended and Restated Revolving Credit Agreement, dated as of November 6, 2012, among PPL Energy Supply, LLC, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender
- \*10(dd) - \$400,000,000 Amended and Restated Revolving Credit Agreement, dated as of November 6, 2012, among Kentucky Utilities Company, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender
- \*10(ee) - \$500,000,000 Amended and Restated Revolving Credit Agreement, dated as of November 6, 2012, among Louisville Gas and Electric Company, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender

- \*10(ff) - £210,000,000 Multicurrency Revolving Facility Agreement, dated December 21, 2012, among PPL WW Holdings Ltd., as the Company, Lloyds TSB Bank plc and Mizuho Corporate Bank, Ltd., as Joint Coordinators and Bookrunners, Barclays Bank PLC, Commonwealth Bank of Australia, HSBC Bank plc, Lloyds TSB Bank plc, Mizuho Corporate Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd. and The Royal Bank of Scotland plc, as Mandated Lead Arrangers and Mizuho Corporate Bank, Ltd., as Facility Agent
- [ ]10(gg)-1 - Amended and Restated Directors Deferred Compensation Plan, dated June 12, 2000 (Exhibit 10(h) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2000)
- [ ]10(gg)-2 - Amendment No. 1 to said Directors Deferred Compensation Plan, dated December 18, 2002 (Exhibit 10(m)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)
- [ ]10(gg)-3 - Amendment No. 2 to said Directors Deferred Compensation Plan, dated December 4, 2003 (Exhibit 10(q)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
- [ ]10(gg)-4 - Amendment No. 3 to said Directors Deferred Compensation Plan, dated as of January 1, 2005 (Exhibit 10(cc)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2005)
- [ ]10(gg)-5 - Amendment No. 4 to said Directors Deferred Compensation Plan, dated as of May 1, 2008 (Exhibit 10(x)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- [ ]10(gg)-6 - Amendment No. 5 to said Directors Deferred Compensation Plan, dated May 28, 2010 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2010)
- \*[ ]10(hh)-1 - PPL Corporation Directors Deferred Compensation Plan Trust Agreement, dated as of April 1, 2001, between PPL Corporation and Wachovia Bank, N.A. (as successor to First Union National Bank), as Trustee
- \*[ ]10(hh)-2 - PPL Officers Deferred Compensation Plan, PPL Supplemental Executive Retirement Plan and PPL Supplemental Compensation Pension Plan Trust Agreement, dated as of April 1, 2001, between PPL Corporation and Wachovia Bank, N.A. (as successor to First Union National Bank), as Trustee
- [ ]10(hh)-3 - PPL Revocable Employee Nonqualified Plans Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(c) to PPL Corporation Form 10-Q Report (File No. 1-1149) for the quarter ended March 31, 2007)
- [ ]10(hh)-4 - PPL Employee Change in Control Agreements Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- [ ]10(hh)-5 - PPL Revocable Director Nonqualified Plans Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(e) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- [ ]10(ii)-1 - Amended and Restated Officers Deferred Compensation Plan, dated December 8, 2003 (Exhibit 10(r) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
- [ ]10(ii)-2 - Amendment No. 1 to said Officers Deferred Compensation Plan, dated as of January 1, 2005 (Exhibit 10(ee)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2005)

- 10(ii)-3 - Amendment No. 2 to said Officers Deferred Compensation Plan, dated as of January 22, 2007 (Exhibit 10(bb)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 10(ii)-4 - Amendment No. 3 to said Officers Deferred Compensation Plan, dated as of June 1, 2008 (Exhibit 10(z)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- 10(ii)-5 - Amendment No. 4 to said Officers Deferred Compensation Plan, dated as of February 15, 2012 (Exhibit 10(ff)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2011)
- 10(jj)-1 - Amended and Restated Supplemental Executive Retirement Plan, dated December 8, 2003 (Exhibit 10(s) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
- 10(jj)-2 - Amendment No. 1 to said Supplemental Executive Retirement Plan, dated December 16, 2004 (Exhibit 99.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated December 17, 2004)
- 10(jj)-3 - Amendment No. 2 to said Supplemental Executive Retirement Plan, dated as of January 1, 2005 (Exhibit 10(ff)-3 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
- 10(jj)-4 - Amendment No. 3 to said Supplemental Executive Retirement Plan, dated as of January 22, 2007 (Exhibit 10(cc)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 10(jj)-5 - Amendment No. 4 to said Supplemental Executive Retirement Plan, dated as of December 9, 2008 (Exhibit 10(aa)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- 10(jj)-6 - Amendment No. 5 to said Supplemental Executive Retirement Plan, dated as of February 15, 2012 (Exhibit 10(gg)-6 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2011)
- 10(kk)-1 - Amended and Restated Incentive Compensation Plan, effective January 1, 2003 (Exhibit 10(p) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)
- 10(kk)-2 - Amendment No. 1 to said Incentive Compensation Plan, dated as of January 1, 2005 (Exhibit 10(gg)-2 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
- 10(kk)-3 - Amendment No. 2 to said Incentive Compensation Plan, dated as of January 26, 2007 (Exhibit 10(dd)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 10(kk)-4 - Amendment No. 3 to said Incentive Compensation Plan, dated as of March 21, 2007 (Exhibit 10(f) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- 10(kk)-5 - Amendment No. 4 to said Incentive Compensation Plan, effective December 1, 2007 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2008)
- 10(kk)-6 - Amendment No. 5 to said Incentive Compensation Plan, dated as of December 16, 2008 (Exhibit 10(bb)-6 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2008)
- 10(kk)-7 - Form of Stock Option Agreement for stock option awards under the Incentive Compensation Plan (Exhibit 10(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 1, 2006)
- 10(kk)-8 - Form of Restricted Stock Unit Agreement for restricted stock unit awards under the Incentive Compensation Plan (Exhibit 10(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 1, 2006)

- 10(kk)-9 - Form of Performance Unit Agreement for performance unit awards under the Incentive Compensation Plan (Exhibit 10(ss) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2007)
- 10(ll)-1 - Amended and Restated Incentive Compensation Plan for Key Employees, effective January 1, 2003 (Schedule B to Proxy Statement of PPL Corporation, dated March 17, 2003)
- 10(ll)-2 - Amendment No. 1 to said Incentive Compensation Plan for Key Employees, dated as of January 1, 2005 (Exhibit (hh)-1 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
- 10(ll)-3 - Amendment No. 2 to said Incentive Compensation Plan for Key Employees, dated as of January 26, 2007 (Exhibit 10(ee)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 10(ll)-4 - Amendment No. 3 to said Incentive Compensation Plan for Key Employees, dated as of March 21, 2007 (Exhibit 10(q) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- 10(ll)-5 - Amendment No. 4 to said Incentive Compensation Plan for Key Employees, dated as of December 15, 2008 (Exhibit 10(cc)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- 10(ll)-6 - Amendment No. 5 to said Incentive Compensation Plan for Key Employees, dated as of March 24, 2011 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2011)
- 10(mm) - Short-term Incentive Plan (Schedule A to Proxy Statement of PPL Corporation, dated April 6, 2011)
- 10(nn) - Agreement, dated January 15, 2003, between PPL Corporation and Mr. Miller regarding Supplemental Pension Benefits (Exhibit 10(u) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)
- 10(oo) - Employment letter, dated May 31, 2006, between PPL Services Corporation and William H. Spence (Exhibit 10(pp) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 10(pp) - Form of Retention Agreement entered into between PPL Corporation and Messrs. DeCampli, Dudkin, Farr and Gabbard (Exhibit 10(h) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- 10(qq)-1 - Form of Severance Agreement entered into between PPL Corporation and the Named Executive Officers (Exhibit 10(i) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- 10(qq)-2 - Amendment to said Severance Agreement (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2009)
- 10(rr) - Amended and Restated Employment and Severance Agreement, dated as of October 29, 2010, between E.ON U.S. LLC and Victor A. Staffieri (Exhibit 10(ss) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 10(ss)-1 - Form of Change in Control Severance Protection Agreement as adopted March 5, 2012 (Exhibit 10(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2012)



- [ ]10(ss)-2 - Form of Change in Control Severance Protection Agreement entered into between PPL Corporation and Messrs. Dudkin and Staffieri (Exhibit 10(c) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2012)
- [ ]10(tt)-1 - PPL Corporation 2012 Stock Incentive Plan (Annex A to Proxy Statement of PPL Corporation, dated April 3, 2012)
- \*[ ]10(tt)-2 - Form of Performance Unit Agreement for performance unit awards under the Stock Incentive Plan
- \*[ ]10(tt)-3 - Form of Performance Contingent Restricted Stock Unit Agreement for restricted stock unit awards under the Stock Incentive Plan
- \*[ ]10(tt)-4 - Form of Nonqualified Stock Option Agreement for stock option awards under the Stock Incentive Plan
- [ ]10(uu) - PPL Corporation Executive Severance Plan, effective as of July 26, 2012 (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2012)
- \*12(a) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- \*12(b) - PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- \*12(c) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- \*12(d) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- \*12(e) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- \*12(f) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges
- \*21 - Subsidiaries of PPL Corporation
- \*23(a) - Consent of Ernst & Young LLP - PPL Corporation
- \*23(b) - Consent of Ernst & Young LLP - PPL Energy Supply, LLC
- \*23(c) - Consent of Ernst & Young LLP - PPL Electric Utilities Corporation
- \*23(d) - Consent of PricewaterhouseCoopers LLP - PPL Corporation
- \*23(e) - Consent of Ernst & Young LLP - LG&E and KU Energy LLC
- \*23(f) - Consent of Ernst & Young LLP - Louisville Gas and Electric Company
- \*23(g) - Consent of Ernst & Young LLP - Kentucky Utilities Company
- \*23(h) - Consent of PricewaterhouseCoopers LLP - LG&E and KU Energy LLC
- \*23(i) - Consent of PricewaterhouseCoopers LLP - Louisville Gas and Electric Company
- \*23(j) - Consent of PricewaterhouseCoopers LLP - Kentucky Utilities Company
- \*24 - Power of Attorney

- \*31(a) - Certificate of PPL's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31(b) - Certificate of PPL's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31(c) - Certificate of PPL Energy Supply's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31(d) - Certificate of PPL Energy Supply's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31(e) - Certificate of PPL Electric's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31(f) - Certificate of PPL Electric's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31(g) - Certificate of LKE's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31(h) - Certificate of LKE's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31(i) - Certificate of LG&E's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31(j) - Certificate of LG&E's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31(k) - Certificate of KU's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31(l) - Certificate of KU's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*32(a) - Certificate of PPL's principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- \*32(b) - Certificate of PPL Energy Supply's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- \*32(c) - Certificate of PPL Electric's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- \*32(d) - Certificate of LKE's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- \*32(e) - Certificate of LG&E's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- \*32(f) - Certificate of KU's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS - XBRL Instance Document for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

- 101.SCH - XBRL Taxonomy Extension Schema for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.CAL - XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.DEF - XBRL Taxonomy Extension Definition Linkbase for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.LAB - XBRL Taxonomy Extension Label Linkbase for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
- 101.PRE - XBRL Taxonomy Extension Presentation Linkbase for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

**AMENDMENT NO. 9**  
**TO**  
**PPL EMPLOYEE STOCK OWNERSHIP PLAN**

WHEREAS, PPL Services Corporation ("PPL") has adopted the PPL Employee Stock Ownership Plan ("Plan") effective January 1, 2000; and  
 WHEREAS, the Plan was amended and restated effective January 1, 2002, and subsequently amended by Amendment No. 1, 2, 3, 4, 5, 6, 7 and  
 8; and

NOW, THEREFORE, the Plan is hereby amended as follows:

I. Effective September 17, 2012, Appendix A is amended to read as follows:

**Appendix A**

Participating Company

<u>Name</u>	<u>Effective Date</u>
1. PPL Services Corporation	July 1, 2000
2. PPL Electric Utilities Corporation	January 1, 1975
3. PPL EnergyPlus, LLC	July 14, 1998
4. PPL Generation, LLC	July 1, 2000
5. PPL Brunner Island, LLC	July 1, 2000
6. PPL Holtwood, LLC	July 1, 2000
7. PPL Martins Creek, LLC	July 1, 2000
8. PPL Montour, LLC	July 1, 2000
9. PPL Susquehanna, LLC	July 1, 2000
10. PPL Solutions, LLC	January 1, 2002
11. PPL Telecom, LLC	February 5, 2001
12. Lower Mount Bethel Energy, LLC	September 30, 2002
13. PPL Edgewood Energy, LLC	April 1, 2003
14. PPL Maine, LLC	April 1, 2003
15. PPL Wallingford Energy, LLC	April 1, 2003
16. PPL Development Company, LLC	January 1, 2006
17. PPL Global, LLC	January 1, 2006
18. PPL Energy Services Group, LLC	September 25, 2006
19. PPL Interstate Energy Company	January 1, 2008
20. PPL Strategic Development, LLC	January 1, 2012
21. PPL EnergyPlus Retail, LLC	June 23, 2011
22. PPL Energy Supply, LLC	September 17, 2012

II. Except as provided in this Amendment No. 9, all other provisions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 9 is executed this \_\_\_\_ day of \_\_\_\_\_, 2012.

PPL SERVICES CORPORATION

By: \_\_\_\_\_

Mark F. Wilten  
 Vice President-Finance & Treasurer

## ELEVENTH AMENDMENT TO REIMBURSEMENT AGREEMENT

THIS ELEVENTH AMENDMENT TO REIMBURSEMENT AGREEMENT, dated as of February 28, 2013 (this "Amendment"), to the Existing Reimbursement Agreement (as defined below) is made by PPL ENERGY SUPPLY, LLC, a Delaware limited liability company (the "Account Party"), and certain of the Lenders (such capitalized term and other capitalized terms used in this preamble and the recitals below to have the meanings set forth in, or are defined by reference in, Article 1 below).

WITNESSETH:

WHEREAS, the Account Party, the Lenders and The Bank of Nova Scotia, as the Issuer and as Administrative Agent, are all parties to the Reimbursement Agreement, dated as of March 31, 2005 (as amended or otherwise modified prior to the date hereof, the "Existing Reimbursement Agreement"), and as amended by this Amendment and as the same may be further amended, supplemented, amended and restated or otherwise modified from time to time, the "Reimbursement Agreement"); and

WHEREAS, the Account Party has requested that the Lenders amend certain provisions of the Existing Reimbursement Agreement and the Lenders are willing to modify the Existing Reimbursement Agreement on the terms and subject to the conditions hereinafter set forth;

NOW, THEREFORE, the parties hereto hereby covenant and agree as follows:

ARTICLE I  
DEFINITIONS

SECTION 1.1. Certain Definitions. The following terms when used in this Amendment shall have the following meanings (such meanings to be equally applicable to the singular and plural forms thereof):

"Account Party" is defined in the preamble.

"Amendment" is defined in the preamble.

"Existing Reimbursement Agreement" is defined in the first recital.

"Reimbursement Agreement" is defined in the first recital.

SECTION 1.2. Other Definitions. Terms for which meanings are provided in the Existing Reimbursement Agreement are, unless otherwise defined herein or the context otherwise requires, used in this Amendment with such meanings.

ARTICLE II  
AMENDMENTS TO THE EXISTING REIMBURSEMENT AGREEMENT

Effective as of the date hereof, but subject to the satisfaction of the conditions in Article III, the provisions referred to below of the Existing Reimbursement Agreement are hereby amended in accordance with this Article II.

SECTION 2.1. Amendment to Section 1.1. Section 1.1 of the Existing Reimbursement Agreement is hereby amended by amending and restating the definitions of "Applicable Commitment Fee Margin," "Applicable Letter of Credit Margin," "Incorporated Agreement," "Letter of Credit Commitment Amount" and "Stated Maturity Date" in their entirety as follows:

"Applicable Commitment Fee Margin" means:

(a) from time to time prior to April 1, 2013, the following percentages per annum, based upon the Debt Rating as set forth below:

<u>Pricing Level</u>	<u>Debt Rating</u>	<u>Applicable Commitment Fee Margin</u>
1	≥ A- from S&P/ A3 from Moody's	0.125%
2	BBB+ from S&P/ Baa1 from Moody's	0.175%
3	BBB from S&P/ Baa2 from Moody's	0.20%
4	BBB- from S&P/Baa3 from Moody's	0.25%
5	<BBB- from S&P/ Baa3 from Moody's	0.35%; and

(b) from time to time on or after April 1, 2013, 0.125% per annum.

"Applicable Letter of Credit Margin" from time to time, the following percentages per annum, based upon the Debt Rating as set forth below:

(a) from time to time prior to April 1, 2013, the following percentages per annum, based upon the Debt Rating as set forth below:

<u>Pricing Level</u>	<u>Debt Rating</u>	<u>Applicable Letter of Credit Margin</u>
1	≥ A- from S&P/ A3 from Moody's	1.10%
2	BBB+ from S&P/ Baa1 from Moody's	1.35%
3	BBB from S&P/ Baa2 from Moody's	1.60%
4	BBB- from S&P/Baa3 from Moody's	1.725%
5	<BBB- from S&P/ Baa3 from Moody's	1.975%; and

(b) from time to time on or after April 1, 2013, 0.85% per annum.

"Incorporated Agreement" means the \$3,000,000,000 Amended and Restated Revolving Credit Agreement, dated as of November 6, 2012, among the Account Party, the lenders from time to time party thereto, Wells Fargo Bank, National Association, as administrative agent, issuing lender and swingline lender, certain financial institutions, as syndication agents, certain financial institutions, as lead arrangers, and certain financial institutions, as documentation agents, as in effect on the date hereof and without giving effect to any subsequent modification, supplement, amendment or waiver by the lenders under, or by other parties to, the Incorporated Agreement, unless the Required Lenders agree in writing that such modification, supplement, amendment or waiver shall apply to such provisions or schedules as incorporated herein.

"Letter of Credit Commitment Amount" means (i) on any date prior to April 1, 2013, a maximum amount of \$200,000,000, and (ii) on April 1, 2013 and on any date thereafter, a maximum amount of \$150,000,000.

"Stated Maturity Date" means March 31, 2014.

SECTION 2.1. Amendment to Section 2.1. The definition of “Additional Account Parties” in Section 2.1 of the Existing Reimbursement Agreement is hereby amended (a) by removing the references therein to “PPL Gas Utilities Corporation,” “PPL Wallingford Energy, LLC,” “PPL Sundance Energy, LLC,” “Tyrone Synfuels, L.P.” and “Avon Lake Synfuels” and (b) by adding references thereto to “PPL Solutions, LLC,” “PPL Renewable Energy, LLC” and “Lady Jane Collieries, Inc.”

SECTION 2.2. Amendment to Section 2.5. Section 2.5 of the Existing Reimbursement Agreement is hereby amended by amending and restating it in its entirety as follows:

“SECTION 2.5. Cash Collateral. If for any reason at any time the aggregate amount of all Letter of Credit Outstandings exceeds the Letter of Credit Commitment Amount then in effect, the Issuer shall immediately Cash Collateralize the Letter of Credit Outstandings in an aggregate amount equal to such excess.”

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ARTICLE III  
CONDITIONS TO EFFECTIVENESS

This Amendment and the amendments contained herein shall become effective as of the date hereof when each of the conditions set forth in this Article III shall have been fulfilled to the satisfaction of the Administrative Agent.

SECTION 3.1. Counterparts. The Administrative Agent shall have received counterparts hereof executed on behalf of the Account Party and the each of the Lenders.

SECTION 3.2. Costs and Expenses, etc. The Administrative Agent shall have received for the account of each Lender, all fees, costs and expenses due and payable pursuant to Section 10.3 of the Reimbursement Agreement, if then invoiced.

SECTION 3.3. Resolutions, etc. The Administrative Agent shall have received from the Account Party (i) a copy of a good standing certificate, dated a date reasonably close to the date hereof and (ii) a certificate, dated as of the date hereof, duly executed and delivered by any vice president, the controller, the treasurer, the assistant treasurer, secretary or assistant secretary of the Account Party as to

- (a) resolutions of the Account Party's Board of Managers then in full force and effect authorizing the execution, delivery and performance of this Amendment and the transactions contemplated hereby;
- (b) the incumbency and signatures of those of its officers authorized to act with respect to this Amendment; and
- (c) the full force and validity of each Organic Document of the Account Party and copies thereof;

upon which certificates the Administrative Agent and all Lenders may conclusively rely until it shall have received a further certificate of any such officer of the Account Party canceling or amending such prior certificate.

SECTION 3.4. Opinion of Counsel. The Administrative Agent shall have received an opinion, dated the date hereof and addressed to the Administrative Agent and all Lenders, from counsel to the Account Party, in form and substance satisfactory to the Administrative Agent.

SECTION 3.5. Satisfactory Legal Form. The Administrative Agent and its counsel shall have received all information, and such counterpart originals or such certified or other copies of such materials, as the Administrative Agent or its counsel may reasonably request, and all legal matters incident to the effectiveness of this Amendment shall be satisfactory to the Administrative Agent and its counsel. All documents executed or submitted pursuant hereto or in connection herewith shall be reasonably satisfactory in form and substance to the Administrative Agent and its counsel.

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ARTICLE IV  
MISCELLANEOUS

SECTION 4.1. Cross-References. References in this Amendment to any Article or Section are, unless otherwise specified, to such Article or Section of this Amendment.

SECTION 4.2. Loan Document Pursuant to Existing Reimbursement Agreement. This Amendment is a Loan Document executed pursuant to the Existing Reimbursement Agreement and shall (unless otherwise expressly indicated therein) be construed, administered and applied in accordance with all of the terms and provisions of the Existing Reimbursement Agreement, as amended hereby, including Article X thereof.

SECTION 4.3. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

SECTION 4.4. Counterparts. This Amendment may be executed by the parties hereto in several counterparts, each of which when executed and delivered shall be an original and all of which shall constitute together but one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by facsimile shall be effective as delivery of a manually executed counterpart of this Amendment.

SECTION 4.5. Governing Law. THIS AMENDMENT WILL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING FOR SUCH PURPOSE SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK).

SECTION 4.6. Full Force and Effect; Limited Amendment. Except as expressly amended hereby, all of the representations, warranties, terms, covenants, conditions and other provisions of the Existing Reimbursement Agreement and the Loan Documents shall remain unchanged and shall continue to be, and shall remain, in full force and effect in accordance with their respective terms. The amendments set forth herein shall be limited precisely as provided for herein to the provisions expressly amended herein and shall not be deemed to be an amendment to, waiver of, consent to or modification of any other term or provision of the Existing Reimbursement Agreement or any other Loan Document or of any transaction or further or future action on the part of any Obligor which would require the consent of the Lenders under the Existing Reimbursement Agreement or any of the Loan Documents.

SECTION 4.7. Representations and Warranties. In order to induce the Lenders to execute and deliver this Amendment, the Account Party hereby represents and warrants to the Lenders, on the date this Amendment becomes effective pursuant to Article III, that both before and after giving effect to this Amendment, all statements set forth in clauses (a) and (b) of Section 5.2.I of the Reimbursement Agreement are true and correct as of such date, except to the extent that any such statement expressly relates to an earlier date (in which case such statement was true and correct on and as of such earlier date).

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Amendment as of the date first above written.

PPL ENERGY SUPPLY, LLC

By: /s/ Russell R. Clelland  
Title: Assistant Treasurer

THE BANK OF NOVA SCOTIA

By: /s/ Thane Rattew  
Title: Managing Director

**\$300,000,000**

**AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT**

**dated as of November 6, 2012**

**among**

**PPL ELECTRIC UTILITIES CORPORATION,  
THE LENDERS FROM TIME TO TIME PARTY HERETO**

**and**

**WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Administrative Agent, Issuing Lender and Swingline Lender**

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**WELLS FARGO SECURITIES, LLC,  
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED, RBS SECURITIES INC.,  
BARCLAYS BANK PLC,  
THE BANK OF NOVA SCOTIA  
and  
MITSUBISHI UFJ FINANCIAL GROUP, INC.,  
Joint Lead Arrangers and Joint Bookrunners**

**BANK OF AMERICA, N.A.  
and  
THE ROYAL BANK OF SCOTLAND PLC,  
Syndication Agents**

**BARCLAYS BANK PLC,  
THE BANK OF NOVA SCOTIA  
and  
MITSUBISHI UFJ FINANCIAL GROUP, INC.,  
Documentation Agents**

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Commitment Appendix  
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**Exhibits:**

Exhibit A-1 - Form of Notice of Borrowing  
Exhibit A-2 - Form of Notice of Conversion/Continuation  
Exhibit A-3 - Form of Letter of Credit Request  
Exhibit B - Form of Note  
Exhibit C - Form of Assignment and Assumption Agreement  
Exhibit D - Forms of Opinion of Counsel for the Borrower

**AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT** (this "Agreement") dated as of November 6, 2012 is entered into among PPL ELECTRIC UTILITIES CORPORATION, a Pennsylvania corporation (the "Borrower"), the LENDERS party hereto from time to time and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent. The parties hereto agree as follows:

**RECITALS**

WHEREAS, the Borrower is party to that certain \$300,000,000 Revolving Credit Agreement dated as of December 31, 2010, among the Borrower, the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent, as amended, modified, restated and supplemented from time to time (the "Existing Credit Agreement"); and

WHEREAS, the Borrower has requested that the Administrative Agent and the Lenders amend and restate the Existing Credit Agreement to, among other things, decrease the fronting sublimit for letters of credit and extend the maturity date, and the Administrative Agent and the Lenders have agreed to such amendment and restatement on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree that the Existing Credit Agreement is hereby amended and restated in its entirety, and do further agree as follows:

**ARTICLE I  
DEFINITIONS**

Section 1.01. Definitions. All capitalized terms used in this Agreement or in any Appendix, Schedule or Exhibit hereto which are not otherwise defined herein or therein shall have the respective meanings set forth below.

"Additional Letter of Credit" means any standby letter of credit issued under this Agreement by an Issuing Lender on or after the Effective Date.

"Adjusted London Interbank Offered Rate" means, for any Interest Period, a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the nearest 1/100th of 1%) by dividing (i) the London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

"Administrative Agent" means Wells Fargo Bank, in its capacity as administrative agent for the Lenders hereunder and under the other Loan Documents, and its successor or successors in such capacity.

"Administrative Questionnaire" means, with respect to each Lender, an administrative questionnaire in the form provided by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Lender.

"Affiliate" means, with respect to any Person, any other Person who is directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise.

"Agent" means the Administrative Agent, the Syndication Agents, the Joint Lead Arrangers, the Documentation Agents or each Person that shall become a joint lead arranger pursuant to the terms of the Commitment Letters and "Agents" means all of the foregoing.

"Agreement" has the meaning set forth in the introductory paragraph hereto, as this Agreement may be amended, restated, supplemented or modified from time to time.

"Amendment Fee" has the meaning set forth in Section 4.01(j).

"Applicable Lending Office" means, with respect to any Lender, (i) in the case of its Base Rate Loans, its Base Rate Lending Office and (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office.

"Applicable Percentage" means, for purposes of calculating (i) the applicable interest rate for any day for any Base Rate Loans or Euro-Dollar Loans, (ii) the applicable rate for the Commitment Fee for any day for purposes of Section 2.07(a) or (iii) the applicable rate for the Letter of Credit Fee for any day for purposes of Section 2.07(b), the appropriate applicable percentage set forth below corresponding to one rating level below the then current highest Borrower's Ratings; provided, that, in the event that the Borrower's Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

	Borrower's Ratings (S&P /Moody's)	Applicable Percentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
Category A	≥ A from S&P / A2 from Moody's	0.100%	0.000%	1.000%

Category B	≥ A- from S&P / A3 from Moody's	0.125%	0.125%	1.125%
Category C	BBB+ from S&P / Baa1 from Moody's	0.175%	0.250%	1.250%
Category D	BBB from S&P / Baa2 from Moody's	0.200%	0.500%	1.500%
Category E	BBB- from S&P / Baa3 from Moody's	0.250%	0.625%	1.625%
Category F	≤BB+ from S&P / Ba1 from Moody's	0.350%	0.875%	1.875%

"Asset Sale" shall mean any sale of any assets, including by way of the sale by the Borrower or any of its Subsidiaries of equity interests in such Subsidiaries.

"Assignee" has the meaning set forth in Section 9.06(c).

"Assignment and Assumption Agreement" means an Assignment and Assumption Agreement, substantially in the form of attached Exhibit C, under which an interest of a Lender hereunder is transferred to an Eligible Assignee pursuant to Section 9.06(c).

"Availability Period" means the period from and including the Effective Date to but excluding the Termination Date.

"Bankruptcy Code" means the Bankruptcy Reform Act of 1978, as amended, or any successor statute.

"Base Rate" means for any day a rate per annum equal to the highest of (i) the Prime Rate for such day, (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day and (iii) except during any period of time during which a notice delivered to the Borrower under Section 2.14 or Section 2.15 shall remain in effect, the London Interbank Offered Rate plus 1%.

"Base Rate Borrowing" means a Borrowing comprised of Base Rate Loans.

"Base Rate Lending Office" means, as to each Lender, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Base Rate Lending Office) or such other office as such Lender may hereafter designate as its Base Rate Lending Office by notice to the Borrower and the Administrative Agent.

"Base Rate Loan" means (a) a Loan (other than a Swingline Loan) in respect of which interest is computed on the basis of the Base Rate and (b) a Swingline Loan in respect of which interest is computed on the basis of the LIBOR Market Index Rate.

"Borrower" has the meaning set forth in the introductory paragraph hereto.

"Borrower's Rating" means the senior secured long-term debt rating of the Borrower from S&P or Moody's.

"Borrowing" means a group of Loans of a single Type made by the Lenders on a single date and, in the case of a Euro-Dollar Borrowing, having a single Interest Period.

"Business Day" means any day except a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or New York, New York are authorized by law to close; provided, that, when used in Article III with respect to any action taken by or with respect to any Issuing Lender, the term "Business Day" shall not include any day on which commercial banks are authorized by law to close in the jurisdiction where the office at which such Issuing Lender books any Letter of Credit is located; and provided, further, that when used with respect to any borrowing of, payment or prepayment of principal of or interest on, or the Interest Period for, a Euro-Dollar Loan, or a notice by the Borrower with respect to any such borrowing payment, prepayment or Interest Period, the term "Business Day" shall also mean that such day is a London Business Day.

"Capital Lease" means any lease of property which, in accordance with GAAP, should be capitalized on the lessee's balance sheet.

"Capital Lease Obligations" means, with respect to any Person, all obligations of such Person as lessee under Capital Leases, in each case taken at the amount thereof accounted for as liabilities in accordance with GAAP.

"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 Borrower.

"Commitment" means, with respect to any Lender, the commitment of such Lender to (i) make Loans under this Agreement, (ii) refund or purchase participations in Swingline Loans pursuant to Section 2.02 and (iii) purchase participations in Letters of Credit pursuant to Article III hereof, as set forth in the Commitment Appendix and as such Commitment may be reduced from time to time pursuant to Section 2.08 or Section 9.06(c) or increased from time to time pursuant to Section 9.06(c).

"Commitment Appendix" means the Appendix attached under this Agreement identified as such.

**“Commitment Fee”** has the meaning set forth in Section 2.07(a).

**“Commitment Letters”** means (i) that certain commitment letter dated as of September 24, 2012 among Wells Fargo Securities, LLC, Wells Fargo Bank, National Association, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc. and The Royal Bank of Scotland plc and (ii) that certain commitment letter dated as of October 2, 2012 among Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank, N.A., each commitment letter addressed to and acknowledged and agreed to by the Borrower.

**“Commitment Ratio”** shall mean, with respect to any Lender, the percentage equivalent of the ratio which such Lender’s Commitment bears to the aggregate amount of all Commitments.

**“Consolidated Capitalization”** shall mean the sum of, without duplication, (A) the Consolidated Debt (without giving effect to clause (b) of the definition of “Consolidated Debt”) and (B) the consolidated shareowners’ equity (determined in accordance with GAAP) of the common, preference and preferred shareowners of the Borrower and minority interests recorded on the Borrower’s consolidated financial statements (excluding from shareowner’s equity (i) the effect of all unrealized gains and losses reported under Financial Accounting Standards Board Accounting Standards Codification Topic 815 in connection with (x) forward contracts, futures contracts, options contracts or other derivatives or hedging agreements for the future delivery of electricity, capacity, fuel or other commodities and (y) Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (ii) the balance of accumulated other comprehensive income/loss of the Borrower on any date of determination solely with respect to the effect of any pension and other post-retirement benefit liability adjustment recorded in accordance with GAAP), except that for purposes of calculating Consolidated Capitalization of the Borrower, Consolidated Debt of the Borrower shall exclude Non-Recourse Debt and Consolidated Capitalization of the Borrower shall exclude that portion of shareowners’ equity attributable to assets securing Non-Recourse Debt.

**“Consolidated Debt”** means the consolidated Debt of the Borrower and its Consolidated Subsidiaries (determined in accordance with GAAP), except that for purposes of this definition (a) Consolidated Debt shall exclude Non-Recourse Debt of the Borrower and its Consolidated Subsidiaries, and (b) Consolidated Debt shall exclude (i) Hybrid Securities of the Borrower and its Consolidated Subsidiaries in an aggregate amount as shall not exceed 15% of Consolidated Capitalization and (ii) Equity-Linked Securities in an aggregate amount as shall not exceed 15% of Consolidated Capitalization.

**“Consolidated Subsidiary”** means with respect to any Person at any date any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date in accordance with GAAP.

**“Continuing Lender”** means with respect to any event described in Section 2.08(b), a Lender which is not a Retiring Lender, and “Continuing Lenders” means any two or more of such Continuing Lenders.

**“Corporation”** means a corporation, association, company, joint stock company, limited liability company, partnership or business trust.

**“Credit Event”** means a Borrowing or the issuance, renewal or extension of a Letter of Credit.

**“Debt”** of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all Guarantees by such Person of Debt of others, (iv) all Capital Lease Obligations and Synthetic Leases of such Person, (v) all obligations of such Person in respect of Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the net amount that would be payable upon the acceleration, termination or liquidation thereof), but only to the extent that such net obligations exceed \$75,000,000 in the aggregate and (vi) all obligations of such Person as an account party in respect of letters of credit and bankers’ acceptances; provided, however, that “Debt” of such Person does not include (a) obligations of such Person under any installment sale, conditional sale or title retention agreement or any other agreement relating to obligations for the deferred purchase price of property or services, (b) obligations under agreements relating to the purchase and sale of any commodity, including any power sale or purchase agreements, any commodity hedge or derivative (regardless of whether any such transaction is a “financial” or physical transaction), (c) any trade obligations or other obligations of such Person incurred in the ordinary course of business or (d) obligations of such Person under any lease agreement (including any lease intended as security) that is not a Capital Lease or a Synthetic Lease.

**“Default”** means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

**“Defaulting Lender”** means at any time any Lender with respect to which a Lender Default is in effect at such time.

**“Documentation Agents”** means Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank N.A., each in its capacity as a documentation agent in respect of this Agreement.

**“Dollars”** and the sign “\$” means lawful money of the United States of America.

**“Effective Date”** means the date on which the Administrative Agent determines that the conditions specified in or pursuant to Section 4.01 have been satisfied.

**“Eligible Assignee”** means (i) a Lender; (ii) a commercial bank organized under the laws of the United States and having a combined capital and surplus of at least \$100,000,000; (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country, and having a combined capital and surplus of at least \$100,000,000; provided, that such bank is acting through a branch or agency located and licensed in the United States; or (iv) an Affiliate of a Lender that is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended); provided, that, in each case (a) upon and following the occurrence of an

Event of Default, an Eligible Assignee shall mean any Person other than the Borrower or any of its Affiliates and (b) notwithstanding the foregoing, "Eligible Assignee" shall not include the Borrower or any of its Affiliates.

**"Environmental Laws"** means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses or other written governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes.

**"Environmental Liabilities"** means all liabilities (including anticipated compliance costs) in connection with or relating to the business, assets, presently or previously owned, leased or operated property, activities (including, without limitation, off-site disposal) or operations of the Borrower or any of its Subsidiaries which arise under Environmental Laws.

**"Equity-Linked Securities"** means any securities of the Borrower or any of its Subsidiaries which are convertible into, or exchangeable for, equity securities of the Borrower, such Subsidiary or PPL Corporation, including any securities issued by any of such Persons which are pledged to secure any obligation of any holder to purchase equity securities of the Borrower, any of its Subsidiaries or PPL Corporation.

**"ERISA"** means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

**"ERISA Group"** means the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code.

**"Euro-Dollar Borrowing"** means a Borrowing comprised of Euro-Dollar Loans.

**"Euro-Dollar Lending Office"** means, as to each Lender, its office, branch or Affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Dollar Lending Office) or such other office, branch or Affiliate of such Lender as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrower and the Administrative Agent.

**"Euro-Dollar Loan"** means a Loan in respect of which interest is computed on the basis of the Adjusted London Interbank Offered Rate pursuant to the applicable Notice of Borrowing or Notice of Conversion/Continuation.

**"Euro-Dollar Reserve Percentage"** of any Lender for the Interest Period of any LIBOR Rate Loan means the reserve percentage applicable to such Lender during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) then applicable to such Lender with respect to liabilities or assets consisting of or including "Eurocurrency Liabilities" (as defined in Regulation D). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

**"Event of Default"** has the meaning set forth in Section 7.01.

**"Existing Credit Agreement"** has the meaning set forth in the recitals hereto.

**"Existing Letters of Credit"** means the standby letters of credit issued before the Effective Date pursuant to the Existing Credit Agreement.

**"Extending Lenders"** has the meaning set forth in Section 9.15 hereto.

**"FATCA"** means Sections 1471 through 1474 of the Internal Revenue Code and any regulations (whether final, temporary or proposed) that are issued thereunder or official government interpretations thereof and any agreements entered into pursuant to Section 1471(b) of the Code.

**"Federal Funds Rate"** means for any day the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average of quotations for such day on such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by the Administrative Agent.

**"Fee Letter"** means the fee letter dated as of September 24, 2012 among the Borrower, Wells Fargo Securities, Wells Fargo Bank, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc. and The Royal Bank of Scotland plc as amended, modified or supplemented from time to time.

**"FERC"** means the Federal Energy Regulatory Commission.

**"Fronting Fee"** has the meaning set forth in Section 2.07(b).



**“Fronting Sublimit”** means, (a) for each JLA Issuing Bank, the amount of such JLA Issuing Bank’s commitment to issue and honor payment obligations under Letters of Credit, as set forth on the JLA L/C Fronting Sublimits Appendix hereto and (b) with respect to any other Issuing Lender, an amount as agreed between the Borrower and such Issuing Lender.

**“GAAP”** means United States generally accepted accounting principles applied on a consistent basis.

**“Governmental Authority”** means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity, and any arbitrator with authority to bind a party at law.

**“Group of Loans”** means at any time a group of Revolving Loans consisting of (i) all Revolving Loans which are Base Rate Loans at such time or (ii) all Revolving Loans which are Euro-Dollar Loans of the same Type having the same Interest Period at such time; provided, that, if a Loan of any particular Lender is converted to or made as a Base Rate Loan pursuant to Sections 2.15 or 2.18, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been in if it had not been so converted or made.

**“Guarantee”** of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for payment of such Debt, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt; provided, however, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

**“Hazardous Substances”** means any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

**“Hybrid Securities”** means any trust preferred securities, or deferrable interest subordinated debt with a maturity of at least 20 years issued by the Borrower, or any business trusts, limited liability companies, limited partnerships (or similar entities) (i) all of the common equity, general partner or similar interests of which are owned (either directly or indirectly through one or more Wholly Owned Subsidiaries) at all times by the Borrower or any of its Subsidiaries, (ii) that have been formed for the purpose of issuing hybrid preferred securities and (iii) substantially all the assets of which consist of (A) subordinated debt of the Borrower or a Subsidiary of the Borrower, as the case may be, and (B) payments made from time to time on the subordinated debt.

**“Indemnitee”** has the meaning set forth in Section 9.03(b).

**“Interest Period”** means with respect to each Euro-Dollar Loan, a period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of Conversion/Continuation and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable notice; provided, that:

- (i) any Interest Period which would otherwise end on a day which is not a Business Day shall, subject to clauses (iii) and (iv) below, be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;
- (ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Business Day of a calendar month; and
- (iii) no Interest Period shall end after the Termination Date.

**“Interest Rate Protection Agreements”** means any agreement providing for an interest rate swap, cap or collar, or any other financial agreement designed to protect against fluctuations in interest rates.

**“Internal Revenue Code”** means the Internal Revenue Code of 1986, as amended, or any successor statute.

**“Issuing Lender”** means (i) each JLA Issuing Bank, each in its capacity as an issuer of Letters of Credit under Section 3.02, and each of their respective successor or successors in such capacity, (ii) any other Lender approved as an “Issuing Lender” pursuant to Section 3.01, and (iii) each issuer of an Existing Letter of Credit, subject in each case to the Fronting Sublimit.

**“Joint Lead Arrangers”** means Wells Fargo Securities, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank, N.A., each in their capacity as joint lead arranger and joint bookrunner in respect of this Agreement.

**“JLA Issuing Bank”** means Wells Fargo Bank, Bank of America, N.A., The Royal Bank of Scotland plc, Barclays Bank PLC, The Bank of Nova Scotia, Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and each other Lender (or Affiliate of a Lender) that shall become (or whose Affiliate shall become) a joint lead arranger pursuant to the terms of the Commitment Letters.

**“Lender”** means each bank or other lending institution listed in the Commitment Appendix as having a Commitment, each Eligible Assignee that becomes a Lender pursuant to Section 9.06(c) and their respective successors and shall include, as the context may require, each Issuing Lender and the Swingline Lender in such capacity.

**“Lender Default”** means (i) the failure (which has not been cured) of any Lender to make available any Loan or any reimbursement for a drawing under a Letter of Credit or refunding of a Swingline Loan, in each case, within one Business Day from the date it is obligated to make such amount available under the terms and conditions of this Agreement or (ii) a Lender having notified, in writing, the Administrative Agent and the Borrower that such Lender does not intend to comply with its obligations under Article II following the appointment of a receiver or conservator with respect to such Lender at the direction or request of any regulatory agency or authority.

**“Letter of Credit”** means an Existing Letter of Credit or an Additional Letter of Credit, and **“Letters of Credit”** means any combination of the foregoing.

**“Letter of Credit Fee”** has the meaning set forth in Section 2.07(b).

**“Letter of Credit Liabilities”** means, for any Lender at any time, the product derived by multiplying (i) the sum, without duplication, of (A) the aggregate amount that is (or may thereafter become) available for drawing under all Letters of Credit outstanding at such time plus (B) the aggregate unpaid amount of all Reimbursement Obligations outstanding at such time by (ii) such Lender’s Commitment Ratio.

**“Letter of Credit Request”** has the meaning set forth in Section 3.03.

**“LIBOR Market Index Rate”** means, for any day, the rate for 1 month U.S. dollar deposits as reported on Reuters Screen LIBOR01 as of 11:00 a.m., London time, for such day, provided, if such day is not a London Business Day, the immediately preceding London Business Day (or if not so reported, then as determined by the Swingline Lender from another recognized source or interbank quotation).

**“Lien”** means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance intended to confer or having the effect of conferring upon a creditor a preferential interest.

**“Loan”** means a Base Rate Loan, whether such loan is a Revolving Loan or Swingline Loan, or a Euro-Dollar Loan and **“Loans”** means any combination of the foregoing.

**“Loan Documents”** means this Agreement and the Notes.

**“London Business Day”** means a day on which commercial banks are open for international business (including dealings in Dollar deposits) in London.

**“London Interbank Offered Rate”** means:

(a) for any Euro-Dollar Loan for any Interest Period, the interest rate for deposits in Dollars for a period of time comparable to such Interest Period which appears on Reuters Screen LIBOR01 at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period; provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01, the term **“London Interbank Offered Rate”** means for any Interest Period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Euro-Dollar Loan of Wells Fargo Bank to which such Interest Period is to apply and for a period of time comparable to such Interest Period.

(b) for any interest rate calculation with respect to a Base Rate Loan, the interest rate for deposits in Dollars for a period equal to one month (commencing on the date of determination of such interest rate) which appears on Reuters Screen LIBOR01 at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted); provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01, the term **“London Interbank Offered Rate”** means for any applicable one-month interest period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted) in an amount approximately equal to the principal amount of the Base Rate Loan of Wells Fargo Bank.

**“Mandatory Letter of Credit Borrowing”** has the meaning set forth in Section 3.09.

**“Margin Stock”** means “margin stock” as such term is defined in Regulation U.

**“Material Adverse Effect”** means (i) any material adverse effect upon the business, assets, financial condition or operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole; (ii) a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement, the Notes or the other Loan Documents or (iii) a material adverse effect on the validity or enforceability of this Agreement, the Notes or any of the other Loan Documents.

**“Material Debt”** means Debt (other than the Notes) of the Borrower in a principal or face amount exceeding \$50,000,000.

**“Material Plan”** means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000. For the avoidance of doubt, where any two or more Plans, which individually do not have Unfunded Liabilities in excess of \$50,000,000, but collectively have aggregate Unfunded Liabilities in excess of \$50,000,000, all references to Material Plan shall be deemed to apply to such Plans as a group.

“Moody’s” means Moody’s Investors Service, Inc., a Delaware corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Multiemployer Plan” means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

“New Lender” means with respect to any event described in Section 2.08(b), an Eligible Assignee which becomes a Lender hereunder as a result of such event, and “New Lenders” means any two or more of such New Lenders.

“Non-Defaulting Lender” means each Lender other than a Defaulting Lender, and “Non-Defaulting Lenders” means any two or more of such Lenders.

“Non-Recourse Debt” shall mean Debt that is nonrecourse to the Borrower or any asset of the Borrower.

“Non-U.S. Lender” has the meaning set forth in Section 2.17(e).

“Note” shall mean a promissory note, substantially in the form of Exhibit B hereto, issued at the request of a Lender evidencing the obligation of the Borrower to repay outstanding Revolving Loans or Swingline Loans, as applicable.

“Notice of Borrowing” has the meaning set forth in Section 2.03.

“Notice of Conversion/Continuation” has the meaning set forth in Section 2.06(d)(ii).

“Obligations” means:

(i) all principal of and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on any Loan, fees payable or Reimbursement Obligation under, or any Note issued pursuant to, this Agreement or any other Loan Document;

(ii) all other amounts now or hereafter payable by the Borrower and all other obligations or liabilities now existing or hereafter arising or incurred (including, without limitation, any amounts which accrue after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on the part of the Borrower pursuant to this Agreement or any other Loan Document;

(iii) all expenses of the Agents as to which such Agents have a right to reimbursement under Section 9.03(a) hereof or under any other similar provision of any other Loan Document; and

(iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 9.03 hereof or under any other similar provision of any other Loan Document;

together in each case with all renewals, modifications, consolidations or extensions thereof.

“OFAC” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“Other Taxes” has the meaning set forth in Section 2.17(b).

“Participant” has the meaning set forth in Section 9.06(b).

“Participant Register” has the meaning set forth in Section 9.06(b).

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Permitted Business” with respect to any Person means a business that is the same or similar to the business of the Borrower or any Subsidiary as of the Effective Date, or any business reasonably related thereto.

“Person” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or an unincorporated association or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Plan” means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

“Prime Rate” means the rate of interest publicly announced by Wells Fargo Bank from time to time as its Prime Rate.

“PUC” has the meaning set forth in Section 4.01(h).

“PUC Order” has the meaning set forth in Section 4.01(h).

“Quarterly Date” means the last Business Day of each of March, June, September and December.

“Rating Agency” means S&P or Moody’s, and “Rating Agencies” means both of them.

“Register” has the meaning set forth in Section 9.06(e).

“Regulation U” means Regulation U of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Regulation X” means Regulation X of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Reimbursement Obligations” means at any time all obligations of the Borrower to reimburse the Issuing Lenders pursuant to Section 3.07 for amounts paid by the Issuing Lenders in respect of drawings under Letters of Credit, including any portion of any such obligation to which a Lender has become subrogated pursuant to Section 3.09.

“Replacement Date” has the meaning set forth in Section 2.08(b).

“Replacement Lender” has the meaning set forth in Section 2.08(b).

“Required Lenders” means at any time Non-Defaulting Lenders having at least 51% of the aggregate amount of the Commitments of all Non-Defaulting Lenders or, if the Commitments shall have been terminated, having at least 51% of the aggregate amount of the Revolving Outstandings of the Non-Defaulting Lenders at such time.

“Responsible Officer” means, as to any Person, the chief executive officer, president, chief financial officer, controller, treasurer or assistant treasurer of such Person or any other officer of such Person reasonably acceptable to the Administrative Agent. Any document delivered hereunder that is signed by a Responsible Officer of a Person shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Person and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Person.

“Retiring Lender” means a Lender that ceases to be a Lender hereunder pursuant to the operation of Section 2.08(b).

“Revolving” means, when used with respect to (i) a Borrowing, a Borrowing made by the Borrower under Section 2.01, as identified in the Notice of Borrowing with respect thereto, a Borrowing of Revolving Loans to refund outstanding Swingline Loans pursuant to Section 2.02(b)(i), or a Mandatory Letter of Credit Borrowing and (ii) a Loan, a Loan made under Section 2.01; provided, that, if any such loan or loans (or portions thereof) are combined or subdivided pursuant to a Notice of Conversion/Continuation, the term “Revolving Loan” shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

“Revolving Outstandings” means at any time, with respect to any Lender, the sum of (i) the aggregate principal amount of such Lender’s outstanding Revolving Loans plus (ii) the aggregate amount of such Lender’s Swingline Exposure plus (iii) aggregate amount of such Lender’s Letter of Credit Liabilities.

“Revolving Outstandings Excess” has the meaning set forth in Section 2.09.

“Sanctioned Entity” shall mean (i) an agency of the government of, (ii) an organization directly or indirectly controlled by, or (iii) a Person resident in, a country that is subject to a sanctions program identified on the list maintained by OFAC and available at <http://www.treas.gov/offices/enforcement/ofac/sanctions/index.html>, or as otherwise published from time to time as such program may be applicable to such agency, organization or Person.

“Sanctioned Person” shall mean a Person named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at <http://www.treas.gov/offices/enforcement/ofac/sdn/index.html>, or as otherwise published from time to time.

“SEC” means the Securities and Exchange Commission.

“S&P” means Standard & Poor’s Ratings Group, a division of McGraw Hill, Inc., a New York corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Subsidiary” means any Corporation, a majority of the outstanding Voting Stock of which is owned, directly or indirectly, by the Borrower or one or more other Subsidiaries of the Borrower.

“Swingline Borrowing” means a Borrowing made by the Borrower under Section 2.02, as identified in the Notice of Borrowing with respect thereto.

“Swingline Exposure” means, for any Lender at any time, the product derived by multiplying (i) the aggregate principal amount of all outstanding Swingline Loans at such time by (ii) such Lender’s Commitment Ratio.

“Swingline Lender” means Wells Fargo Bank, in its capacity as Swingline Lender.

**"Swingline Loan"** means any swingline loan made by the Swingline Lender to the Borrower pursuant to Section 2.02.

**"Swingline Sublimit"** means the lesser of (a) \$10,000,000 and (b) the aggregate Commitments of all Lenders.

**"Swingline Termination Date"** means the first to occur of (a) the resignation of Wells Fargo Bank as Administrative Agent in accordance with Section 8.09 and (b) the Termination Date.

**"Syndication Agents"** means Bank of America, N.A. and The Royal Bank of Scotland plc, each in its capacity as a syndication agent in respect of this Agreement.

**"Synthetic Lease"** means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

**"Taxes"** has the meaning set forth in Section 2.17(a).

**"Termination Date"** means the earliest to occur of (a) October 18, 2017 and (b) such earlier date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.

**"Type"**, when used in respect of any Loan or Borrowing, shall refer to the rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined.

**"Unfunded Liabilities"** means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

**"United States"** means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

**"Voting Stock"** means stock (or other interests) of a Corporation having ordinary voting power for the election of directors, managers or trustees thereof, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

**"Wells Fargo Bank"** means Wells Fargo Bank, National Association, and its successors.

**"Wells Fargo Securities"** means Wells Fargo Securities, LLC, and its successors and assigns.

**"Wholly Owned Subsidiary"** means, with respect to any Person at any date, any Subsidiary of such Person all of the Voting Stock of which (except directors' qualifying shares) is at the time directly or indirectly owned by such Person.

## ARTICLE II THE CREDITS

Section 2.01. **Commitments to Lend.** Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make Revolving Loans to the Borrower pursuant to this Section 2.01 from time to time during the Availability Period in amounts such that its Revolving Outstandings shall not exceed its Commitment; provided, that, immediately after giving effect to each such Revolving Loan, the aggregate principal amount of all outstanding Revolving Loans (after giving effect to any amount requested) shall not exceed the aggregate Commitments less the sum of all outstanding Swingline Loans and Letter of Credit Liabilities. Each Revolving Borrowing (other than Mandatory Letter of Credit Borrowings) shall be in an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000 (except that any such Borrowing may be in the aggregate amount of the unused Commitments) and shall be made from the several Lenders ratably in proportion to their respective Commitments. Within the foregoing limits, the Borrower may borrow under this Section 2.01, repay, or, to the extent permitted by Section 2.10, prepay, Revolving Loans and reborrow under this Section 2.01.

### Section 2.02. Swingline Loans

(a) **Availability.** Subject to the terms and conditions of this Agreement, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time from the Effective Date through, but not including, the Swingline Termination Date; provided, that the aggregate principal amount of all outstanding Swingline Loans (after giving effect to any amount requested), shall not exceed the lesser of (i) the aggregate Commitments less the sum of the aggregate principal amount of all outstanding Revolving Loans and all outstanding Letter of Credit Liabilities and (ii) the Swingline Sublimit; and provided further, that the Borrower shall not use the proceeds of any Swingline Loan to refinance any outstanding Swingline Loan. Each Swingline Loan shall be in an aggregate principal amount of \$2,000,000 or any larger integral multiple of \$500,000 (except that any such Borrowing may be in the aggregate amount of the unused Swingline Sublimit). Within the foregoing limits, the Borrower may borrow, repay and reborrow Swingline Loans, in each case under this Section 2.02. Each Swingline Loan shall be a Base Rate Loan.

### (b) Refunding.

(i) Swingline Loans shall be refunded by the Lenders on demand by the Swingline Lender. Such refundings shall be made by the Lenders in accordance with their respective Commitment Ratios and shall thereafter be reflected as Revolving Loans of the Lenders on the books and records of the Administrative Agent. Each Lender shall fund its respective Commitment Ratio of Revolving Loans as required to repay

Swingline Loans outstanding to the Swingline Lender upon demand by the Swingline Lender but in no event later than 1:00 P.M. (Charlotte, North Carolina time) on the next succeeding Business Day after such demand is made. No Lender's obligation to fund its respective Commitment Ratio of a Swingline Loan shall be affected by any other Lender's failure to fund its Commitment Ratio of a Swingline Loan, nor shall any Lender's Commitment Ratio be increased as a result of any such failure of any other Lender to fund its Commitment Ratio of a Swingline Loan.

(ii) The Borrower shall pay to the Swingline Lender on demand, and in no case more than fourteen (14) days after the date that such Swingline Loan is made, the amount of such Swingline Loan to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. In addition, the Borrower hereby authorizes the Administrative Agent to charge any account maintained by the Borrower with the Swingline Lender (up to the amount available therein) in order to immediately pay the Swingline Lender the amount of such Swingline Loans to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. If any portion of any such amount paid to the Swingline Lender shall be recovered by or on behalf of the Borrower from the Swingline Lender in bankruptcy or otherwise, the loss of the amount so recovered shall be ratably shared among all the Lenders in accordance with their respective Commitment Ratios (unless the amounts so recovered by or on behalf of the Borrower pertain to a Swingline Loan extended after the occurrence and during the continuance of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable).

(iii) Each Lender acknowledges and agrees that its obligation to refund Swingline Loans (other than Swingline Loans extended after the occurrence and during the continuance of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable) in accordance with the terms of this Section is absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, non-satisfaction of the conditions set forth in Article IV. Further, each Lender agrees and acknowledges that if prior to the refunding of any outstanding Swingline Loans pursuant to this Section, one of the events described in Section 7.01(h) or (i) shall have occurred, each Lender will, on the date the applicable Revolving Loan would have been made, purchase an undivided participating interest in the Swingline Loan to be refunded in an amount equal to its Commitment Ratio of the aggregate amount of such Swingline Loan. Each Lender will immediately transfer to the Swingline Lender, in immediately available funds, the amount of its participation and upon receipt thereof the Swingline Lender will deliver to such Lender a certificate evidencing such participation dated the date of receipt of such funds and for such amount. Whenever, at any time after the Swingline Lender has received from any Lender such Lender's participating interest in a Swingline Loan, the Swingline Lender receives any payment on account thereof, the Swingline Lender will distribute to such Lender its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded).

Section 2.03. Notice of Borrowings. The Borrower shall give the Administrative Agent notice substantially in the form of Exhibit A-1 hereto (a "Notice of Borrowing") not later than (a) 11:30 A.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the third Business Day before each Euro-Dollar Borrowing, specifying:

- (i) the date of such Borrowing, which shall be a Business Day;
- (ii) the aggregate amount of such Borrowing;
- (iii) whether such Borrowing is comprised of Revolving Loans or a Swingline Loan;
- (iv) in the case of a Revolving Borrowing, the initial Type of the Loans comprising such Borrowing; and
- (v) in the case of a Euro-Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

Notwithstanding the foregoing, no more than six (6) Groups of Euro-Dollar Loans shall be outstanding at any one time, and any Loans which would exceed such limitation shall be made as Base Rate Loans.

Section 2.04. Notice to Lenders: Funding of Revolving Loans and Swingline Loans.

(a) Notice to Lenders. Upon receipt of a Notice of Borrowing (other than in respect of a Borrowing of a Swingline Loan), the Administrative Agent shall promptly notify each Lender of such Lender's ratable share (if any) of the Borrowing referred to in the Notice of Borrowing, and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) Funding of Loans. Not later than (a) 1:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing, each Lender shall make available its ratable share of such Borrowing, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. Unless the Administrative Agent determines that any applicable condition specified in Article IV has not been satisfied, the Administrative Agent shall apply any funds so received in respect of a Borrowing available to the Borrower at the Administrative Agent's address not later than (a) 3:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 2:00 P.M. (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing. Revolving Loans to be made for the purpose of refunding Swingline Loans shall be made by the Lenders as provided in Section 2.02(b).

(c) Funding By the Administrative Agent in Anticipation of Amounts Due from the Lenders. Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing (except in the case of a Base Rate Borrowing, in which case prior to the time of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsection (b) of this Section, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and

to the extent that such Lender shall not have so made such share available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount, together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.06, in the case of the Borrower, and (ii) the Federal Funds Rate, in the case of such Lender. Any payment by the Borrower hereunder shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make its share of a Borrowing available to the Administrative Agent. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Loan included in such Borrowing for purposes of this Agreement.

(d) Obligations of Lenders Several. The failure of any Lender to make a Loan required to be made by it as part of any Borrowing hereunder shall not relieve any other Lender of its obligation, if any, hereunder to make any Loan on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on such date of Borrowing.

#### Section 2.05. Noteless Agreement; Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (a) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (b) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (c) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to paragraphs (a) and (b) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Administrative Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) Any Lender may request that its Loans be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to the order of such Lender. Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 9.06(c)) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 9.06(c), except to the extent that any such Lender or assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in paragraphs (a) and (b) above.

#### Section 2.06. Interest Rates.

(a) Interest Rate Options. The Loans shall, at the option of the Borrower and except as otherwise provided herein, be incurred and maintained as, or converted into, one or more Base Rate Loans or Euro-Dollar Loans.

(b) Base Rate Loans. Each Loan which is made as, or converted into, a Base Rate Loan (other than a Swingline Loan) shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made as, or converted into, a Base Rate Loan until it becomes due or is converted into a Loan of any other Type, at a rate per annum equal to the sum of the Base Rate for such day plus the Applicable Percentage for Base Rate Loans for such day. Each Loan which is made as a Swingline Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due at a rate per annum equal to the LIBOR Market Index Rate for such day plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall, in each case, be payable quarterly in arrears on each Quarterly Date (or, with respect to Base Rate Loans that are Swingline Loans, as the Swingline Lender and the Borrower may otherwise agree in writing) and, with respect to the principal amount of any Base Rate Loan (other than a Swingline Loan) converted to a Euro-Dollar Loan, on the date such Base Rate Loan is so converted. Any overdue principal of or interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for such day.

(c) Euro-Dollar Loans. Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the sum of the Adjusted London Interbank Offered Rate for such Interest Period plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof. Any overdue principal of or interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the sum of (A) the Adjusted London Interbank Offered Rate applicable to such Loan at the date such payment was due plus (B) the Applicable Percentage for Euro-Dollar Loans for such day (or, if the circumstance described in Section 2.14 shall exist, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day).

#### (d) Method of Electing Interest Rates.

(i) Subject to Section 2.06(a), the Loans included in each Revolving Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Borrowing. Thereafter, with respect to each Group of Loans, the Borrower shall have the option (A) to convert all or any part of (y) so long as no Default is in existence on the date of conversion, outstanding Base Rate Loans to Euro-Dollar Loans and (z) outstanding Euro-Dollar Loans to Base Rate Loans; provided, in each case, that the amount so converted shall be equal to \$10,000,000 or any larger integral multiple of \$1,000,000, or (B) upon the expiration of any Interest Period applicable to outstanding Euro-Dollar Loans, so long as no Default is in existence on the date of continuation, to continue all or any portion of such Loans, equal to \$10,000,000 and any larger integral multiple of \$1,000,000 in excess of that amount as Euro-Dollar Loans. The Interest Period of any Base Rate Loan converted to a Euro-Dollar Loan pursuant to clause (A) above shall commence on the date of such conversion. The succeeding Interest Period of any Euro-Dollar Loan continued pursuant to clause (B) above shall commence on the last day of the Interest Period of the Loan so continued. Euro-Dollar Loans may only be converted on the last day of the then current Interest Period applicable thereto or on the date required pursuant to Section 2.18.

(ii) The Borrower shall deliver a written notice of each such conversion or continuation (a "Notice of Conversion/Continuation") to the Administrative Agent no later than (A) 12:00 Noon (Charlotte, North Carolina time) at least three (3) Business Days before the effective date of the proposed conversion to, or continuation of, a Euro Dollar Loan and (B) 11:30 A.M. (Charlotte, North Carolina time) on the day of a conversion to a Base Rate Loan. A written Notice of Conversion/Continuation shall be substantially in the form of Exhibit A-2 attached hereto and shall specify: (A) the Group of Loans (or portion thereof) to which such notice applies, (B) the proposed conversion/continuation date (which shall be a Business Day), (C) the aggregate amount of the Loans being converted/continued, (D) an election between the Base Rate and the Adjusted London Interbank Offered Rate and (E) in the case of a conversion to, or a continuation of, Euro-Dollar Loans, the requested Interest Period. Upon receipt of a Notice of Conversion/Continuation, the Administrative Agent shall give each Lender prompt notice of the contents thereof and such Lender's pro rata share of all conversions and continuations requested therein. If no timely Notice of Conversion/Continuation is delivered by the Borrower as to any Euro-Dollar Loan, and such Loan is not repaid by the Borrower at the end of the applicable Interest Period, such Loan shall be converted automatically to a Base Rate Loan on the last day of the then applicable Interest Period.

(e) Determination and Notice of Interest Rates. The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Lenders of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error. Any notice with respect to Euro-Dollar Loans shall, without the necessity of the Administrative Agent so stating in such notice, be subject to adjustments in the Applicable Percentage applicable to such Loans after the beginning of the Interest Period applicable thereto. When during an Interest Period any event occurs that causes an adjustment in the Applicable Percentage applicable to Loans to which such Interest Period is applicable, the Administrative Agent shall give prompt notice to the Borrower and the Lenders of such event and the adjusted rate of interest so determined for such Loans, and its determination thereof shall be conclusive in the absence of manifest error.

#### Section 2.07. Fees.

(a) Commitment Fees. The Borrower shall pay to the Administrative Agent for the account of each Lender a fee (the "Commitment Fee") for each day at a rate per annum equal to the Applicable Percentage for the Commitment Fee for such day. The Commitment Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the amount by which such Lender's Commitment exceeds the sum of its Revolving Outstandings (solely for this purpose, exclusive of Swingline Exposure) on such day. The Commitment Fee shall be payable on the last day of each of March, June, September and December and on the Termination Date.

(b) Letter of Credit Fees. The Borrower shall pay to the Administrative Agent a fee (the "Letter of Credit Fee") for each day at a rate per annum equal to the Applicable Percentage for the Letter of Credit Fee for such day. The Letter of Credit Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the aggregate amount available for drawing under any Letters of Credit outstanding on such day and shall be payable for the account of the Lenders ratably in proportion to their participations in such Letter(s) of Credit. In addition, the Borrower shall pay to each Issuing Lender a fee (the "Fronting Fee") in respect of each Letter of Credit issued by such Issuing Lender computed at the rate of 0.20% per annum on the average amount available for drawing under such Letter(s) of Credit. Fronting Fees shall be due and payable quarterly in arrears on each Quarterly Date and on the Termination Date (or such earlier date as all Letters of Credit shall be canceled or expire). In addition, the Borrower agrees to pay to each Issuing Lender, upon each issuance of, payment under, and/or amendment of, a Letter of Credit, such amount as shall at the time of such issuance, payment or amendment be the administrative charges and expenses which such Issuing Lender is customarily charging for issuances of, payments under, or amendments to letters of credit issued by it.

(c) Payments. Except as otherwise provided in this Section 2.07, accrued fees under this Section 2.07 in respect of Loans and Letter of Credit Liabilities shall be payable quarterly in arrears on each Quarterly Date, on the last day of the Availability Period and, if later, on the date the Loans and Letter of Credit Liabilities shall be repaid in their entirety. Fees paid hereunder shall not be refundable under any circumstances.

#### Section 2.08. Adjustments of Commitments.

(a) Optional Termination or Reductions of Commitments (Pro-Rata). The Borrower may, upon at least three Business Days' prior written notice to the Administrative Agent, permanently (i) terminate the Commitments, if there are no Revolving Outstandings at such time or (ii) ratably reduce from time to time by a minimum amount of \$10,000,000 or any larger integral multiple of \$5,000,000, the aggregate amount of the Commitments in excess of the aggregate Revolving Outstandings. Upon receipt of any such notice, the Administrative Agent shall promptly notify the Lenders. If the Commitments are terminated in their entirety, all accrued fees shall be payable on the effective date of such termination.

(b) Optional Termination of Commitments (Non-Pro-Rata). If (i) any Lender has demanded compensation or indemnification pursuant to Sections 2.14, 2.15, 2.16 or 2.17, (ii) the obligation of any Lender to make Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (iii) any Lender is a Defaulting Lender (each such Lender described in clauses (i), (ii) or (iii) being a "Retiring Lender"), the Borrower shall have the right, if no Default then exists, to replace such Lender with one or more Eligible Assignees (which may be one or more of the Continuing Lenders) (each a "Replacement Lender" and, collectively, the "Replacement Lenders") reasonably acceptable to the Administrative Agent. The replacement of a Retiring Lender pursuant to this Section 2.08(b) shall be effective on the tenth Business Day (the "Replacement Date") following the date of notice given by the Borrower of such replacement to the Retiring Lender and each Continuing Lender through the Administrative Agent, subject to the satisfaction of the following conditions:

(i) the Replacement Lender shall have satisfied the conditions to assignment and assumption set forth in Section 9.06(c) (with all fees payable pursuant to Section 9.06(c) to be paid by the Borrower) and, in connection therewith, the Replacement Lender(s) shall pay:

(A) to the Retiring Lender an amount equal in the aggregate to the sum of (x) the principal of, and all accrued but unpaid interest on, all outstanding Loans of the Retiring Lender, (y) all unpaid drawings that have been funded by (and not reimbursed to) the Retiring Lender under Section 3.10, together with all accrued but unpaid interest with respect thereto and (z) all accrued but unpaid fees owing to the Retiring Lender pursuant to Section 2.07; and



(B) to the Swingline Lender an amount equal to the aggregate amount owing by the Retiring Lender to the Swingline Lender in respect of all unpaid refundings of Swingline Loans requested by the Swingline Lender pursuant to Section 2.02(b)(i), to the extent such amount was not theretofore funded by such Retiring Lender; and

(C) to the Issuing Lenders an amount equal to the aggregate amount owing by the Retiring Lender to the Issuing Lenders as reimbursement pursuant to Section 3.09, to the extent such amount was not theretofore funded by such Retiring Lender; and

(ii) the Borrower shall have paid to the Administrative Agent for the account of the Retiring Lender an amount equal to all obligations owing to the Retiring Lender by the Borrower pursuant to this Agreement and the other Loan Documents (other than those obligations of the Borrower referred to in clause (i)(A) above).

On the Replacement Date, each Replacement Lender that is a New Lender shall become a Lender hereunder and shall succeed to the obligations of the Retiring Lender with respect to outstanding Swingline Loans and Letters of Credit to the extent of the Commitment of the Retiring Lender assumed by such Replacement Lender, and the Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall continue to inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

In lieu of the foregoing, subject to Section 2.08(e), upon express written consent of Continuing Lenders holding more than 50% of the aggregate amount of the Commitments of the Continuing Lenders, the Borrower shall have the right to permanently terminate the Commitment of a Retiring Lender in full. Upon payment by the Borrower to the Administrative Agent for the account of the Retiring Lender of an amount equal to the sum of (i) the aggregate principal amount of all Loans and Reimbursement Obligations owed to the Retiring Lender and (ii) all accrued interest, fees and other amounts owing to the Retiring Lender hereunder, including, without limitation, all amounts payable by the Borrower to the Retiring Lender under Sections 2.12, 2.16, 2.17 or 9.03, such Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

(c) Optional Termination of Defaulting Lender Commitment (Non-Pro-Rata). At any time a Lender is a Defaulting Lender, subject to Section 2.08(e), the Borrower may terminate in full the Commitment of such Defaulting Lender by giving notice to such Defaulting Lender and the Administrative Agent, provided, that, (i) at the time of such termination, (A) no Default has occurred and is continuing (or alternatively, the Required Lenders shall consent to such termination) and (B) either (x) no Revolving Loans or Swingline Loans are outstanding or (y) the aggregate Revolving Outstandings of such Defaulting Lender in respect of Revolving Loans is zero; (ii) concurrently with such termination, the aggregate Commitments shall be reduced by the Commitment of the Defaulting Lender; and (iii) concurrently with any subsequent payment of interest or fees to the Lenders with respect to any period before the termination of a Defaulting Lender's Commitment, the Borrower shall pay to such Defaulting Lender its ratable share (based on its Commitment Ratio before giving effect to such termination) of such interest or fees, as applicable. The termination of a Defaulting Lender's Commitment pursuant to this Section 2.08(c) shall not be deemed to be a waiver of any right that the Borrower, Administrative Agent, any Issuing Lender or any other Lender may have against such Defaulting Lender.

(d) Termination Date. The Commitments shall terminate on the Termination Date.

(e) Redetermination of Commitment Ratios. On the date of termination of the Commitment of a Retiring Lender or Defaulting Lender pursuant to Section 2.08(b) or (c), the Commitment Ratios of the Continuing Lenders shall be redetermined after giving effect thereto, and the participations of the Continuing Lenders in and obligations of the Continuing Lenders in respect of any then outstanding Swingline Loans and Letters of Credit shall thereafter be based upon such redetermined Commitment Ratios (to the extent not previously adjusted pursuant to Section 2.20). The right of the Borrower to effect such a termination is conditioned on there being sufficient unused availability in the Commitments of the Continuing Lenders such that the aggregate Revolving Outstandings will not exceed the aggregate Commitments after giving effect to such termination and redetermination.

#### Section 2.09. Maturity of Loans; Mandatory Prepayments.

##### (a) Scheduled Repayments and Prepayments of Loans; Overline Repayments.

(i) The Revolving Loans shall mature on the Termination Date, and any Revolving Loans, Swingline Loans and Letter of Credit Liabilities then outstanding (together with accrued interest thereon and fees in respect thereof) shall be due and payable or, in the case of Letters of Credit, cash collateralized pursuant to Section 2.09(a)(ii), on such date.

(ii) If on any date the aggregate Revolving Outstandings exceed the aggregate amount of the Commitments (such excess, a "Revolving Outstandings Excess"), the Borrower shall prepay, and there shall become due and payable (together with accrued interest thereon) on such date, an aggregate principal amount of Revolving Loans and/or Swingline Loans equal to such Revolving Outstandings Excess. If, at a time when a Revolving Outstandings Excess exists and (x) no Revolving Loans or Swingline Loans are outstanding or (y) the Commitment has been terminated pursuant to this Agreement and, in either case, any Letter of Credit Liabilities remain outstanding, then, in either case, the Borrower shall cash collateralize any Letter of Credit Liabilities by depositing into a cash collateral account established and maintained (including the investments made pursuant thereto) by the Administrative Agent pursuant to a cash collateral agreement in form and substance satisfactory to the Administrative Agent an amount in cash equal to the then outstanding Letter of Credit Liabilities. In determining Revolving Outstandings for purposes of this clause (ii), Letter of Credit Liabilities shall be reduced to the extent that they are cash collateralized as contemplated by this Section 2.09(a)(ii).

##### (b) Applications of Prepayments and Reductions.

(i) Each payment or prepayment of Loans pursuant to this Section 2.09 shall be applied ratably to the respective Loans

of all of the Lenders.

(ii) Each payment of principal of the Loans shall be made together with interest accrued on the amount repaid to the date of payment.

(iii) Each payment of the Loans shall be applied to such Groups of Loans as the Borrower may designate (or, failing such designation, as determined by the Administrative Agent).

#### Section 2.10. Optional Prepayments and Repayments.

(a) Prepayments of Loans. Other than in respect of Swingline Loans, the repayment of which is governed pursuant to Section 2.02(b), subject to Section 2.12, the Borrower may (i) upon at least one (1) Business Day's notice to the Administrative Agent, prepay any Base Rate Borrowing or (ii) upon at least three (3) Business Days' notice to the Administrative Agent, prepay any Euro-Dollar Borrowing, in each case in whole at any time, or from time to time in part in amounts aggregating \$10,000,000 or any larger integral multiple of \$1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Lenders included in such Borrowing.

(b) Notice to Lenders. Upon receipt of a notice of prepayment pursuant to Section 2.10(a), the Administrative Agent shall promptly notify each Lender of the contents thereof and of such Lender's ratable share (if any) of such prepayment, and such notice shall not thereafter be revocable by the Borrower.

#### Section 2.11. General Provisions as to Payments.

(a) Payments by the Borrower. The Borrower shall make each payment of principal of and interest on the Loans and Letter of Credit Liabilities and fees hereunder (other than fees payable directly to the Issuing Lenders) not later than 12:00 Noon (Charlotte, North Carolina time) on the date when due, without set-off, counterclaim or other deduction, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. The Administrative Agent will promptly distribute to each Lender its ratable share of each such payment received by the Administrative Agent for the account of the Lenders. Whenever any payment of principal of or interest on the Base Rate Loans or Letter of Credit Liabilities or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. Whenever any payment of principal of or interest on the Euro-Dollar Loans shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Distributions by the Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date, and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.12. Funding Losses. If the Borrower makes any payment of principal with respect to any Euro-Dollar Loan pursuant to the terms and provisions of this Agreement (any conversion of a Euro-Dollar Loan to a Base Rate Loan pursuant to Section 2.18 being treated as a payment of such Euro-Dollar Loan on the date of conversion for purposes of this Section 2.12) on any day other than the last day of the Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.06(c), or if the Borrower fails to borrow, convert or prepay any Euro-Dollar Loan after notice has been given in accordance with the provisions of this Agreement, or in the event of payment in respect of any Euro-Dollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.08(b), the Borrower shall reimburse each Lender within fifteen (15) days after demand for any resulting loss or expense incurred by it (and by an existing Participant in the related Loan), including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or failure to borrow or prepay; provided, that such Lender shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.13. Computation of Interest and Fees. Interest on Loans based on the Prime Rate hereunder and Letter of Credit Fees shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed. All other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.14. Basis for Determining Interest Rate Inadequate, Unfair or Unavailable. If on or prior to the first day of any Interest Period for any Euro-Dollar Loan: (a) Lenders having 50% or more of the aggregate amount of the Commitments advise the Administrative Agent that the Adjusted London Interbank Offered Rate as determined by the Administrative Agent, will not adequately and fairly reflect the cost to such Lenders of funding their Euro-Dollar Loans for such Interest Period; or (b) the Administrative Agent shall determine that no reasonable means exists for determining the Adjusted London Interbank Offered Rate, the Administrative Agent shall forthwith give notice thereof to the Borrower and the Lenders, whereupon, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Lenders to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans shall be suspended; and (ii) each outstanding Euro-Dollar Loan shall be converted into a Base Rate Loan on the last day of the current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at least two (2) Domestic Business Days before the date of (or, if at the time the Borrower receives such notice the day is the date of, or the date immediately preceding, the date of such Euro-Dollar Borrowing, by 10:00 A.M. on the date of) any Euro-Dollar Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 2.15. Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Lender (or its Euro-Dollar Lending Office) to make, maintain or fund its Euro-Dollar Loans and such Lender shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Borrower, whereupon until such Lender notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans, shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Lender shall designate a different Euro-Dollar Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. If such notice is given, each Euro-Dollar Loan of such Lender then outstanding shall be converted to a Base Rate Loan either (i) on the last day of the then current Interest Period applicable to such Euro-Dollar Loan if such Lender may lawfully continue to maintain and fund such Loan to such day or (ii) immediately if such Lender shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

Section 2.16. Increased Cost and Reduced Return.

(a) Increased Costs. If after the Effective Date, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance assessment or similar requirement against Letters of Credit issued or participated in by, assets of, deposits with or for the account of or credit extended by, any Lender (or its Applicable Lending Office) or shall impose on any Lender (or its Applicable Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Euro-Dollar Loans, Notes, obligation to make Euro-Dollar Loans or obligations hereunder in respect of Letters of Credit, and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making or maintaining any Euro-Dollar Loan, or of issuing or participating in any Letter of Credit, or to reduce the amount of any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement or under its Notes with respect thereto, then, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts, as determined by such Lender in good faith, as will compensate such Lender for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(b) Capital Adequacy. If any Lender shall have determined that, after the Effective Date, the adoption of any applicable law, rule or regulation regarding capital adequacy or liquidity, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Lender (or any Person controlling such Lender) as a consequence of such Lender's obligations hereunder to a level below that which such Lender (or any Person controlling such Lender) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy), then from time to time, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender (or any Person controlling such Lender) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(c) Notices. Each Lender will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the Effective Date, that will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

(d) Notwithstanding anything to the contrary herein, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "change in law" under this Article II regardless of the date enacted, adopted or issued.

Section 2.17. Taxes.

(a) Payments Net of Certain Taxes. Any and all payments by the Borrower to or for the account of any Lender or any Agent hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income (including branch profits or similar taxes) of, and gross receipts, franchise or similar taxes imposed on, any Agent or any Lender by the jurisdiction (or subdivision thereof) under the laws of which such Lender or Agent is organized or in which its principal executive office is located or, in the case of each Lender, in which its Applicable Lending Office is located, (ii) in the case of each Lender, any United States withholding tax imposed on such payments, but only to the extent that such Lender is subject to United States withholding tax at the time such Lender first becomes a party to this Agreement or changes its Applicable Lending Office, (iii) any backup withholding tax imposed by the United States (or any state or locality thereof) on a Lender or Administrative Agent that is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code, and (iv) any taxes imposed by FATCA (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to

deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender or any Agent, (i) the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this Section 2.17(a)) such Lender or Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower shall furnish to the Administrative Agent, for delivery to such Lender, the original or a certified copy of a receipt evidencing payment thereof.

(b) **Other Taxes.** In addition, the Borrower agrees to pay any and all present or future stamp or court or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement, any Note or any other Loan Document or from the execution, delivery, performance, registration or enforcement of, or otherwise with respect to, this Agreement, any Note or any other Loan Document (collectively, "**Other Taxes**").

(c) **Indemnification.** The Borrower agrees to indemnify each Lender and each Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 2.17(c)), whether or not correctly or legally asserted, paid by such Lender or Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Borrower by each Lender or Agent seeking indemnification pursuant to this Section 2.17(c). This indemnification shall be paid within 15 days after such Lender or Agent (as the case may be) makes demand therefor.

(d) **Refunds or Credits.** If a Lender or Agent receives a refund, credit or other reduction from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.17, it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund, credit or other reduction to the Borrower (but only to the extent of indemnity payments made or additional amounts paid by the Borrower under this Section 2.17 with respect to the Taxes or Other Taxes giving rise to such refund, credit or other reduction), net of all reasonable out-of-pocket expenses of such Lender or Agent (as the case may be) and without interest (other than interest paid by the relevant taxation authority with respect to such refund, credit or other reduction); provided, however, that the Borrower agrees to repay, upon the request of such Lender or Agent (as the case may be), the amount paid over to the Borrower (plus penalties, interest or other charges) to such Lender or Agent in the event such Lender or Agent is required to repay such refund or credit to such taxation authority.

(e) **Tax Forms and Certificates.** On or before the date it becomes a party to this Agreement, from time to time thereafter if reasonably requested by the Borrower or the Administrative Agent, and at any time it changes its Applicable Lending Office: (i) each Lender that is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Administrative Agent two (2) properly completed and duly executed copies of Internal Revenue Service Form W-9, or any successor form prescribed by the Internal Revenue Service, or such other documentation or information prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, as the case may be, certifying that such Lender is a United States person and is entitled to an exemption from United States backup withholding tax or information reporting requirements; and (ii) each Lender that is not a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code (a "**Non-U.S. Lender**") shall deliver to the Borrower and the Administrative Agent: (A) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, certifying that such Non-U.S. Lender is entitled to the benefits under an income tax treaty to which the United States is a party which exempts the Non-U.S. Lender from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Non-U.S. Lender; (B) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 ECI, or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable pursuant to this Agreement and the other Loan Documents is effectively connected with the conduct of a trade or business in the United States; or (C) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, together with a certificate to the effect that (x) such Non-U.S. Lender is not (1) a "bank" within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (2) a "10-percent shareholder" of the Borrower within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or (3) a "controlled foreign corporation" that is described in Section 881(c)(3)(C) of the Internal Revenue Code and is related to the Borrower within the meaning of Section 864(d)(4) of the Internal Revenue Code and (y) the interest payments in question are not effectively connected with a U.S. trade or business conducted by such Non-U.S. Lender or are effectively connected but are not includible in the Non-U.S. Lender's gross income for United States federal income tax purposes under an income tax treaty to which the United States is a party; or (D) to the extent the Non-U.S. Lender is not the beneficial owner, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 IMY, or any successor form prescribed by the Internal Revenue Service, accompanied by an Internal Revenue Service Form W-8 ECI, W-8 BEN, W-9, and/or other certification documents from each beneficial owner, as applicable. If a payment made to a Lender under any Loan Document would be subject to U.S. Federal withholding tax imposed by FATCA if such Lender fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (e), "FATCA" shall include any amendments made to FATCA after the date of this Agreement. In addition, each Lender agrees that from time to time after the Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to the Borrower and the Administrative Agent two new accurate and complete signed originals of Internal Revenue Service Form W-9, W-8 BEN, W-8 ECI or W-8 IMY or FATCA-related documentation described above, or successor forms, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any other Loan Document, or it shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such Form or certificate.

(f) **Exclusions.** The Borrower shall not be required to indemnify any Non-U.S. Lender, or to pay any additional amount to any Non-U.S. Lender, pursuant to Section 2.17(a), (b) or (c) in respect of Taxes or Other Taxes to the extent that the obligation to indemnify or pay such additional amounts would not have arisen but for the failure of such Non-U.S. Lender to comply with the provisions of subsection (e) above.

(g) **Mitigation.** If the Borrower is required to pay additional amounts to or for the account of any Lender pursuant to this Section 2.17,

then such Lender will use reasonable efforts (which shall include efforts to rebook the Revolving Loans held by such Lender to a new Applicable Lending Office, or through another branch or affiliate of such Lender) to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of such Lender, such efforts (i) will eliminate or, if it is not possible to eliminate, reduce to the greatest extent possible any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous, in the sole determination of such Lender, to such Lender. Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section shall use reasonable efforts (consistent with legal and regulatory restrictions) to deliver to Borrower any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole determination of such Lender, be otherwise disadvantageous to such Lender.

(h) Confidentiality. Nothing contained in this Section shall require any Lender or any Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

Section 2.18. Base Rate Loans Substituted for Affected Euro-Dollar Loans. If (a) the obligation of any Lender to make or maintain, or to convert outstanding Loans to, Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (b) any Lender has demanded compensation under Section 2.16(a) with respect to its Euro-Dollar Loans and, in any such case, the Borrower shall, by at least four Business Days' prior notice to such Lender through the Administrative Agent, have elected that the provisions of this Section shall apply to such Lender, then, unless and until such Lender notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(i) all Loans which would otherwise be made by such Lender as (or continued as or converted into) Euro-Dollar Loans shall instead be Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Lenders); and

(ii) after each of its Euro-Dollar Loans has been repaid, all payments of principal that would otherwise be applied to repay such Loans shall instead be applied to repay its Base Rate Loans.

If such Lender notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Base Rate Loan shall be converted into a Euro-Dollar Loan on the first day of the next succeeding Interest Period applicable to the related Euro-Dollar Loans of the other Lenders.

Section 2.19. [Reserved.]

Section 2.20. Defaulting Lenders.

(a) Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(i) fees shall cease to accrue on the unfunded portion of the Commitment of such Defaulting Lender pursuant to Section 2.07(a);

(ii) with respect to any Letter of Credit Liabilities or Swingline Exposure of such Defaulting Lender that exists at the time a Lender becomes a Defaulting Lender or thereafter:

(A) all or any part of such Defaulting Lender's Letter of Credit Liabilities and its Swingline Exposure shall be reallocated among the Non-Defaulting Lenders in accordance with their respective Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment) but only to the extent that (x) the conditions set forth in Section 4.02 are satisfied at such time and (y) such reallocation does not cause the Revolving Outstandings of any Non-Defaulting Lender to exceed such Non-Defaulting Lender's Commitment;

(B) if the reallocation described in clause (ii)(A) above cannot, or can only partially, be effected, each Issuing Lender and the Swingline Lender, in its discretion may require the Borrower to (i) reimburse all amounts paid by an Issuing Lender upon any drawing under a Letter of Credit, (ii) repay an outstanding Swingline Loan, and/or (iii) cash collateralize (in accordance with Section 2.09(a)(ii)) all obligations of such Defaulting Lender in respect of outstanding Letters of Credit and Swingline Loans, in each case, in an amount at least equal to the aggregate amount of the obligations (contingent or otherwise) of such Defaulting Lender in respect of such Letters of Credit or Swingline Loans (after giving effect to any partial reallocation pursuant to Section 2.20(a)(ii)(A) above);

(iii) if the Borrower cash collateralizes any portion of such Defaulting Lender's pursuant to Section 2.20(a)(ii)(B) then the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities during the period such Defaulting Lender's Letter of Credit Liabilities are cash collateralized;

(iv) if the Letter of Credit Liabilities and/or Swingline Exposure of the Non-Defaulting Lenders is reallocated pursuant to Section 2.20(a)(ii)(A) above, then the fees payable to the Lenders pursuant to Section 2.07(a) and Section 2.07(b) shall be adjusted in accordance with such Non-Defaulting Lenders' Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment); and

(v) if any Defaulting Lender's Letter of Credit Liabilities and/or Swingline Exposure is neither reimbursed, repaid, cash collateralized nor reallocated pursuant to this Section 2.20(a)(ii), then, without prejudice to any rights or remedies of the Issuing Lenders, the Swingline Lender or any other Lender hereunder, all fees that otherwise would have been payable to such Defaulting Lender (solely with respect to the portion of such Defaulting Lender's Commitment that was utilized by such Letter of Credit Liabilities and/or Swingline Exposure) and letter of credit fees payable under Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities shall be payable to the Issuing Lenders and the

Swingline Lender, pro rata, until such Letter of Credit Liabilities and/or Swingline Exposure is cash collateralized, reallocated and/or repaid in full.

(b) So long as any Lender is a Defaulting Lender, (i) no Issuing Lender shall be required to issue, amend or increase any Letter of Credit, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders and/or cash collateral will be provided by the Borrower in accordance with Section 2.20(a), and participating interests in any such newly issued or increased Letter of Credit shall be allocated among Non-Defaulting Lenders in a manner consistent with Section 3.05 (and Defaulting Lenders shall not participate therein) and (ii) the Swingline Lender shall not be required to advance any Swingline Loan, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders.

### ARTICLE III LETTERS OF CREDIT

Section 3.01. Issuing Lenders. Subject to the terms and conditions hereof, the Borrower may from time to time identify and arrange for one or more of the Lenders (in addition to the JLA Issuing Banks) to act as Issuing Lenders hereunder. Any such designation by the Borrower shall be notified to the Administrative Agent at least four Business Days prior to the first date upon which the Borrower proposes that such Issuing Lender issue its first Letter of Credit, so as to provide adequate time for such proposed Issuing Lender to be approved by the Administrative Agent hereunder (such approval not to be unreasonably withheld). Within two Business Days following the receipt of any such designation of a proposed Issuing Lender, the Administrative Agent shall notify the Borrower as to whether such designee is acceptable to the Administrative Agent. Nothing contained herein shall be deemed to require any Lender (other than a JLA Issuing Bank) to agree to act as an Issuing Lender, if it does not so desire.

#### Section 3.02. Letters of Credit.

(a) Existing Letters of Credit. On the Effective Date, each Issuing Lender (as defined in the Existing Credit Agreement) that has issued an Existing Letter of Credit shall be deemed, without further action by any party to this Agreement, to have issued such Existing Letter of Credit under this Agreement pursuant to the terms and subject to the conditions of this Article III; provided, that immediately after each Letter of Credit is deemed to have been issued, the aggregate Revolving Outstandings shall not exceed the aggregate amount of the Commitments.

(b) Additional Letters of Credit. Each Issuing Lender agrees, on the terms and conditions set forth in this Agreement, to issue Letters of Credit from time to time before the fifth day prior to the Termination Date, for the account, and upon the request, of the Borrower and in support of such obligations of the Borrower or any Affiliate of the Borrower (other than PPL Energy Supply, LLC) that are reasonably acceptable to such Issuing Lender; provided, that immediately after each Letter of Credit is issued, (A) the aggregate outstanding amount of Letter of Credit Liabilities shall not exceed \$150,000,000, (B) the aggregate Revolving Outstandings shall not exceed the aggregate amount of the Commitments and (C) the aggregate fronting exposure of any Issuing Lender shall not exceed its Fronting Sublimit.

Section 3.03. Method of Issuance of Additional Letters of Credit. The Borrower shall give an Issuing Lender notice substantially in the form of Exhibit A-3 to this Agreement (a "Letter of Credit Request") of the requested issuance or extension of an Additional Letter of Credit prior to 1:00 P.M. (Charlotte, North Carolina time) on the proposed date of the issuance or extension of Additional Letters of Credit (which shall be a Business Day) (or such shorter period as may be agreed by such Issuing Lender in any particular instance), specifying the date such Letter of Credit is to be issued or extended and describing the terms of such Letter of Credit and the nature of the transactions to be supported thereby. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit, and if any Letter of Credit contains a provision pursuant to which it is deemed to be extended unless notice of termination is given by an Issuing Lender, such Issuing Lender shall timely give such notice of termination unless it has theretofore timely received a Letter of Credit Request and the other conditions to issuance of a Letter of Credit have theretofore been met with respect to such extension. No Letter of Credit shall have a term of more than one year, provided, that no Letter of Credit shall have a term extending or be so extendible beyond the fifth Business Day before the Termination Date.

Section 3.04. Conditions to Issuance of Letters of Credit. The issuance by an Issuing Lender of each Additional Letter of Credit shall, in addition to the conditions precedent set forth in Article IV, be subject to the conditions precedent that (i) such Letter of Credit shall be satisfactory in form and substance to such Issuing Lender, (ii) the Borrower and, if applicable, any such Affiliate of the Borrower, shall have executed and delivered such other instruments and agreements relating to such Letter of Credit as such Issuing Lender shall have reasonably requested and (iii) such Issuing Lender shall have confirmed on the date of (and after giving effect to) such issuance that (A) the aggregate outstanding amount of Letter of Credit Liabilities shall not exceed \$150,000,000, (B) the aggregate Revolving Outstandings will not exceed the aggregate amount of the Commitments and (C) the aggregate fronting exposure of any Issuing Lender shall not exceed the Fronting Sublimit. Notwithstanding any other provision of this Section 3.04, no Issuing Lender shall be under any obligation to issue any Additional Letter of Credit if: any order, judgment or decree of any governmental authority shall by its terms purport to enjoin or restrain such Issuing Lender from issuing such Additional Letter of Credit, or any requirement of law applicable to such Issuing Lender or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over such Issuing Lender shall prohibit, or request that such Issuing Lender refrain from, the issuance of letters of credit generally or such Additional Letter of Credit in particular or shall impose upon such Issuing Lender with respect to such Additional Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Lender is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon such Issuing Lender any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which such Issuing Lender in good faith deems material to it.

Section 3.05. Purchase and Sale of Letter of Credit Participations. Upon the issuance by an Issuing Lender of a Letter of Credit, such Issuing Lender shall be deemed, without further action by any party hereto, to have sold to each Lender, and each Lender shall be deemed, without further action by any party hereto, to have purchased from such Issuing Lender, without recourse or warranty, an undivided participation interest in such Letter of Credit and the related Letter of Credit Liabilities in accordance with its respective Commitment Ratio (although the Fronting Fee payable under Section 2.07(b) shall be payable directly to the Administrative Agent for the account of the applicable Issuing Lender, and the Lenders (other than such Issuing Lender) shall have no right to receive any portion of any such Fronting Fee) and any security therefor or guaranty pertaining thereto.

#### Section 3.06. Drawings under Letters of Credit. Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such

Letter of Credit, the applicable Issuing Lender shall determine in accordance with the terms of such Letter of Credit whether such drawing should be honored. If such Issuing Lender determines that any such drawing shall be honored, such Issuing Lender shall make available to such beneficiary in accordance with the terms of such Letter of Credit the amount of the drawing and shall notify the Borrower as to the amount to be paid as a result of such drawing and the payment date.

**Section 3.07. Reimbursement Obligations.** The Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse the applicable Issuing Lender for any amounts paid by such Issuing Lender upon any drawing under any Letter of Credit, together with any and all reasonable charges and expenses which such Issuing Lender may pay or incur relative to such drawing and interest on the amount drawn at the rate applicable to Base Rate Loans for each day from and including the date such amount is drawn to but excluding the date such reimbursement payment is due and payable. Such reimbursement payment shall be due and payable (i) at or before 1:00 P.M. (Charlotte, North Carolina time) on the date the applicable Issuing Lender notifies the Borrower of such drawing, if such notice is given at or before 10:00 A.M. (Charlotte, North Carolina time) on such date or (ii) at or before 10:00 A.M. (Charlotte, North Carolina time) on the next succeeding Business Day; provided, that no payment otherwise required by this sentence to be made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on any day shall be overdue hereunder if arrangements for such payment satisfactory to the applicable Issuing Lender, in its reasonable discretion, shall have been made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on such day and such payment is actually made at or before 3:00 P.M. (Charlotte, North Carolina time) on such day. In addition, the Borrower agrees to pay to the applicable Issuing Lender interest, payable on demand, on any and all amounts not paid by the Borrower to such Issuing Lender when due under this Section 3.07, for each day from and including the date when such amount becomes due to but excluding the date such amount is paid in full, whether before or after judgment, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day. Each payment to be made by the Borrower pursuant to this Section 3.07 shall be made to the applicable Issuing Lender in Federal or other funds immediately available to it at its address referred to Section 9.01.

**Section 3.08. Duties of Issuing Lenders to Lenders; Reliance.** In determining whether to pay under any Letter of Credit, the relevant Issuing Lender shall not have any obligation relative to the Lenders participating in such Letter of Credit or the related Letter of Credit Liabilities other than to determine that any document or documents required to be delivered under such Letter of Credit have been delivered and that they substantially comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by an Issuing Lender under or in connection with any Letter of Credit shall not create for such Issuing Lender any resulting liability if taken or omitted in the absence of gross negligence or willful misconduct. Each Issuing Lender shall be entitled (but not obligated) to rely, and shall be fully protected in relying, on the representation and warranty by the Borrower set forth in the last sentence of Section 4.02 to establish whether the conditions specified in clauses (b) and (c) of Section 4.02 are met in connection with any issuance or extension of a Letter of Credit. Each Issuing Lender shall be entitled to rely, and shall be fully protected in relying, upon advice and statements of legal counsel, independent accountants and other experts selected by such Issuing Lender and upon any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopier, telex or teletype message, statement, order or other document believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary unless the beneficiary and the Borrower shall have notified such Issuing Lender that such documents do not comply with the terms and conditions of the Letter of Credit. Each Issuing Lender shall be fully justified in refusing to take any action requested of it under this Section in respect of any Letter of Credit unless it shall first have received such advice or concurrence of the Required Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take, or omitting or continuing to omit, any such action. Notwithstanding any other provision of this Section, each Issuing Lender shall in all cases be fully protected in acting, or in refraining from acting, under this Section in respect of any Letter of Credit in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant hereto shall be binding upon all Lenders and all future holders of participations in such Letter of Credit; provided, that this sentence shall not affect any rights the Borrower may have against any Issuing Lender or the Lenders that make such request.

**Section 3.09. Obligations of Lenders to Reimburse Issuing Lender for Unpaid Drawings.** If any Issuing Lender makes any payment under any Letter of Credit and the Borrower shall not have reimbursed such amount in full to such Issuing Lender pursuant to Section 3.07, such Issuing Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Lender (other than the relevant Issuing Lender), and each such Lender shall promptly and unconditionally pay to the Administrative Agent, for the account of such Issuing Lender, such Lender's share of such payment (determined in accordance with its respective Commitment Ratio) in Dollars in Federal or other immediately available funds, the aggregate of such payments relating to each unreimbursed amount being referred to herein as a "Mandatory Letter of Credit Borrowing"; provided, however, that no Lender shall be obligated to pay to the Administrative Agent its pro rata share of such unreimbursed amount for any wrongful payment made by the relevant Issuing Lender under a Letter of Credit as a result of acts or omissions constituting willful misconduct or gross negligence by such Issuing Lender. If the Administrative Agent so notifies a Lender prior to 11:00 A.M. (Charlotte, North Carolina time) on any Business Day, such Lender shall make available to the Administrative Agent at its address referred to in Section 9.01 and for the account of the relevant Issuing Lender such Lender's pro rata share of the amount of such payment by 3:00 P.M. (Charlotte, North Carolina time) on the Business Day following such Lender's receipt of notice from the Administrative Agent, together with interest on such amount for each day from and including the date of such drawing to but excluding the day such payment is due from such Lender at the Federal Funds Rate for such day (which funds the Administrative Agent shall promptly remit to such Issuing Lender). The failure of any Lender to make available to the Administrative Agent for the account of an Issuing Lender its pro rata share of any unreimbursed drawing under any Letter of Credit shall not relieve any other Lender of its obligation hereunder to make available to the Administrative Agent for the account of such Issuing Lender its pro rata share of any payment made under any Letter of Credit on the date required, as specified above, but no such Lender shall be responsible for the failure of any other Lender to make available to the Administrative Agent for the account of such Issuing Lender such other Lender's pro rata share of any such payment. Upon payment in full of all amounts payable by a Lender under this Section 3.09, such Lender shall be subrogated to the rights of the relevant Issuing Lender against the Borrower to the extent of such Lender's pro rata share of the related Letter of Credit Liabilities (including interest accrued thereon). If any Lender fails to pay any amount required to be paid by it pursuant to this Section 3.09 on the date on which such payment is due, interest shall accrue on such Lender's obligation to make such payment, for each day from and including the date such payment became due to but excluding the date such Lender makes such payment, whether before or after judgment, at a rate per annum equal to (i) for each day from the date such payment is due to the third succeeding Business Day, inclusive, the Federal Funds Rate for such day as determined by the relevant Issuing Lender and (ii) for each day thereafter, the sum of 2% plus the rate applicable to its Base Rate Loans for such day. Any payment made by any Lender after 3:00 P.M. (Charlotte, North Carolina time) on any Business Day shall be deemed for purposes of the preceding sentence to have been made on the next succeeding Business Day.

**Section 3.10. Funds Received from the Borrower in Respect of Drawn Letters of Credit.** Whenever an Issuing Lender receives a payment of a

Reimbursement Obligation as to which the Administrative Agent has received for the account of such Issuing Lender any payments from the other Lenders pursuant to Section 3.09 above, such Issuing Lender shall pay the amount of such payment to the Administrative Agent, and the Administrative Agent shall promptly pay to each Lender which has paid its pro rata share thereof, in Dollars in Federal or other immediately available funds, an amount equal to such Lender's pro rata share of the principal amount thereof and interest thereon for each day after relevant date of payment at the Federal Funds Rate.

Section 3.11. Obligations in Respect of Letters of Credit Unconditional. The obligations of the Borrower under Section 3.07 above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

- (a) any lack of validity or enforceability of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (b) any amendment or waiver of or any consent to departure from all or any of the provisions of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (c) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);
- (d) the existence of any claim, set-off, defense or other rights that the Borrower may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), any Issuing Lender or any other Person, whether in connection with this Agreement or any Letter of Credit or any document related hereto or thereto or any unrelated transaction;
- (e) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;
- (f) payment under a Letter of Credit against presentation to an Issuing Lender of a draft or certificate that does not comply with the terms of such Letter of Credit; provided, that the relevant Issuing Lender's determination that documents presented under such Letter of Credit comply with the terms thereof shall not have constituted gross negligence or willful misconduct of such Issuing Lender; or
- (g) any other act or omission to act or delay of any kind by any Issuing Lender or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (g), constitute a legal or equitable discharge of the Borrower's obligations hereunder.

Nothing in this Section 3.11 is intended to limit the right of the Borrower to make a claim against any Issuing Lender for damages as contemplated by the proviso to the first sentence of Section 3.12.

Section 3.12. Indemnification in Respect of Letters of Credit. The Borrower hereby indemnifies and holds harmless each Lender (including each Issuing Lender) and the Administrative Agent from and against any and all claims, damages, losses, liabilities, costs or expenses which such Lender or the Administrative Agent may incur by reason of or in connection with the failure of any other Lender to fulfill or comply with its obligations to such Issuing Lender hereunder (but nothing herein contained shall affect any rights which the Borrower may have against such defaulting Lender), and none of the Lenders (including any Issuing Lender) nor the Administrative Agent, their respective affiliates nor any of their respective officers, directors, employees or agents shall be liable or responsible, by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit, including, without limitation, any of the circumstances enumerated in Section 3.11, as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any error in interpretation of technical terms, (iii) any loss or delay in the transmission of any document required in order to make a drawing under a Letter of Credit, (iv) any consequences arising from causes beyond the control of such indemnitee, including without limitation, any government acts, or (v) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit; provided, that the Borrower shall not be required to indemnify any Issuing Lender for any claims, damages, losses, liabilities, costs or expenses, and the Borrower shall have a claim against such Issuing Lender for direct (but not consequential) damages suffered by it, to the extent found by a court of competent jurisdiction in a final, non-appealable judgment or order to have been caused by (i) the willful misconduct or gross negligence of such Issuing Lender in determining whether a request presented under any Letter of Credit issued by it complied with the terms of such Letter of Credit or (ii) such Issuing Lender's failure to pay under any Letter of Credit issued by it after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit. Nothing in this Section 3.12 is intended to limit the obligations of the Borrower under any other provision of this Agreement.

Section 3.13. ISP98. The rules of the "International Standby Practices 1998" as published by the International Chamber of Commerce most recently at the time of issuance of any Letter of Credit shall apply to such Letter of Credit unless otherwise expressly provided in such Letter of Credit.

## ARTICLE IV CONDITIONS

Section 4.01. Conditions to Closing. The obligation of each Lender to make a Loan or issue a Letter of Credit on the occasion of the first Credit Event hereunder is subject to the satisfaction of the following conditions:

(a) This Agreement. The Administrative Agent shall have received counterparts hereof signed by each of the parties hereto or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex, facsimile or other written confirmation from such party of execution of a counterpart hereof by such party) to be held in escrow and to be delivered to the Borrower upon satisfaction of the other conditions set forth in this Section 4.01.

(b) Notes. On or prior to the Effective Date, the Administrative Agent shall have received a duly executed Note for the account of each Lender requesting delivery of a Note pursuant to Section 2.05.



(c) Officers' Certificates. The Administrative Agent shall have received a certificate dated the Effective Date signed on behalf of the Borrower by the Chairman of the Board, the President, any Vice President, the Treasurer or the Assistant Treasurer of the Borrower stating that (A) on the Effective Date and after giving effect to the Loans and Letters of Credit being made or issued on the Effective Date, no Default shall have occurred and be continuing and (B) the representations and warranties of the Borrower contained in the Loan Documents are true and correct on and as of the Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date.

(d) Proceedings. On the Effective Date, the Administrative Agent shall have received (i) a certificate of the Secretary of State of the Commonwealth of Pennsylvania, dated as of a recent date, as to the good standing of the Borrower and (ii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Effective Date and certifying (A) that attached thereto is a true, correct and complete copy of (x) the Borrower's articles of incorporation certified by the Secretary of State of the Commonwealth of Pennsylvania and (y) the bylaws of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party and each other document delivered in connection herewith or therewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing the Loan Documents to which the Borrower is a party or any other document delivered in connection herewith or therewith.

(e) Opinions of Counsel. On the Effective Date, the Administrative Agent shall have received from counsel to the Borrower, opinions addressed to the Administrative Agent and each Lender, dated the Effective Date, substantially in the form of Exhibit D hereto.

(f) [Intentionally Omitted]

(g) Consents. All necessary governmental (domestic or foreign), regulatory and third party approvals, including, without limitation, the order ("PUC Order") of the Pennsylvania Public Utility Commission ("PUC") and any required approvals of the FERC, authorizing borrowings hereunder in connection with the transactions contemplated by this Agreement and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of such transactions.

(h) Payment of Fees. All costs, fees and expenses due to the Administrative Agent, the Joint Lead Arrangers and the Lenders accrued through the Effective Date (including Commitment Fees and Letter of Credit Fees) shall have been paid in full.

(i) Counsel Fees. The Administrative Agent shall have received full payment from the Borrower of the fees and expenses of Davis Polk & Wardwell LLP described in Section 9.03 which are billed through the Effective Date and which have been invoiced one Business Day prior to the Effective Date.

(j) Amendment Fee. The Borrower shall have paid to the Administrative Agent for the account of each Lender a non-refundable and fully earned fee (the "Amendment Fee") as set forth in the Fee Letter, on or before the Effective Date.

Section 4.02. Conditions to All Credit Events. The obligation of any Lender to make any Loan, and the obligation of any Issuing Lender to issue (or renew or extend the term of) any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.03, or receipt by an Issuing Lender of a Letter of Credit Request as required by Section 3.03;

(b) the fact that, immediately before and after giving effect to such Credit Event, no Default shall have occurred and be continuing; and

(c) the fact that the representations and warranties of the Borrower contained in this Agreement and the other Loan Documents shall be true and correct on and as of the date of such Credit Event, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations in Section 5.04(c), Section 5.05 and Section 5.13, which shall be deemed only to relate to the matters referred to therein on and as of the Effective Date.

Each Credit Event under this Agreement shall be deemed to be a representation and warranty by the Borrower on the date of such Credit Event as to the facts specified in clauses (b) and (c) of this Section.

## ARTICLE V REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

Section 5.01. Status. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania and has the corporate authority to make and perform this Agreement and each other Loan Document to which it is a party.

Section 5.02. Authority; No Conflict. The execution, delivery and performance by the Borrower of this Agreement and each other Loan Document to which it is a party have been duly authorized by all necessary corporate action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its articles of incorporation or bylaws, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which the Borrower is a party.

Section 5.03. Legality; Etc. This Agreement and each other Loan Document (other than the Notes) to which the Borrower is a party constitute the legal, valid and binding obligations of the Borrower, and the Notes, when executed and delivered in accordance with this Agreement, will constitute legal, valid

and binding obligations of the Borrower, in each case enforceable against the Borrower in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

**Section 5.04. Financial Condition.**

(a) **Audited Financial Statements.** The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 2011 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by Ernst & Young, LLP, copies of which have been delivered to each of the Administrative Agent and the Lenders, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) **Interim Financial Statements.** The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of June 30, 2012 and the related unaudited consolidated statements of income and cash flows for the six months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such six-month period (subject to normal year-end audit adjustments).

(c) **Material Adverse Change.** Since December 31, 2011 there has been no change in the business, assets, financial condition or operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Borrower's ability to perform any of its obligations under this Agreement, the Notes or the other Loan Documents.

**Section 5.05. Litigation.** Except as disclosed in or contemplated by the Borrower's Form 10-K Report to the SEC for the year ended December 31, 2011 or in any subsequent Form 10-K, 10-Q or 8-K Report, no litigation, arbitration or administrative proceeding against the Borrower is pending or, to the Borrower's knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of the Borrower to perform any of its obligations under this Agreement, the Notes or the other Loan Documents. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of the Borrower, threatened which questions the validity of this Agreement or the other Loan Documents to which it is a party.

**Section 5.06. No Violation.** No part of the proceeds of the borrowings by hereunder will be used, directly or indirectly by the Borrower for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulations U or X of said Board of Governors. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock".

**Section 5.07. ERISA.** Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

**Section 5.08. Governmental Approvals.** No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Borrower of this Agreement, the Notes and the other Loan Documents to which it is a party and except such authorizations, consents and approvals, including, without limitation, the PUC Order, as shall have been obtained prior to the Effective Date and shall be in full force and effect.

**Section 5.09. Investment Company Act.** The Borrower is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

**Section 5.10. Tax Returns and Payments.** The Borrower has filed or caused to be filed all Federal, state, local and foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which the Borrower shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

**Section 5.11. Compliance with Laws.** To the knowledge of the Borrower, the Borrower is in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance would not reasonably be expected to materially and adversely affect its ability to perform any of its obligations under this Agreement, the Notes or any other Loan Document to which it is a party.

**Section 5.12. No Default.** No Default has occurred and is continuing.

**Section 5.13. Environmental Matters.**

(a) Except (i) as disclosed in or contemplated by the Borrower's Form 10-K Report to the SEC for the year ended December 31, 2011 or in any subsequent Form 10-K, 10-Q or 8-K Report, or (ii) to the extent that the liabilities of the Borrower and its Subsidiaries, taken as a whole, that relate to or could reasonably be expected to result from the matters referred to in clauses (i) through (iii) of this Section 5.13(a), inclusive, would not reasonably be expected to result in a Material Adverse Effect:

(i) no notice, notification, citation, summons, complaint or order has been received by the Borrower or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Borrower's or any of its Subsidiaries' knowledge, threatened by any governmental or other entity with respect to any (A) alleged violation by or liability of the Borrower or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Borrower or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;

(ii) to the Borrower's or any of its Subsidiaries' knowledge, no Hazardous Substance has been released (and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, on or under any property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries; and

(iii) no property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries or, to the Borrower's or any of its Subsidiaries' knowledge, any property to which the Borrower or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Borrower's or any of its Subsidiaries' knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

(b) Except as disclosed in or contemplated by the Borrower's Form 10-K Report to the SEC for the year ended December 31, 2011 or in any subsequent Form 10-K, 10-Q or 8-K Report, to the Borrower's or any of its Subsidiaries' knowledge, there are no Environmental Liabilities that have resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) For purposes of this Section 5.13, the terms "the Borrower" and "Subsidiary" shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Borrower or any of its Subsidiaries from the time such business or business entity became a Subsidiary of PPL Corporation, a Pennsylvania corporation.

Section 5.14. OFAC. None of the Borrower, any Subsidiary of the Borrower or any Affiliate of the Borrower: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Entities, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Entities. The proceeds of any Loan will not be used and have not been used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Entity.

## ARTICLE VI COVENANTS

The Borrower agrees that so long as any Lender has any Commitment hereunder or any amount payable hereunder or under any Note or other Loan Document remains unpaid or any Letter of Credit Liability remains outstanding:

Section 6.01. Information. The Borrower will deliver or cause to be delivered to each of the Lenders (it being understood that the posting of the information required in clauses (a), (b) and (f) of this Section 6.01 on the Borrower's website ( <http://www.pplweb.com> ) or making such information available on IntraLinks, Syndtrak (or similar service) shall be deemed to be effective delivery to the Lenders):

(a) Annual Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year and accompanied by an opinion thereon by independent public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of the date of such financial statements and the results of their operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis.

(b) Quarterly Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such fiscal quarter, all certified (subject to normal year-end audit adjustments) as to fairness of presentation, GAAP and consistency by any vice president, the treasurer or the controller of the Borrower.

(c) Officer's Certificate. Simultaneously with the delivery of each set of financial statements referred to in subsections (a) and (b) above, a certificate of the chief accounting officer or controller of the Borrower, (i) setting forth in reasonable detail the calculations required to establish compliance with the requirements of Section 6.09 on the date of such financial statements and (ii) stating whether there exists on the date of such certificate any Default and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(d) Default. Forthwith upon acquiring knowledge of the occurrence of any (i) Default or (ii) Event of Default, in either case a certificate of a vice president or the treasurer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(e) Change in Borrower's Ratings. Promptly, upon the chief executive officer, the president, any vice president or any senior financial officer of the Borrower obtaining knowledge of any change in a Borrower's Rating, a notice of such Borrower's Rating in effect after giving effect to such change.

(f) Securities Laws Filing. Promptly when available and in any event within ten (10) days after the date such information is required to

be delivered to the SEC, a copy of any Form 10-K Report to the SEC and a copy of any Form 10-Q Report to the SEC, and promptly upon the filing thereof, any other filings with the SEC.

(g) ERISA Matters. If and when any member of the ERISA Group: (i) gives or is required to give notice to the PBGC of any “reportable event” (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives, with respect to any Material Plan that is a Multiemployer Plan, notice of any complete or partial withdrawal liability under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Material Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code with respect to a Material Plan, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA; or (vii) fails to make any payment or contribution to any Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a copy of such notice, a certificate of the chief accounting officer or controller of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take.

(h) Other Information. From time to time such additional financial or other information regarding the financial condition, results of operations, properties, assets or business of the Borrower or any of its Subsidiaries as any Lender may reasonably request.

The Borrower hereby acknowledges that (a) the Administrative Agent will make available to the Lenders and each Issuing Lender materials and/or information provided by or on behalf of the Borrower hereunder (collectively, “Borrower Materials”) by posting the Borrower Materials on IntraLinks or another similar electronic system (the “Platform”) and (b) certain of the Lenders may be “public-side” Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a “Public Lender”). The Borrower hereby agrees that it will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all such Borrower Materials shall be clearly and conspicuously marked “PUBLIC” which, at a minimum, shall mean that the word “PUBLIC” shall appear prominently on the first page thereof; (x) by marking Borrower Materials “PUBLIC,” the Borrower shall be deemed to have authorized the Administrative Agent, the Issuing Lenders and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Borrower or its securities for purposes of United States Federal and state securities laws ( provided, however, that to the extent such Borrower Materials constitute Information (as defined below), they shall be treated as set forth in Section 9.12); (y) all Borrower Materials marked “PUBLIC” are permitted to be made available through a portion of the Platform designated “Public Investor;” and (z) the Administrative Agent shall be entitled to treat any Borrower Materials that are not marked “PUBLIC” as being suitable only for posting (subject to Section 9.12) on a portion of the Platform not designated “Public Investor.” “Information” means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or any Issuing Lender on a nonconfidential basis prior to disclosure by the Borrower or any of its Subsidiaries; provided that, in the case of information received from the Borrower or any of its Subsidiaries after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

#### Section 6.02. Maintenance of Property; Insurance.

(a) Maintenance of Properties. The Borrower will keep all property useful and necessary in its businesses in good working order and condition, subject to ordinary wear and tear, unless the Borrower determines in good faith that the continued maintenance of any of such properties is no longer economically desirable and so long as the failure to so maintain such properties would not reasonably be expected to have a Material Adverse Effect.

(b) Insurance. The Borrower will maintain, or cause to be maintained, insurance with financially sound (determined in the reasonable judgment of the Borrower) and responsible companies in such amounts (and with such risk retentions) and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which the Borrower operates.

Section 6.03. Conduct of Business and Maintenance of Existence. The Borrower will (i) continue to engage in businesses of the same general type as now conducted by the Borrower and its Subsidiaries and businesses related thereto or arising out of such businesses, except to the extent that the failure to maintain any existing business would not have a Material Adverse Effect and (ii) except as otherwise permitted in Section 6.07, preserve, renew and keep in full force and effect, and will cause each of its Subsidiaries to preserve, renew and keep in full force and effect, their respective corporate (or other entity) existence and their respective rights, privileges and franchises necessary or material to the normal conduct of business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.04. Compliance with Laws, Etc. The Borrower will comply with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance could not reasonably be expected to have a Material Adverse Effect.

Section 6.05. Books and Records. The Borrower (i) will keep, and will cause each of its Subsidiaries to keep, proper books of record and account in conformity with GAAP and (ii) will permit representatives of the Administrative Agent and each of the Lenders to visit and inspect any of their respective properties, to examine and make copies from any of their respective books and records and to discuss their respective affairs, finances and accounts with their officers, any employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired; provided, that, the rights created in this Section 6.05 to “visit”, “inspect”, “discuss” and copy shall not extend to any matters which the Borrower deems, in good faith, to be confidential, unless the Administrative Agent and any such Lender agree in writing to keep such matters confidential.

Section 6.06. Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower to repay loans under the Existing Credit Agreement on the Effective Date and for general corporate purposes of the Borrower and its Affiliates, including for working capital purposes and for making investments in or loans to Affiliates. The Borrower will request the issuance of Letters of Credit solely for general corporate purposes of the Borrower and its Affiliates. No such use of the proceeds for general corporate purposes will be, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock within the meaning of Regulation U.

Section 6.07. Merger or Consolidation. The Borrower will not merge with or into or consolidate with or into any other corporation or entity, unless (i) immediately after giving effect thereto, no event shall occur and be continuing which constitutes a Default, (ii) the surviving or resulting Person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of the Borrower under this Agreement, (iii) substantially all of the consolidated assets and consolidated revenues of the surviving or resulting Person, as the case may be, are anticipated to come from the utility or energy businesses and (iv) the senior long-term debt ratings from both Rating Agencies of the surviving or resulting Person, as the case may be, immediately following the merger or consolidation is equal to or greater than the senior long-term debt ratings from both Rating Agencies of the Borrower immediately preceding the announcement of such consolidation or merger.

Section 6.08. Asset Sales. Except for the sale of assets required to be sold to conform with governmental requirements, the Borrower shall not consummate any Asset Sale, if the aggregate net book value of all such Asset Sales consummated during the four calendar quarters immediately preceding any date of determination would exceed 25% of the total assets of the Borrower and its Consolidated Subsidiaries as of the beginning of the Borrower's most recently ended full fiscal quarter; provided, however, that any such Asset Sale will be disregarded for purposes of the 25% limitation specified above: (a) if any such Asset Sale is in the ordinary course of business of the Borrower (b) if the assets subject to any such Asset Sale are worn out or are no longer useful or necessary in connection with the operation of the businesses of the Borrower; (c) if the assets subject to any such Asset Sale are being transferred to a Wholly Owned Subsidiary of the Borrower; (d) if the proceeds from any such Asset Sale (i) are, within twelve (12) months of such Asset Sale, invested or reinvested by the Borrower in a Permitted Business, (ii) are used by the Borrower to repay Debt of the Borrower, or (iii) are retained by the Borrower; or (e) if, prior to any such Asset Sale, both Rating Agencies confirm the then-current Borrower Ratings after giving effect to any such Asset Sale.

Section 6.09. Consolidated Debt to Consolidated Capitalization Ratio. The ratio of Consolidated Debt of the Borrower to Consolidated Capitalization of the Borrower shall not exceed 70%, measured as of the end of each fiscal quarter.

## ARTICLE VII DEFAULTS

Section 7.01. Events of Default. If one or more of the following events (each an "Event of Default") shall have occurred and be continuing:

- (a) the Borrower shall fail to pay when due any principal on any Loans or Reimbursement Obligations; or
- (b) the Borrower shall fail to pay when due any interest on the Loans 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 hereunder; or
- (c) the Borrower shall fail to observe or perform any covenant or agreement contained in clause (ii) of Section 6.05, or Sections 6.06, 6.07, 6.08 or 6.09; or
- (d) the Borrower shall fail to observe or perform any covenant or agreement contained in Section 6.01(d)(i) for 30 days after any such failure or in Section 6.01(d)(ii) for ten (10) days after any such failure; or
- (e) the Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement or any other Loan Document (other than those covered by clauses (a), (b), (c) or (d) 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
- (f) any representation, warranty or certification made by the Borrower in this 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
- (g) the Borrower 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
- (h) the Borrower 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
- (i) an involuntary case or other proceeding shall be commenced against the Borrower 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 Borrower under the Bankruptcy Code; or

(j) 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

(k) the Borrower 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 Borrower that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(l) a Change of Control shall have occurred;

then, and in every such event, while such event is continuing, the Administrative Agent may (A) if requested by the Required Lenders, by notice to the Borrower terminate the Commitments, and the Commitments shall thereupon terminate, and (B) if requested by the Lenders holding more than 50% of the sum of the aggregate outstanding principal amount of the Loans and Letter of Credit Liabilities at such time, by notice to the Borrower declare the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Loans and Letter of Credit Liabilities shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind (except as set forth in clause (A) above), all of which are hereby waived by the Borrower and require the Borrower to, and the Borrower shall, cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding; provided, that, in the case of any Default or any Event of Default specified in clause 7.01(h) or 7.01(i) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or any Lender, the Commitments shall thereupon terminate and the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, and the Borrower shall cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding.

## ARTICLE VIII THE AGENTS

Section 8.01. Appointment and Authorization. Each Lender hereby irrevocably designates and appoints the Administrative Agent to act as specified herein and in the other Loan Documents and to take such actions on its behalf under the provisions of this Agreement and the other Loan Documents and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent agrees to act as such upon the express conditions contained in this Article VIII. Notwithstanding any provision to the contrary elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent. The provisions of this Article VIII are solely for the benefit of the Administrative Agent and Lenders, and no other Person shall have any rights as a third party beneficiary of any of the provisions hereof. For the sake of clarity, the Lenders hereby agree that no Agent other than the Administrative Agent shall have, in such capacity, any duties or powers with respect to this Agreement or the other Loan Documents.

Section 8.02. Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower and its Affiliates as though the Administrative Agent were not an Agent. With respect to the Loans made by it and all obligations owing to it, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not an Agent, and the terms "Required Lenders", "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

Section 8.03. Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents or attorneys-in-fact. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care except to the extent otherwise required by Section 8.07.

Section 8.04. Reliance by the Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, teletype or other electronic facsimile transmission, telex, telegram, cable, teletype, electronic transmission by modem, computer disk or any other message, statement, order or other writing or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders, or all of the Lenders, if applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders or all of the Lenders, if applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

Section 8.05. Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default hereunder unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default and stating that such notice is a "notice of default". If the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such

action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders.

Section 8.06. Non-Reliance on the Agents and Other Lenders. Each Lender expressly acknowledges that no Agent or officer, director, employee, agent, attorney-in-fact or affiliate of any Agent has made any representations or warranties to it and that no act by any Agent hereafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by such Agent to any Lender. Each Lender acknowledges to the Agents that it has, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower. No Agent shall have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, assets, property, financial and other condition, prospects or creditworthiness of the Borrower which may come into the possession of such Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

Section 8.07. Exculpatory Provisions. The Administrative Agent shall not, and no officers, directors, employees, agents, attorneys-in-fact or affiliates of the Administrative Agent, shall (i) be liable for any action lawfully taken or omitted to be taken by it under or in connection with this Agreement or any other Loan Document (except for its own gross negligence, willful misconduct or bad faith) or (ii) be responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any of its officers contained in this Agreement, in any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for any failure of the Borrower or any of its officers to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower. The Administrative Agent shall not be responsible to any Lender for the effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any other Loan Document or for any representations, warranties, recitals or statements made by any other Person herein or therein or made by any other Person in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders or by or on behalf of the Borrower to the Administrative Agent or any Lender or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the Loans or of the existence or possible existence of any Default.

Section 8.08. Indemnification. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Sections 9.03(a), (b) or (c) to be paid by it to the Administrative Agent (or any sub-agent thereof), the Lenders severally agree to indemnify the Administrative Agent, in its capacity as such, and hold the Administrative Agent, in its capacity as such, harmless ratably according to their respective Commitments from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and reasonable expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the full payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against the Administrative Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Document, or any documents contemplated hereby or referred to herein or the transactions contemplated hereby or any action taken or omitted to be taken by the Administrative Agent under or in connection with any of the foregoing, but only to the extent that any of the foregoing is not paid by the Borrower; provided, that no Lender shall be liable to the Administrative Agent for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs or expenses or disbursements resulting from the gross negligence, willful misconduct or bad faith of the Administrative Agent. If any indemnity furnished to the Administrative Agent for any purpose shall, in the reasonable opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished. The agreement in this Section 8.08 shall survive the payment of all Loans, Letter of Credit Liabilities, fees and other obligations of the Borrower arising hereunder.

Section 8.09. Resignation; Successors. The Administrative Agent may resign as Administrative Agent upon twenty (20) days notice to the Lenders. Upon the resignation of the Administrative Agent, the Required Lenders shall have the right to appoint from among the Lenders a successor to the Administrative Agent, subject to prior approval by the Borrower (so long as no Event of Default exists) (such approval not to be unreasonably withheld), whereupon such successor Administrative Agent shall succeed to and become vested with all the rights, powers and duties of the retiring Administrative Agent, and the term "Administrative Agent" shall include such successor Administrative Agent effective upon its appointment, and the retiring Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any other Loan Document. If no successor shall have been appointed by the Required Lenders and approved by the Borrower and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may at its election give notice to the Lenders and the Borrower of the immediate effectiveness of its resignation and such resignation shall thereupon become effective and the Lenders collectively shall perform all of the duties of the Administrative Agent hereunder and under the other Loan Documents until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After the retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement or any other Loan Document.

Section 8.10. Administrative Agent's Fees. The Borrower shall pay to the Administrative Agent for its own account fees in the amount and at the times agreed to and accepted by the Borrower pursuant to the Fee Letter.

## ARTICLE IX MISCELLANEOUS

Section 9.01. Notices. Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing (for purposes hereof, the term "writing" shall include information in electronic format such as electronic mail and internet web pages) or by telephone subsequently confirmed in writing; provided that the foregoing shall not apply to notices to any Lender, the Swingline Lender or Issuing Lender pursuant to Article II or

Article III, as applicable, if such Lender, Swingline Lender or Issuing Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article in electronic format. Any notice shall have been duly given and shall be effective if delivered by hand delivery or sent via electronic mail, teletype, recognized overnight courier service or certified or registered mail, return receipt requested, or posting on an internet web page, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by electronic mail, posting on an internet web page, or teletype, (ii) on the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iii) on the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or teletype numbers, in the case of the Borrower and the Administrative Agent, set forth below, and, in the case of the Lenders, set forth on signature pages hereto, or at such other address as such party may specify by written notice to the other parties hereto:

if to the Borrower:

PPL Electric Utilities Corporation  
Two North Ninth Street (GENTW14)  
Allentown, Pennsylvania 18101-1179  
Attention: Russell R. Clelland  
Telephone: 610-774-5151  
Facsimile: 610-774-5235

with a copy to:

PPL Electric Utilities Corporation  
Two North Ninth Street (GENTW4)  
Allentown, Pennsylvania 18101-1179  
Attention: Frederick C. Paine, Esq.  
Telephone: 610-774-7445  
Facsimile: 610-774-6726

if to the Administrative Agent:

Wells Fargo Bank, National Association  
1525 West W.T. Harris Boulevard  
Mail Code: MAC DI109-019  
Charlotte, NC 28262

Attention: Syndication Agency Services  
Telephone: 704.590.2706  
Telecopier: 704.590.2790  
Electronic Mail: [agencyervices.requests@wellsfargo.com](mailto:agencyervices.requests@wellsfargo.com)

with a copy to:

Wells Fargo Bank, National Association  
90 S 7th Street, MAC: N9305-070  
Minneapolis, MN 55402  
Attention: Keith Luettel  
Telephone: 612-667-4747  
Facsimile: 602-316-0506

with a copy to:

Davis Polk & Wardwell LLP  
450 Lexington Avenue  
New York, New York 10017  
Attention: Jason Kyrwood  
Telephone : 212-450-4653  
Facsimile: 212-450-5653

Section 9.02. No Waivers; Non-Exclusive Remedies. No failure by any Agent or any Lender to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any Note or other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and in the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03. Expenses; Indemnification.

(a) Expenses. The Borrower shall pay (i) all out-of-pocket expenses of the Agents, including legal fees and disbursements of Davis Polk & Wardwell LLP and any other local counsel retained by the Administrative Agent, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of the Loan Documents, the syndication efforts of the Agents with respect thereto, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) all reasonable out-of-pocket expenses incurred by the Agents and each Lender,



including (without duplication) the fees and disbursements of outside counsel, in connection with any restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings in connection with the enforcement and protection of its rights; provided, that the Borrower shall not be liable for any legal fees or disbursements of any counsel for the Agents and the Lenders other than Davis Polk & Wardwell LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) Indemnity in Respect of Loan Documents. The Borrower agrees to indemnify the Agents and each Lender, their respective Affiliates and the respective directors, officers, trustees, agents, employees, trustees and advisors of the foregoing (each an “Indemnitee”) and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, the reasonable fees and disbursements of counsel and any civil penalties or fines assessed by OFAC), which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened (by any third party, by the Borrower or any Subsidiary of the Borrower) in any way relating to or arising out of this Agreement, any other Loan Document or any documents contemplated hereby or referred to herein or any actual or proposed use of proceeds of Loans hereunder; provided, that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee’s own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) Indemnity in Respect of Environmental Liabilities. The Borrower agrees to indemnify each Indemnitee and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in respect of or in connection with any actual or alleged presence or release of Hazardous Substances on or from any property now or previously owned or operated by the Borrower or any of its Subsidiaries or any predecessor of the Borrower or any of its Subsidiaries, or any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Borrower hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses and disbursements in respect of or in connection with Environmental Liabilities that it might have by statute or otherwise against any Indemnitee.

(d) Waiver of Damages. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in clause (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby; provided that nothing in this Section 9.03(d) shall relieve any Lender from its obligations under Section 9.12.

Section 9.04. Sharing of Set-Offs. Each Lender agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Loan made or Note held by it and any Letter of Credit Liabilities which is greater than the proportion received by any other Lender in respect of the aggregate amount of principal and interest due with respect to any Loan, Note and Letter of Credit Liabilities made or held by such other Lender, the Lender receiving such proportionately greater payment shall purchase such participations in the Loan made or Notes and Letter of Credit Liabilities held by the other Lenders, and such other adjustments shall be made, in each case as may be required so that all such payments of principal and interest with respect to the Loan made or Notes and Letter of Credit Liabilities made or held by the Lenders shall be shared by the Lenders pro rata; provided, that nothing in this Section shall impair the right of any Lender to exercise any right of set-off or counterclaim it may have for payment of indebtedness of the Borrower other than its indebtedness hereunder.

Section 9.05. Amendments and Waivers. Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Lenders (and, if the rights or duties of the Administrative Agent, Swingline Lender or any Issuing Lenders are affected thereby, by the Administrative Agent, Swingline Lender or such Issuing Lender, as relevant); provided, that no such amendment or waiver shall, (a) unless signed by each Lender adversely affected thereby, (i) increase the Commitment of any Lender or subject any Lender to any additional obligation (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or of mandatory reductions in the Commitments shall not constitute an increase of the Commitment of any Lender, and that an increase in the available portion of any Commitment of any Lender as in effect at any time shall not constitute an increase in such Commitment), (ii) reduce the principal or rate of interest on any Loan (except in connection with a waiver of applicability of any post-default increase in interest rates) or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder, (iii) postpone the date fixed for any payment of interest on any Loan or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder or for any scheduled reduction or termination of any Commitment or (except as expressly provided in Article III) expiration date of any Letter of Credit, (iv) postpone or change the date fixed for any scheduled payment of principal of any Loan, (v) change any provision hereof in a manner that would alter the pro rata funding of Loans required by Section 2.04(b), the pro rata sharing of payments required by Sections 2.11(a), 2.09(b) or 9.04 or the pro rata reduction of Commitments required by Section 2.08(a) or (vi) change the currency in which Loans are to be made, Letters of Credit are to be issued or payment under the Loan Documents is to be made, or add additional borrowers or (b) unless signed by each Lender, change the definition of Required Lender or this Section 9.05 or Section 9.06(a).

#### Section 9.06. Successors and Assigns.

(a) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all of the Lenders, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement.

(b) Participations. Any Lender may at any time grant to one or more banks or other financial institutions or special purpose funding

vehicle (each a "Participant") participating interests in its Commitments and/or any or all of its Loans and Letter of Credit Liabilities. In the event of any such grant by a Lender of a participating interest to a Participant, whether or not upon notice to the Borrower and the Administrative Agent, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrower, the Issuing Lenders, Swingline Lender and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided, that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement which would (i) extend the Termination Date, reduce the rate or extend the time of payment of principal, interest or fees on any Loan or Letter of Credit Liability in which such Participant is participating (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the Participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default or of a mandatory reduction in the Commitments shall not constitute a change in the terms of such participation, and that an increase in any Commitment or Loan or Letter of Credit Liability shall be permitted without the consent of any Participant if the Participant's participation is not increased as a result thereof) or (ii) allow the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, without the consent of the Participant, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article II with respect to its participating interest to the same extent as if it were a Lender, subject to the same limitations, and in no case shall any Participant be entitled to receive any amount payable pursuant to Article II that is greater than the amount the Lender granting such Participant's participating interest would have been entitled to receive had such Lender not sold such participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b). Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register (solely for tax purposes) on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"). The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(c) Assignments Generally. Any Lender may at any time assign to one or more Eligible Assignees (each, an "Assignee") all, or a proportionate part (equivalent to an initial amount of not less than \$5,000,000 or any larger integral multiple of \$1,000,000), of its rights and obligations under this Agreement and the Notes with respect to its Loans and, if still in existence, its Commitment, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit C attached hereto executed by such Assignee and such transferor, with (and subject to) the consent of the Borrower, which shall not be unreasonably withheld or delayed, the Administrative Agent, Swingline Lender and the Issuing Lenders, which consent shall not be unreasonably withheld or delayed; provided, that if an Assignee is an Affiliate of such transferor Lender or was a Lender immediately prior to such assignment, no such consent of the Borrower or the Administrative Agent shall be required; provided, further, that if at the time of such assignment a Default or an Event of Default has occurred and is continuing, no such consent of the Borrower shall be required; provided, further, that no such assignment may be made prior to the Effective Date without the prior written consent of the Joint Lead Arrangers; provided, further, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a transferor with respect to any Loans made, any Letters of Credit issued or any other actions taken by such transferor while it was a Lender. Upon execution and delivery of such instrument and payment by such Assignee to such transferor of an amount equal to the purchase price agreed between such transferor and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender with a Commitment, if any, as set forth in such instrument of assumption, and the transferor shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this subsection (c), the transferor, the Administrative Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to the Assignee. In connection with any such assignment, the transferor shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$3,500; provided that the Administrative Agent may, in its sole discretion, elect to waive such administrative fee in the case of any assignment. Each Assignee shall, on or before the effective date of such assignment, deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States Taxes in accordance with Section 2.17(e).

(d) Assignments to Federal Reserve Banks. Any Lender may at any time assign all or any portion of its rights under this Agreement and its Note to a Federal Reserve Bank. No such assignment shall release the transferor Lender from its obligations hereunder.

(e) Register. The Borrower hereby designates the Administrative Agent to serve as the Borrower's agent, solely for purposes of this Section 9.06(e), to (i) maintain a register (the "Register") on which the Administrative Agent will record the Commitments from time to time of each Lender, the Loans made by each Lender and each repayment in respect of the principal amount of the Loans of each Lender and to (ii) retain a copy of each Assignment and Assumption Agreement delivered to the Administrative Agent pursuant to this Section. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower's obligation in respect of such Loans. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent, Swingline Lender, the Issuing Lenders and the other Lenders shall treat each Person in whose name a Loan and the Note evidencing the same is registered as the owner thereof for all purposes of this Agreement, notwithstanding notice or any provision herein to the contrary. With respect to any Lender, the assignment or other transfer of the Commitments of such Lender and the rights to the principal of, and interest on, any Loan made and any Note issued pursuant to this Agreement shall not be effective until such assignment or other transfer is recorded on the Register and, except to the extent provided in this subsection 9.06(e), otherwise complies with Section 9.06, and prior to such recordation all amounts owing to the transferring Lender with respect to such Commitments, Loans and Notes shall remain owing to the transferring Lender. The registration of assignment or other transfer of all or part of any Commitments, Loans and Notes for a Lender shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement and payment of the administrative fee referred to in Section 9.06(e). The Register shall be available for inspection by each of the Borrower, the Swingline Lender and each Issuing Lender at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender wishing to consult with other Lenders in connection therewith may request and receive from the Administrative Agent a copy of the Register. The Borrower may not replace any Lender pursuant to Section 2.08(b), unless, with respect to any Notes held by such Lender, the requirements of subsection 9.06(c) and this subsection 9.06(e) have been satisfied.

Section 9.07. Governing Law; Submission to Jurisdiction. This Agreement and each Note shall be governed by and construed in accordance with

the internal laws of the State of New York. The Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such court and any claim that any such proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.08. Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Effective Date. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. On and after the Effective Date, this Agreement, the other Loan Documents and the Fee Letter constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 9.09. Generally Accepted Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries most recently delivered to the Lenders; provided, that, if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article VI to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Article VI for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Lenders.

Section 9.10. Usage. The following rules of construction and usage shall be applicable to this Agreement and to any instrument or agreement that is governed by or referred to in this Agreement.

(a) All terms defined in this Agreement shall have the defined meanings when used in any instrument governed hereby or referred to herein and in any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein.

(b) The words "hereof", "herein", "hereunder" and words of similar import when used in this Agreement or in any instrument or agreement governed here shall be construed to refer to this Agreement or such instrument or agreement, as applicable, in its entirety and not to any particular provision or subdivision hereof or thereof.

(c) References in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, this Agreement unless the context otherwise requires; references in any instrument or agreement governed by or referred to in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, such instrument or agreement unless the context otherwise requires.

(d) The definitions contained in this Agreement shall apply equally to the singular and plural forms of such terms. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The word "will" shall be construed to have the same meaning as the word "shall". The term "including" shall be construed to have the same meaning as the phrase "including without limitation".

(e) Unless the context otherwise requires, any definition of or reference to any agreement, instrument, statute or document contained in this Agreement or in any agreement or instrument that is governed by or referred to in this Agreement shall be construed (i) as referring to such agreement, instrument, statute or document as the same may be amended, supplemented or otherwise modified from time to time (subject to any restrictions on such amendments, supplements or modifications set forth in this Agreement or in any agreement or instrument governed by or referred to in this Agreement), including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and (ii) to include (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. Any reference to any Person shall be construed to include such Person's successors and permitted assigns.

(f) Unless the context otherwise requires, whenever any statement is qualified by "to the best knowledge of" or "known to" (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

Section 9.11. WAIVER OF JURY TRIAL. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.12. Confidentiality. Each Lender agrees to hold all non-public information obtained pursuant to the requirements of this Agreement in accordance with its customary procedure for handling confidential information of this nature and in accordance with safe and sound banking practices; provided, that nothing herein shall prevent any Lender from disclosing such information (i) to any other Lender or to any Agent, (ii) to any other Person if reasonably incidental to the administration of the Loans and Letter of Credit Liabilities, (iii) upon the order of any court or administrative agency, (iv) to the extent requested by, or required to be disclosed to, any rating agency or regulatory agency or similar authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (v) which had been publicly disclosed other than as a result of a disclosure by any Agent or any Lender prohibited by this Agreement, (vi) in connection with any litigation to which any Agent, any Lender or any of their respective Subsidiaries or Affiliates may be party, (vii) to the extent necessary in connection with the exercise of any remedy hereunder, (viii) to such Lender's or Agent's Affiliates and their respective directors, officers, employees and agents including legal counsel and independent auditors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (ix) with the consent of the Borrower, (x) to Gold Sheets and other similar bank trade publications, such information to consist solely of deal terms and other information

customarily found in such publications and (xi) subject to provisions substantially similar to those contained in this Section, to any actual or proposed Participant or Assignee or to any actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Borrower's Obligations hereunder. Notwithstanding the foregoing, any Agent, any Lender or Davis Polk & Wardwell LLP may circulate promotional materials and place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web, in each case, after the closing of the transactions contemplated by this Agreement in the form of a "tombstone" or other release limited to describing the names of the Borrower or its Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense.

**Section 9.13. USA PATRIOT Act Notice.** Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub.L. 107-56 (signed into law October 26, 2001)) (the "Patriot Act"), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Patriot Act.

**Section 9.14. No Fiduciary Duty.** Each Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph, the "Lender Parties"), may have economic interests that conflict with those of the Borrower, its Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the "Borrower Parties"). The Borrower agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty (other than any implied duty of good faith) between any Lender Party, on the one hand, and any Borrower Party, on the other. The Lender Parties acknowledge and agree that (a) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm's-length commercial transactions between the Lender Parties, on the one hand, and the Borrower, on the other and (b) in connection therewith and with the process leading thereto, (i) no Lender Party has assumed an advisory or fiduciary responsibility in favor of any Borrower Party with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender Party has advised, is currently advising or will advise any Borrower Party on other matters) or any other obligation to any Borrower Party except the obligations expressly set forth in the Loan Documents and (ii) each Lender Party is acting solely as principal and not as the agent or fiduciary of any Borrower Party. The Borrower acknowledges and agrees that the Borrower has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Lender Party has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to any Borrower Party, in connection with such transaction or the process leading thereto.

**Section 9.15. Amendment and Restatement of Existing Credit Agreement.** Upon the execution and delivery of this Agreement, the Existing Credit Agreement shall be amended and restated to read in its entirety as set forth herein. With effect from and including the Effective Date, (i) the Commitments of each Lender party hereto (the "Extending Lenders") shall be as set forth on the Commitment Appendix (and any Lender under the Existing Credit Agreement that is not listed on the Commitment Appendix shall cease to be a Lender hereunder; provided that, for the avoidance of doubt, such Lender under the Existing Credit Agreement shall continue to be entitled to the benefits of Section 9.03 of the Existing Credit Agreement), (ii) the Commitment Ratio of the Extending Lenders shall be redetermined based on the Commitments set forth in the Commitment Appendix and the participations of the Extending Lenders in, and the obligations of the Extending Lenders in respect of, any Letters of Credit or Swingline Loans outstanding on the Effective Date shall be reallocated to reflect such redetermined Commitment Ratio and (iii) each JLA Issuing Bank shall have the Fronting Sublimit set forth in the JLA L/C Fronting Sublimits Appendix.

[Signature Pages to Follow]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

PPL ELECTRIC UTILITIES CORPORATION

By: /s/ Russell R. Clelland

Name: Russell R. Clelland

Title: Assistant Treasurer

---

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Administrative Agent, Issuing  
Lender, Swingline Lender and Lender

By: /s/ Keith Luettel  
Name: Keith Luettel  
Title: Vice President

---

**BANK OF AMERICA, N.A., as Issuing  
Lender and Lender**

**By:/s/ Mike Mason**  
**Name: Mike Mason**  
**Title: Director**

---

THE ROYAL BANK OF SCOTLAND PLC, as  
Issuing Lender and Lender

By: /s/ Tyler J McCarthy

Name: Tyler J McCarthy

Title: Director

---



THE ROYAL BANK OF SCOTLAND PLC, as  
Issuing Lender and Lender

By: /s/ Tyler J McCarthy

Name: Tyler J McCarthy

Title: Director

---

BARCLAYS BANK PLC, as Issuing  
Lender and Lender

By: /s/ Ronnie Glenn  
Name: Ronnie Glenn  
Title: Vice President

---

THE BANK OF NOVA SCOTIA, as  
Issuing Lender and Lender

By: /s/ Thane Rattew  
Name: Thane Rattew  
Title: Managing Director

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THE BANK OF TOKYO-MITSUBISHI UFJ, INC.  
as Issuing Lender and Lender

By: /s/ Alan Reiter  
Name: Alan Reiter  
Title: Vice President

---

UNION BANK, N.A., as a Lender

By: /s/ Carmelo Restifo

Name: Carmelo Restifo

Title: Director

---

BNP PARIBAS, as a Lender

By: /s/ Denis O'Meara

Name: Denis O'Meara

Title: Managing Director

BNP PARIBAS, as a Lender

By: /s/ Pasquale A. Perraglia IV

Name: Pasquale A. Perraglia IV

Title: Vice President

---

CITIBANK, N.A., as a Lender

By: /s/ Amit Vasani

Name: Amit Vasani

Title: Vice President

---

CREDIT SUISSE AG, CAYMAN ISLANDS  
BRANCH, as a Lender

By: /s/ Christopher Reo Day

Name: Christopher Reo Day

Title: Vice President

By: /s/ Vipul Dhadha

Name: Vipul Dhadha

Title: Associate

---



GOLDMAN SACHS BANK USA, as a Lender

By: /s/ Mark Walton

Name: Mark Walton

Title: Authorized Signatory

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J.P. MORGAN CHASE BANK, N.A., as a Lender

By: /s/ Juan Javellana

Name: Juan Javellana

Title: Executive Director

---

MORGAN STANLEY BANK, N.A., as a Lender

By: /s/ Kelly Chin  
Name: Kelly Chin  
Title: Authorized Signatory

---

ROYAL BANK OF CANADA, as a Lender

By: /s/ Frank Lambrinos

Name: Frank Lambrinos

Title: Authorized Signatory

---

UBS LOAN FINANCE LLC, as a Lender

By: /s/ Irja R. Otsa

Name: Irja R. Otsa

Title: Associate Director

By: /s/ David Urban

Name: David Urban

Title: Associate Director

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CREDIT AGRICOLE CORPORATE AND  
INVESTMENT BANK, as a Lender

By: /s/ Dixon Schultz

Name: Dixon Schultz

Title: Managing Director

By: /s/ Sharada Manne

Name: Sharada Manne

Title: Managing Director

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KEYBANK NATIONAL ASSOCIATION, as a  
Lender

By: /s/ Craig A. Hanselman  
Name: Craig A. Hanselman  
Title: Vice President

---

LLOYDS TSB BANK PLC, as a Lender

By: /s/ Stephen Giacolone

Name: Stephen Giacolone

Title: Assistant Vice President –G011

LLOYDS TSB BANK PLC, as a Lender

By: /s/ Julia R. Franklin

Name: Julia R. Franklin

Title: Vice President –F014

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MIZUHO CORPORATE BANK, LTD., as a  
Lender

By: /s/ Leon Mo

Name: Leon Mo

Title: Authorized Signatory

---

SUNTRUST BANK, as a Lender

By: /s/ Andrew Johnson

Name: Andrew Johnson

Title: Director

---

THE BANK OF NEW YORK MELLON, as a  
Lender

By: /s/ Mark W. Rogers  
Name: Mark W. Rogers  
Title: Vice President

---

U.S. BANK NATIONAL ASSOCIATION, as a  
Lender

By: /s/ John M. Eyerman  
Name: John M. Eyerman  
Title: Vice President

---

CANADIAN IMPERIAL BANK OF  
COMMERCE, New York Agency, as a Lender

By: /s/ Robert Casey

Name: Robert Casey

Title: Authorized Signatory

By: /s/ Jonathan J. Kim

Name: Jonathan J. Kim

Title: Authorized Signatory

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COMPASS BANK, as a Lender

By: /s/ Susana Campuzano

Name: Susana Campuzano

Title: Senior Vice President

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PNC BANK, NATIONAL ASSOCIATION, as a  
Lender

By: /s/ Edward M. Tessalone

Name: Edward M. Tessalone

Title: Senior Vice President PNC Bank, N.A.

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SOVEREIGN BANK, N.A., as a Lender

By: /s/ William Maag

Name: William Maag

Title: Senior Vice President

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SUMITOMO MITSUI BANKING  
CORPORATION, as a Lender

By: /s/ Shugi Yabe

Name: Shugi Yabe

Title: Managing Director

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THE NORTHERN TRUST COMPANY, as a  
Lender

By: /s/ Daniel Boote

Name: Daniel Boote

Title: Senior Vice President

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## Commitment Appendix

Lender	Revolving Commitment
Wells Fargo Bank, National Association	\$15,428,571.42
Bank of America, N.A.	\$15,428,571.43
The Royal Bank of Scotland plc	\$15,428,571.43
Barclays Bank PLC	\$14,107,142.86
The Bank of Nova Scotia	\$14,107,142.86
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$7,053,571.43
Union Bank, N.A.	\$7,053,571.43
BNP Paribas	\$14,107,142.86
Citibank, N.A.	\$14,107,142.86
Credit Suisse AG, Cayman Islands Branch	\$14,107,142.86
Goldman Sachs Bank USA	\$14,107,142.86
JPMorgan Chase Bank, N.A.	\$14,107,142.86
Morgan Stanley Bank, N.A.	\$14,107,142.86
Royal Bank of Canada	\$14,107,142.86
UBS Loan Finance LLC	\$14,107,142.86
Credit Agricole Corporate & Investment Bank	\$10,071,428.57
KeyBank National Association	\$10,071,428.57
Lloyds Bank	\$10,071,428.57
Mizuho Corporate Bank, Ltd.	\$10,071,428.57
SunTrust Bank	\$10,071,428.57
The Bank of New York Mellon	\$10,071,428.57
U.S. Bank National Association	\$10,071,428.57
Canadian Imperial Bank of Commerce	\$4,892,857.14
Compass Bank	\$4,892,857.14
PNC Bank, National Association	\$4,892,857.14
Sovereign Bank, N.A.	\$4,892,857.14
Sumitomo Mitsui Banking Corporation	\$4,892,857.14
The Northern Trust Company	\$3,571,428.57
<b>Total</b>	<b>\$300,000,000.00</b>

## JLA L/C Fronting Sublimits Appendix

<b>Issuing Lender</b>	<b>L/C Fronting Sublimit</b>
Wells Fargo Bank, National Association	\$29,166,666.67
Bank of America, N.A.	\$29,166,666.67
The Royal Bank of Scotland plc	\$29,166,666.67
Barclays Bank PLC	\$20,833,333.33
The Bank of Nova Scotia	\$20,833,333.33
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$20,833,333.33
<b>Total</b>	<b>\$150,000,000.00</b>

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## Form of Notice of Borrowing

Wells Fargo Bank, National Association,  
 as Administrative Agent  
 1525 W WT Harris Boulevard  
 Charlotte, NC 28262  
 Attention: Syndication Agency Services

Ladies and Gentlemen:

This notice shall constitute a "Notice of Borrowing" pursuant to Section 2.03 of the \$300,000,000 Amended and Restated Revolving Credit Agreement and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The date of the Borrowing will be \_\_\_\_\_, \_\_\_\_\_.<sup>1</sup>
2. The aggregate principal amount of the Borrowing will be \_\_\_\_\_.<sup>2</sup>
3. The Borrowing will consist of [Revolving] [Swingline] Loans.
4. The Borrowing will consist of [Base Rate] [Euro-Dollar] Loans.<sup>3</sup>
5. The initial Interest Period for the Loans comprising such Borrowing shall be \_\_\_\_\_.<sup>4</sup>

[Insert appropriate delivery instructions, which shall include bank and account number ].

<sup>1</sup> Must be a Business Day.

<sup>2</sup> Revolving Borrowings must be an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000, except the Borrowing may be in the aggregate amount of the remaining unused Revolving Commitment. Swingline Borrowings must be an aggregate principal amount of \$2,000,000 or any larger integral multiple of \$500,000

<sup>3</sup> Applicable for Revolving Loans only.

<sup>4</sup> Applicable for Euro-Dollar Loans only. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of "Interest Period").

PPL ELECTRIC UTILITIES CORPORATION

By:

Name:

Title:

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## Form of Notice of Conversion/Continuation

Wells Fargo Bank, National Association,  
 as Administrative Agent  
 1525 W WT Harris Boulevard  
 Charlotte, NC 28262  
 Attention: Syndication Agency Services

Ladies and Gentlemen:

This notice shall constitute a "Notice of Conversion/Continuation" pursuant to Section 2.06(d)(ii) of the \$300,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among PPL Electric Utilities Corporation, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The Group of Loans (or portion thereof) to which this notice applies is [all or a portion of all Base Rate Loans currently outstanding] [all or a portion of all Euro-Dollar Loans currently outstanding having an Interest Period of \_\_\_ months and ending on the Election Date specified below ].

2. The date on which the conversion/continuation selected hereby is to be effective is \_\_\_\_\_, \_\_\_\_\_ (the "Election Date").<sup>5</sup>

3. The principal amount of the Group of Loans (or portion thereof) to which this notice applies is \$ \_\_\_\_\_.<sup>6</sup>

4. [The Group of Loans (or portion thereof) which are to be converted will bear interest based upon the [Base Rate] [Adjusted London Interbank Offered Rate].] [The Group of Loans (or portion thereof) which are to be continued will bear interest based upon the [Base Rate][Adjusted London Interbank Offered Rate].]

5. The Interest Period for such Loans will be \_\_\_\_\_.<sup>7</sup>

<sup>5</sup> Must be a Business Day.

<sup>6</sup> May apply to a portion of the aggregate principal amount of the relevant Group of Loans; provided that (i) such portion is allocated ratably among the Loans comprising such Group and (ii) the portion to which such notice applies, and the remaining portion to which it does not apply, are each \$10,000,000 or any larger integral multiple of \$1,000,000.

<sup>7</sup> Applicable only in the case of a conversion to, or a continuation of, Euro-Dollar Loans. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of Interest Period).

PPL ELECTRIC UTILITIES CORPORATION

By:  
Name:  
Title:

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## Form of Notice of Conversion/Continuation

[Insert details of Issuing Lender]

Ladies and Gentlemen:

This notice shall constitute a "Letter of Credit Request" pursuant to Section 3.03 of the \$300,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among PPL Electric Utilities Corporation, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

The undersigned hereby requests that \_\_\_\_\_<sup>8</sup> issue a Standby Letter of Credit on \_\_\_\_\_, \_\_\_\_\_<sup>9</sup> in the aggregate amount of \$ \_\_\_\_\_. [This request is to extend a Letter of Credit previously issued under the Credit Agreement; Letter of Credit No. \_\_\_\_\_.]

The beneficiary of the requested Standby Letter of Credit will be \_\_\_\_\_<sup>10</sup>, and such Standby Letter of Credit will be in support of \_\_\_\_\_<sup>11</sup> and will have a stated termination date of \_\_\_\_\_<sup>12</sup>.

Copies of all documentation with respect to the supported transaction are attached hereto.

<sup>8</sup> Insert name of Issuing Lender.

<sup>9</sup> Must be a Business Day.

<sup>10</sup> Insert name and address of beneficiary.

<sup>11</sup> Insert a description of the obligations, the name of each agreement and/or a description of the commercial transaction to which this Letter of Credit Request relates.

<sup>12</sup> Insert the last date upon which drafts may be presented (which may not be later than one year after the date of issuance specified above or beyond the fifth Business Day prior to the Termination Date).

PPL ELECTRIC UTILITIES CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

APPROVED:

[ISSUING LENDER]

By: \_\_\_\_\_  
Name:  
Title:

## Form of Note

FOR VALUE RECEIVED, the undersigned, PPL ELECTRIC UTILITIES CORPORATION, a Pennsylvania corporation (the "Borrower"), promises to pay to the order of \_\_\_\_\_ (hereinafter, together with its successors and assigns, called the "Holder"), at the Administrative Agent's Office or such other place as the Holder may designate in writing to the Borrower, the principal sum of \_\_\_\_\_ AND \_\_\_\_\_/100s DOLLARS (\$ \_\_\_\_\_), or, if less, the principal amount of all Loans advanced by the Holder to the Borrower pursuant to the Credit Agreement (as defined below), plus interest as hereinafter provided. Such Loans may be endorsed from time to time on the grid attached hereto, but the failure to make such notations shall not affect the validity of the Borrower's obligation to repay unpaid principal and interest hereunder.

All capitalized terms used herein shall have the meanings ascribed to them in that certain \$300,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (as the same may be amended, modified or supplemented from time to time, the "Credit Agreement") by and among the Borrower, the lenders party thereto (collectively, the "Lenders") and Wells Fargo Bank, National Association, as administrative agent (the "Administrative Agent") for itself and on behalf of the Lenders and the Issuing Lenders, except to the extent such capitalized terms are otherwise defined or limited herein.

The Borrower shall repay principal outstanding hereunder from time to time, as necessary, in order to comply with the Credit Agreement. All amounts paid by the Borrower shall be applied to the Obligations in such order of application as provided in the Credit Agreement.

A final payment of all principal amounts and other Obligations then outstanding hereunder shall be due and payable on the maturity date provided in the Credit Agreement, or such earlier date as payment of the Loans shall be due, whether by acceleration or otherwise.

The Borrower shall be entitled to borrow, repay, reborrow, continue and convert the Holder's Loans (or portion thereof) hereunder pursuant to the terms and conditions of the Credit Agreement. Prepayment of the principal amount of any Loan may be made as provided in the Credit Agreement.

The Borrower hereby promises to pay interest on the unpaid principal amount hereof as provided in Article II of the Credit Agreement. Interest under this Note shall also be due and payable when this Note shall become due (whether at maturity, by reason of acceleration or otherwise). Overdue principal and, to the extent permitted by law, overdue interest, shall bear interest payable on DEMAND at the default rate as provided in the Credit Agreement.

In no event shall the amount of interest due or payable hereunder exceed the maximum rate of interest allowed by applicable law, and in the event any such payment is inadvertently made by the Borrower or inadvertently received by the Holder, then such excess sum shall be credited as a payment of principal, unless the Borrower shall notify the Holder in writing that it elects to have such excess sum returned forthwith. It is the express intent hereof that the Borrower not pay and the Holder not receive, directly or indirectly in any manner whatsoever, interest in excess of that which may legally be paid by the Borrower under applicable law.

All parties now or hereafter liable with respect to this Note, whether the Borrower, any guarantor, endorser or any other Person or entity, hereby waive presentment for payment, demand, notice of non-payment or dishonor, protest and notice of protest.

No delay or omission on the part of the Holder or any holder hereof in exercising its rights under this Note, or delay or omission on the part of the Holder, the Administrative Agent or the Lenders collectively, or any of them, in exercising its or their rights under the Credit Agreement or under any other Loan Document, or course of conduct relating thereto, shall operate as a waiver of such rights or any other right of the Holder or any holder hereof, nor shall any waiver by the Holder, the Administrative Agent, the Required Lenders or the Lenders collectively, or any of them, or any holder hereof, of any such right or rights on any one occasion be deemed a bar to, or waiver of, the same right or rights on any future occasion.

The Borrower promises to pay all reasonable costs of collection, including reasonable attorneys' fees, should this Note be collected by or through an attorney-at-law or under advice therefrom.

This Note evidences the Holder's Loans (or portion thereof) under, and is entitled to the benefits and subject to the terms of, the Credit Agreement, which contains provisions with respect to the acceleration of the maturity of this Note upon the happening of certain stated events, and provisions for prepayment.

This Note shall be governed by and construed in accordance with the internal laws of the State of New York.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned has caused this Note to be executed by its duly authorized representative as of the day and year first above written.

PPL ELECTRIC UTILITIES CORPORATION

By:  
Name:  
Title:

\_\_\_\_\_

:

\_\_\_\_\_

LOANS AND PAYMENTS OF PRINCIPAL

Date	Amount of Loan	Type	Amount of Principal Repaid	Notation Made By

*The information contained herein may not be copied, adapted or distributed and is not warranted to be accurate, complete or timely. The user assumes all risks for any damages or losses arising from any use of this information, except to the extent such damages or losses cannot be limited or excluded by applicable law. Past financial performance is no guarantee of future results.*

### Form of Assignment and Assumption Agreement

This Assignment and Assumption (the "Assignment and Assumption") is dated as of the Effective Date set forth below and is entered into by and between [the] [each]<sup>13</sup> Assignor identified on the Schedules hereto as "Assignor" [or "Assignors" (collectively, the "Assignors" and each an "Assignor") and [the] [each]<sup>14</sup> Assignee identified on the Schedules hereto as "Assignee" or "Assignees" (collectively, the "Assignees" and each an "Assignee"). [It is understood and agreed that the rights and obligations of [the Assignors] [the Assignees]<sup>15</sup> hereunder are several and not joint.]<sup>16</sup> Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the "Credit Agreement"), receipt of a copy of which is hereby acknowledged by [the] [each] Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, [the] [each] Assignor hereby irrevocably sells and assigns to [the Assignee] [the respective Assignees], and [the] [each] Assignee hereby irrevocably purchases and assumes from [the Assignor] [the respective Assignors], subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (a) all of [the Assignor's] [the respective Assignors'] rights and obligations in [its capacity as a Lender] [their respective capacities as Lenders] under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of [the Assignor] [the respective Assignors] under the respective facilities identified below (including without limitation any letters of credit, guarantees, and swingline loans included in such facilities) and (b) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of [the Assignor (in its capacity as a Lender)] [the respective Assignors (in their respective capacities as Lenders)] against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (a) above (the rights and obligations sold and assigned by [the] [any] Assignor to [the] [any] Assignee pursuant to clauses (a) and (b) above being referred to herein collectively as, the "Assigned Interest"). Each such sale and assignment is without recourse to [the] [any] Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by [the] [any] Assignor.

1. Assignor: *See Schedule attached hereto*
2. Assignee: *See Schedule attached hereto*
3. Borrower: PPL Electric Utilities Corporation
4. Administrative Agent: Wells Fargo Bank, National Association, as the administrative agent under the Credit Agreement
5. Credit Agreement: The \$300,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 by and among PPL Electric Utilities Corporation, as Borrower, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent (as amended, restated, supplemented or otherwise modified)
6. Assigned Interest: *See Schedule attached hereto*
7. Trade Date: \_\_\_\_\_<sup>17</sup>

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

<sup>13</sup> For bracketed language here and elsewhere in this form relating to the Assignor(s), if the assignment is from a single Assignor, choose the first bracketed language. If the assignment is from multiple Assignors, choose the second bracketed language.

<sup>14</sup> For bracketed language here and elsewhere in this form relating to the Assignee(s), if the assignment is to a single Assignee, choose the first bracketed language. If the assignment is to multiple Assignees, choose the second bracketed language.

<sup>15</sup> Select as appropriate.

<sup>16</sup> Include bracketed language if there are either multiple Assignors or multiple Assignees.

<sup>17</sup> To be completed if the Assignor(s) and the Assignee(s) intend that the minimum assignment amount is to be determined as of the Trade Date.

Effective Date: \_\_\_\_\_, 20\_\_\_\_

[TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR

[NAME OF ASSIGNOR]

By: \_\_\_\_\_  
Title:

ASSIGNEE

*See Schedule attached hereto*

---

[Consented to and]<sup>18</sup> Accepted:

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Administrative Agent, [Issuing Lender] and Swingline Lender

By: \_\_\_\_\_  
Title:

[Consented to:]<sup>19</sup>

PPL ELECTRIC UTILITIES CORPORATION

By: \_\_\_\_\_  
Title:

[Consented to]:

[Issuing Lender]<sup>20</sup>,  
as Issuing Lender

By: \_\_\_\_\_  
Title:

[Consented to]:

[JOINT LEAD ARRANGERS]<sup>21</sup>

WELLS FARGO BANK, N.A.

By: \_\_\_\_\_  
Title:

BANK OF AMERICA, N.A.

By: \_\_\_\_\_  
Title:

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<sup>18</sup> To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.

<sup>19</sup> To be added only if the consent of the Borrower is required by the terms of the Credit Agreement.

<sup>20</sup> Add all Issuing Lender signature blocks.

<sup>21</sup> To be added if assignment is made before Effective Date

SCHEDULE

To Assignment and Assumption

By its execution of this Schedule, the Assignee(s) agree(s) to the terms set forth in the attached Assignment and Assumption.

**Assigned Interests:**

Aggregate Amount of Commitment/ Loans for all Lenders <sup>22</sup>	Amount of Commitment/ Loans Assigned <sup>23</sup>	Percentage Assigned of Commitment/ Loans <sup>24</sup>	CUSIP Number
\$	\$	%	

[NAME OF ASSIGNEE]<sup>25</sup>

[and is an Affiliate of [ *identify Lender*]]<sup>26</sup>

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<sup>22</sup> Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

<sup>23</sup> Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

<sup>24</sup> Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

<sup>25</sup> Add additional signature blocks, as needed.

<sup>26</sup> Select as applicable.

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ANNEX 1 to Assignment and Assumption

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT DATED AS OF  
NOVEMBER 6, 2012  
BY AND AMONG  
PPL ELECTRIC UTILITIES CORPORATION, AS BORROWER,  
THE LENDERS PARTY THERETO  
AND WELLS FARGO BANK, NATIONAL ASSOCIATION,  
AS ADMINISTRATIVE AGENT  
STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1 Assignor. [The] [Each] Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of [the] [the relevant] Assigned Interest, (ii) [the] [such] Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. [The] [Each] Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the] [the relevant] Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, [the] [any] Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations that by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts that have accrued to but excluding the Effective Date and to the Assignee for amounts that have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by and construed in accordance with the internal laws of the State of New York.

## Forms of Opinions of Counsel for the Borrower

[Date]

To the Administrative Agent and  
each of the Lenders party to the Revolving  
Credit Agreement referred to below

Re: PPL Electric Utilities Corporation  
\$300,000,000 Amended and Restated Revolving Credit Agreement

Ladies and Gentlemen:

We have acted as special counsel to PPL Electric Utilities Corporation, a Pennsylvania corporation (the "Company"), in connection with the negotiation, execution and delivery of the \$300,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender, and the other Lenders from time to time party thereto (such Revolving Credit Agreement as so amended, the "Agreement"). This letter is being delivered to you at the request of the Company pursuant to Section 4.01(e) of the Agreement.

In preparing this letter, we have reviewed the Agreement[, and the Notes of the Company executed and delivered by the Company on the date hereof (the "Notes"),] and the other documents executed and delivered by the Company in connection with the Agreement. We have also reviewed the Securities Certificates (No. S-2010-2183912 and No. S-2011-2263370) filed by the Company with the Pennsylvania Public Utility Commission ("PUC") in connection with the Agreement, and the Orders of the PUC dated August 18, 2010 and September 22, 2011, registering said Securities Certificates (the "PUC Orders").

Subject to the assumptions, qualifications and other limitations set forth below, it is our opinion that:

1. The Agreement constitutes a valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms.
2. [The Notes constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms.]
3. The Company is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.
4. The borrowings under the Agreement and the use of proceeds thereof as contemplated by the Agreement do not violate Regulation U or X of the Board of Governors of the Federal Reserve System.

In rendering our opinions, we have (a) without independent verification, relied, with respect to factual matters, statements and conclusions, on certificates, notifications and statements, whether written or oral, of governmental officials and individuals identified to us as officers and representatives of the Company and on the representations made by the Company in the Agreement and other documents delivered to you in connection therewith and (b) reviewed originals, or copies of such agreements, documents and records as we have considered relevant and necessary as a basis for our opinions. We note that, as counsel to the Company, we do not represent it generally and there may be facts relating to the Company of which we have no knowledge.

We have assumed (a) the accuracy and completeness of all certificates, agreements, documents, records and other materials submitted to us; (b) the authenticity of original certificates, agreements, documents, records and other materials submitted to us; (c) the conformity with the originals of any copies submitted to us; (d) the genuineness of all signatures; (e) the legal capacity of all natural persons; (f) that the Agreement constitutes the valid, legally binding and enforceable agreement of the parties thereto under all applicable law (other than, in the case of the Company, the law of the State of New York); (g) that the Company (i) is duly organized, validly existing and in good standing under the law of its jurisdiction of organization, (ii) has the power to execute and deliver, and to perform its obligations under, the Agreement [and the Notes], (iii) has duly taken or caused to be taken all necessary action to authorize the execution, delivery and performance by it of the Agreement [and the Notes] and (iv) has duly executed and delivered the Agreement [and the Notes]; (h) that the execution and delivery by the Company of, and the performance by the Company of its obligations under, the Agreement and the Notes does not and will not (i) breach or violate (A) its Amended and Restated Articles of Incorporation or Bylaws, (B) any agreement or instrument to which the Company or any of its affiliates is a party or by which the Company or any of its affiliates or any of their respective properties may be bound, (C) any authorization, consent, approval or license (or the like) of, or exemption (or the like) from, or any registration or filing (or the like) with, or report or notice (or the like) to, any governmental unit, agency, commission, department or other authority granted to or otherwise applicable to the Company or any of its affiliates or any of their respective properties (each a "Governmental Approval"), (D) any order, decision, judgment or decree that may be applicable to the Company or any of its affiliates or any of their respective properties, or (E) any law (other than the law of the State of New York and the federal law of the United States), or (ii) require any Governmental Approval (other than the PUC Orders, which we assume to have been duly granted and to remain in full force and effect); (i) that the Company is engaged only in the businesses described in its Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission; (j) that there are no agreements, understandings or negotiations between the parties not set forth in the Agreement that would modify the terms thereof or the rights and obligations of the parties thereunder; and (k) for purposes of our opinion in paragraph 1 as it relates to the choice-of-law provisions in the Agreement, that the choice of law of the State of New York as the governing law of the Agreement would not result in a violation of an important public policy of another state or country having greater contacts with the transactions contemplated by the agreement than the State of New York.

Our opinions are subject to and limited by the effect of (a) applicable bankruptcy, insolvency, fraudulent conveyance, fraudulent transfer,

receivership, conservatorship, arrangement, moratorium and other similar laws affecting and relating to the rights of creditors generally; (b) general equitable principles; (c) requirements of reasonableness, good faith, fair dealing and materiality; (d) Article 9 of the Uniform Commercial Code regarding restrictions on assignment or transfer of rights; and (e) additionally in the case of (i) indemnities, a requirement that facts, known to the indemnitee but not the indemnitor, in existence at the time the indemnity becomes effective that would entitle the indemnitee to indemnification be disclosed to the indemnitor, and a requirement that an indemnity provision will not be read to impose obligations upon indemnitors which are neither disclosed at the time of its execution nor reasonably within the scope of its terms and overall intention of the parties at the time of its making, (ii) waivers, Sections 9-602 and 9-603 of the Uniform Commercial Code, and (iii) indemnities, waivers and exculpatory provisions, public policy.

We express no opinion with respect to the following sections of the Agreement: (i) Section 9.02 (cumulative remedies), (ii) provisions relating to rules of evidence or quantum of proof, (iii) Section 9.07 (submission to jurisdiction and waiver of inconvenient forum), insofar as such sections relate to federal courts (except as to the personal jurisdiction thereof), and (choice of venue, i.e., requiring actions to be commenced in a particular court in a particular jurisdiction), and (iv) Section 9.11 (waiver of jury trial), insofar as such section is sought to be enforced in a federal court.

We express no opinion as to the law of any jurisdiction other than the law of the State of New York and the federal law of the United States of America, and in each case, only such law that in our experience is normally applicable to transactions of the type contemplated by the Agreement and excluding (i) any law that is part of a regulatory regime applicable to specific assets or businesses of the lenders and (ii) the statutes and ordinances, the administrative decisions, and the rules and regulations of counties, towns, municipalities and special political subdivisions.

This letter speaks only as of the date hereof. We have no responsibility or obligation to update this letter or to take into account changes in law or facts or any other development of which we may later become aware.

This letter is delivered by us as special counsel for the Company solely for your benefit in connection with the transaction referred to herein and may not be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person or entity without our prior written consent.

Very truly yours,

---

[Date]

To the Administrative Agent and  
each of the Lenders party to the  
Credit Agreement referred to below

Re:\$300,000,000 Amended and Restated Revolving Credit Agreement

Ladies and Gentlemen:

I am Senior Counsel of PPL Services Corporation, an affiliate of PPL Electric Utilities Corporation (the "Borrower"), and have acted as counsel to the Borrower in connection with the \$300,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 among the Borrower, Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender and the Lenders party thereto from time to time (the "Agreement"). Capitalized terms used but not defined herein have the meanings assigned to such terms in the Agreement.

I am familiar with the Agreement[, the Notes of the Borrower executed and delivered by the Borrower on the date hereof (the "Notes"),] and other documents executed and delivered by the Borrower in connection with the Agreement. I also have examined such other documents and satisfied myself as to such other matters as I have deemed necessary in order to render this opinion. I have assumed that the Agreement and instruments referred to in this opinion have been duly authorized, executed and delivered by all parties thereto other than the Borrower.

Based on the foregoing, I am of the opinion that:

1. The Borrower is duly incorporated, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania and has the corporate power to make and perform the Agreement [and the Notes].
2. The execution, delivery and performance by the Borrower of the Agreement [and the Notes] have been duly authorized by the Borrower and do not violate any provision of law or regulation, or any decree, order, writ or judgment applicable to the Borrower, or any provision of the Borrower's Amended and Restated Articles of Incorporation or Bylaws, or result in the breach of or constitute a default under any indenture or other agreement or instrument known to me to which the Borrower is a party.
3. [Each of the] [The] Agreement [and the Notes] has been duly executed and delivered by the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with [its] [their] terms, except to the extent limited by (a) bankruptcy, insolvency, reorganization or other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles that may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to indemnification, contribution, waivers and exculpatory provisions.
4. Except as disclosed in or contemplated by the Borrower's Annual Report on Form 10-K for the year ended December 31, 2011, or in other reports filed under the Securities Exchange Act of 1934 from January 1, 2012 to the date hereof, or otherwise furnished in writing to the Administrative Agent, no litigation, arbitration or administrative proceeding or inquiry is pending, or to my knowledge, threatened, which, if determined adversely to the Borrower, would materially and adversely affect the ability of the Borrower to perform any of its obligations under the Agreement [or the Notes]. To my knowledge, there is no litigation, arbitration or administrative proceeding pending or threatened that questions the validity of the Agreement [or the Notes].
5. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System.
6. There have not been any "reportable events," as that term is defined in Section 4043 of the Employee Retirement Income Security Act of 1974, as amended, which would result in a material liability of the Borrower.
7. The [ ] Order of the Pennsylvania Public Utility Commission (the "PUC") relating to the Agreement is in full force and effect, and no further authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance of the Agreement by the Borrower or for the borrowings by the Borrower thereunder, except such authorizations, consents and approvals as have been obtained prior to the date hereof, which authorizations, consents and approvals are in full force and effect.

This opinion is limited to the laws of the Commonwealth of Pennsylvania, the State of New York and the federal laws of the United States of America.

In rendering its opinion to the addressee hereof, Pillsbury Winthrop Shaw Pittman LLP may rely as to matters of Pennsylvania law addressed herein upon this letter as if it were addressed directly to them. Except as aforesaid, without my prior written consent, this opinion may not be furnished or quoted to, or relied upon by, any other person or entity for any purpose.

Very truly yours,

Frederick C. Paine



**\$3,000,000,000**

**AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT**

**dated as of November 6, 2012**

**among**

**PPL ENERGY SUPPLY, LLC ,**

**THE LENDERS FROM TIME TO TIME PARTY HERETO,**

**and**

**WELLS FARGO BANK, NATIONAL ASSOCIATION,**

**as Administrative Agent, Issuing Lender and Swingline Lender**

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**WELLS FARGO SECURITIES, LLC,**

**MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED,**

**RBS SECURITIES INC.,**

**BARCLAYS BANK PLC,**

**THE BANK OF NOVA SCOTIA,**

**and**

**MITSUBISHI UFJ FINANCIAL GROUP, INC.,**

**Joint Lead Arrangers and Joint Bookrunners**

**BANK OF AMERICA, N.A.**

**and**

**THE ROYAL BANK OF SCOTLAND PLC,**

**Syndication Agents**

**BARCLAYS BANK PLC,**

**THE BANK OF NOVA SCOTIA**

**and**

**MITSUBISHI UFJ FINANCIAL GROUP, INC.,**

**Documentation Agents**

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### Exhibits:

- Exhibit A-1 - Form of Notice of Borrowing
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  - Exhibit C - Form of Assignment and Assumption Agreement
  - Exhibit D - Forms of Opinion of Counsel for the Borrower
  - Exhibit E - Form of Notice of Revolving Increase
-

**AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT** (this "Agreement") dated as of November 6, 2012 is entered into among PPL ENERGY SUPPLY, LLC, a Delaware limited liability company (the "Borrower"), the LENDERS party hereto from time to time and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent. The parties hereto agree as follows:

## RECITALS

WHEREAS, the Borrower is party to that certain \$3,000,000,000 Revolving Credit Agreement dated as of October 19, 2010 among the Borrower, the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent, as amended, modified, restated and supplemented from time to time (the "Existing Credit Agreement"); and

WHEREAS, the Borrower has requested that the Administrative Agent and the Lenders amend and restate the Existing Credit Agreement to, among other things, extend the maturity date, and the Administrative Agent and the Lenders have agreed to such amendment and restatement on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree that the Existing Credit Agreement is hereby amended and restated in its entirety, and do further agree as follows:

## ARTICLE I DEFINITIONS

Section 1.01. Definitions. All capitalized terms used in this Agreement or in any Appendix, Schedule or Exhibit hereto which are not otherwise defined herein or therein shall have the respective meanings set forth below.

"Additional Letter of Credit" means any standby letter of credit issued under this Agreement by an Issuing Lender on or after the Effective Date.

"Adjusted London Interbank Offered Rate" means, for any Interest Period, a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the nearest 1/100th of 1%) by dividing (i) the London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

"Administrative Agent" means Wells Fargo Bank, in its capacity as administrative agent for the Lenders hereunder and under the other Loan Documents, and its successor or successors in such capacity.

"Administrative Questionnaire" means, with respect to each Lender, an administrative questionnaire in the form provided by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Lender.

"Affiliate" means, with respect to any Person, any other Person who is directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise.

"Agent" means the Administrative Agent, the Syndication Agents, the Joint Lead Arrangers, the Documentation Agents or each Person that shall become a joint lead arranger pursuant to the terms of the Commitment Letters and "Agents" means all of the foregoing.

"Agreement" has the meaning set forth in the introductory paragraph hereto, as this Agreement may be amended, restated, supplemented or modified from time to time.

"Amendment Fee" has the meaning set forth in Section 4.01(j).

"Applicable Lending Office" means, with respect to any Lender, (i) in the case of its Base Rate Loans, its Base Rate Lending Office and (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office.

"Applicable Percentage" means, for purposes of calculating (i) the applicable interest rate for any day for any Base Rate Loans or Euro-Dollar Loans, (ii) the applicable rate for the Commitment Fee for any day for purposes of Section 2.07(a) or (iii) the applicable rate for the Letter of Credit Fee for any day for purposes of Section 2.07(b), the appropriate applicable percentage set forth

below corresponding to the then current highest Borrower's Ratings; provided, that, in the event that the Borrower's Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

	Borrower's Ratings (S&P/Moody's)	Applicable Percentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
Category A	≥ A from S&P / A2 from Moody's	0.100%	0.000%	1.000%
Category B	≥ A- from S&P / A3 from Moody's	0.125%	0.125%	1.125%
Category C	BBB+ from S&P / Baa1 from Moody's	0.175%	0.250%	1.250%
Category D	BBB from S&P / Baa2 from Moody's	0.200%	0.500%	1.500%
Category E	BBB- from S&P / Baa3 from Moody's	0.250%	0.625%	1.625%
Category F	≤BB+ from S&P / Ba1 from Moody's	0.350%	0.875%	1.875%

"Asset Sale" shall mean any sale of any assets, including by way of the sale by the Borrower or any of its Subsidiaries of equity interests in such Subsidiaries.

"Assignee" has the meaning set forth in Section 9.06(c).

"

of attached Exhibit C, under which an interest of a Lender hereunder is transferred to an Eligible Assignee pursuant to Section 9.06(c).

"Availability Period" means the period from and including the Effective Date to but excluding the Termination Date.

"Bankruptcy Code" means the Bankruptcy Reform Act of 1978, as amended, or any successor statute.

"Base Rate" means for any day a rate per annum equal to the highest of (i) the Prime Rate for such day, (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day and (iii) except during any period of time during which a notice delivered to the Borrower under Section 2.14 or Section 2.15 shall remain in effect, the London Interbank Offered Rate plus 1%.

"Base Rate Borrowing" means a Borrowing comprised of Base Rate Loans.

"Base Rate Lending Office" means, as to each Lender, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Base Rate Lending Office) or such other office as such Lender may hereafter designate as its Base Rate Lending Office by notice to the Borrower and the Administrative Agent.

"Base Rate Loan" means (a) a Loan (other than a Swingline Loan) in respect of which interest is computed on the basis of the Base Rate and (b) a Swingline Loan in respect of which interest is computed on the basis of the LIBOR Market Index Rate.

"Borrower" has the meaning set forth in the introductory paragraph hereto.

"Borrower's Rating" means the senior unsecured long-term debt rating of the Borrower from S&P or Moody's.

"Borrowing" means a group of Loans of a single Type made by the Lenders on a single date and, in the case of a Euro-Dollar Borrowing, having a single Interest Period.

"Business Day" means any day except a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or New York, New York are authorized by law to close; provided, that, when used in Article III with respect to any action taken by or with respect to any Issuing Lender, the term "Business Day" shall not include any day on which commercial banks are authorized by law to close in the jurisdiction where the office at which such Issuing Lender books any Letter of Credit is located; and provided, further, that when used with respect to any borrowing of, payment or prepayment of principal of or interest on, or the Interest Period for, a Euro-Dollar Loan, or a notice by the Borrower with respect to any such borrowing payment, prepayment or Interest Period, the term "Business Day" shall also mean that such day is a London Business Day.

**“Capital Lease”** means any lease of property which, in accordance with GAAP, should be capitalized on the lessee’s balance sheet.

**“Capital Lease Obligations”** means, with respect to any Person, all obligations of such Person as lessee under Capital Leases, in each case taken at the amount thereof accounted for as liabilities in accordance with GAAP.

**“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 Borrower.

**“Commitment”** means, with respect to any Lender, the commitment of such Lender to (i) make Loans under this Agreement, (ii) refund or purchase participations in Swingline Loans pursuant to Section 2.02 and (iii) purchase participations in Letters of Credit pursuant to Article III hereof, as set forth in the Commitment Appendix and as such Commitment may be reduced from time to time pursuant to Section 2.08 or Section 9.06(c) or increased from time to time pursuant to Section 2.19 or Section 9.06(c).

**“Commitment Appendix”** means the Appendix attached under this Agreement identified as such.

**“Commitment Fee”** has the meaning set forth in Section 2.07(a).

**“Commitment Letters”** means that certain (i) commitment letter dated as of September 24, 2012 among Wells Fargo Securities, Wells Fargo Bank, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc. and The Royal Bank of Scotland plc and (ii) that certain commitment letter dated as of October 2, 2012 among Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank, N.A., each commitment letter addressed to and acknowledged and agreed to by the Borrower.

**“Commitment Ratio”** shall mean, with respect to any Lender, the percentage equivalent of the ratio which such Lender’s Commitment bears to the aggregate amount of all Commitments.

**“Consolidated Capitalization”** shall mean the sum of, without duplication, (A) the Consolidated Debt (without giving effect to clause (b) of the definition of “Consolidated Debt”) and (B) the consolidated member’s equity (determined in accordance with GAAP) of the common, preference and preferred equityholders of the Borrower and minority interests recorded on the Borrower’s consolidated financial statements (excluding from member’s equity (i) the effect of all unrealized gains and losses reported under Financial Accounting Standards Board Accounting Standards Codification Topic 815 in connection with (x) forward contracts, futures contracts, options contracts or other derivatives or hedging agreements for the future delivery of electricity, capacity, fuel or other commodities and (y) Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (ii) the balance of accumulated other comprehensive income/loss of the Borrower on any date of determination solely with respect to the effect of any pension and other post-retirement benefit liability adjustment recorded in accordance with GAAP), except that for purposes of calculating Consolidated Capitalization of the Borrower, Consolidated Debt of the Borrower shall exclude Non-Recourse Debt and Consolidated Capitalization of the Borrower shall exclude that portion of member’s equity attributable to assets securing Non-Recourse Debt.

**“Consolidated Debt”** means the consolidated Debt of the Borrower and its Consolidated Subsidiaries (determined in accordance with GAAP), except that for purposes of this definition (a) Consolidated Debt shall exclude Non-Recourse Debt of the Borrower and its Consolidated Subsidiaries, and (b) Consolidated Debt shall exclude (i) Hybrid Securities of the Borrower and its Consolidated Subsidiaries in an aggregate amount as shall not exceed 15% of Consolidated Capitalization and (ii) Equity-Linked Securities in an aggregate amount as shall not exceed 15% of Consolidated Capitalization.

**“Consolidated Subsidiary”** means with respect to any Person at any date any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date in accordance with GAAP.

**“Continuing Lender”** means with respect to any event described in Section 2.08(b), a Lender which is not a Retiring Lender, and “Continuing Lenders” means any two or more of such Continuing Lenders.

**“Corporation”** means a corporation, association, company, joint stock company, limited liability company, partnership or business trust.

**“Credit Event”** means a Borrowing or the issuance, renewal or extension of a Letter of Credit.

**“Debt”** of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all

obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all Guarantees by such Person of Debt of others, (iv) all Capital Lease Obligations and Synthetic Leases of such Person, (v) all obligations of such Person in respect of Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the net amount that would be payable upon the acceleration, termination or liquidation thereof), but only to the extent that such net obligations exceed \$75,000,000 in the aggregate and (vi) all obligations of such Person as an account party in respect of letters of credit and bankers' acceptances; provided, however, that "Debt" of such Person does not include (a) obligations of such Person under any installment sale, conditional sale or title retention agreement or any other agreement relating to obligations for the deferred purchase price of property or services, (b) obligations under agreements relating to the purchase and sale of any commodity, including any power sale or purchase agreements, any commodity hedge or derivative (regardless of whether any such transaction is a "financial" or physical transaction), (c) any trade obligations or other obligations of such Person incurred in the ordinary course of business or (d) obligations of such Person under any lease agreement (including any lease intended as security) that is not a Capital Lease or a Synthetic Lease.

"Default" means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"Defaulting Lender" means at any time any Lender with respect to which a Lender Default is in effect at such time.

"Documentation Agents" means Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank N.A., each in its capacity as a documentation agent in respect of this Agreement.

"Dollars" and the sign "\$" means lawful money of the United States of America.

"Effective Date" means the date on which the Administrative Agent determines that the conditions specified in or pursuant to Section 4.01 have been satisfied.

"Eligible Assignee" means (i) a Lender; (ii) a commercial bank organized under the laws of the United States and having a combined capital and surplus of at least \$100,000,000; (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country, and having a combined capital and surplus of at least \$100,000,000; provided, that such bank is acting through a branch or agency located and licensed in the United States; or (iv) an Affiliate of a Lender that is an "accredited investor" (as defined in Regulation D under the Securities Act of 1933, as amended); provided, that, in each case (a) upon and following the occurrence of an Event of Default, an Eligible Assignee shall mean any Person other than the Borrower or any of its Affiliates and (b) notwithstanding the foregoing, "Eligible Assignee" shall not include the Borrower or any of its Affiliates.

"Environmental Laws" means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses or other written governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes.

"Environmental Liabilities" means all liabilities (including anticipated compliance costs) in connection with or relating to the business, assets, presently or previously owned, leased or operated property, activities (including, without limitation, off-site disposal) or operations of the Borrower or any of its Subsidiaries which arise under Environmental Laws.

"Equity-Linked Securities" means any securities of the Borrower or any of its Subsidiaries which are convertible into, or exchangeable for, equity securities of the Borrower, such Subsidiary or PPL Corporation, including any securities issued by any of such Persons which are pledged to secure any obligation of any holder to purchase equity securities of the Borrower, any of its Subsidiaries or PPL Corporation.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

"ERISA Group" means the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code.

"Euro-Dollar Borrowing" means a Borrowing comprised of Euro-Dollar Loans.

“Euro-Dollar Lending Office” means, as to each Lender, its office, branch or Affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Dollar Lending Office) or such other office, branch or Affiliate of such Lender as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrower and the Administrative Agent.

“Euro-Dollar Loan” means a Loan in respect of which interest is computed on the basis of the Adjusted London Interbank Offered Rate pursuant to the applicable Notice of Borrowing or Notice of Conversion/Continuation.

“Euro-Dollar Reserve Percentage” of any Lender for the Interest Period of any LIBOR Rate Loan means the reserve percentage applicable to such Lender during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) then applicable to such Lender with respect to liabilities or assets consisting of or including “Eurocurrency Liabilities” (as defined in Regulation D). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

“Event of Default” has the meaning set forth in Section 7.01.

“Existing Credit Agreement” has the meaning set forth in the recitals hereto.

“Existing Debt” means the Debt outstanding on the Effective Date and listed on Schedule 6.12 hereto.

“Existing Letters of Credit” means, collectively the standby letters of credit issued before the Effective Date pursuant to the Existing Credit Agreement.

“Extending Lenders” has the meaning set forth in Section 9.15 hereto.

“FATCA” means Sections 1471 through 1474 of the Internal Revenue Code and any regulations (whether final, temporary or proposed) that are issued thereunder or official government interpretations thereof and any agreements entered into pursuant to Section 1471(b) of the Code.

“Federal Funds Rate” means for any day the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average of quotations for such day on such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by the Administrative Agent.

“Fee Letter” means the fee letter dated as of September 24, 2012 among the Borrower, Wells Fargo Securities, Wells Fargo Bank, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc. and The Royal Bank of Scotland plc as amended, modified or supplemented from time to time.

“Foreign Subsidiary” means a Subsidiary which is not formed under the laws of the United States or any territory thereof.

“Fronting Fee” has the meaning set forth in Section 2.07(b).

“Fronting Sublimit” means, (a) for each JLA Issuing Bank, the amount of such JLA Issuing Bank’s commitment to issue and honor payment obligations under Letters of Credit, as set forth on the JLA L/C Fronting Sublimits Appendix hereto and (b) with respect to any other Issuing Lender, an amount as agreed between the Borrower and such Issuing Lender.

“GAAP” means United States generally accepted accounting principles applied on a consistent basis.

“Governmental Authority” means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity and any arbitrator with authority to bind a party at law.

“Group of Loans” means at any time a group of Revolving Loans consisting of (i) all Revolving Loans which are Base Rate Loans at such time or (ii) all Revolving Loans which are Euro-Dollar Loans of the same Type having the same Interest Period at such time; provided, that, if a Loan of any particular Lender is converted to or made as a Base Rate Loan pursuant to Sections 2.15 or

2.18, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been in if it had not been so converted or made.

**“Guarantee”** of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for payment of such Debt, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt; provided, however, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

**“Hazardous Substances”** means any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

**“Hybrid Securities”** means any trust preferred securities, or deferrable interest subordinated debt with a maturity of at least 20 years issued by the Borrower, or any business trusts, limited liability companies, limited partnerships (or similar entities) (i) all of the common equity, general partner or similar interests of which are owned (either directly or indirectly through one or more Wholly Owned Subsidiaries) at all times by the Borrower or any of its Subsidiaries, (ii) that have been formed for the purpose of issuing hybrid preferred securities and (iii) substantially all the assets of which consist of (A) subordinated debt of the Borrower or a Subsidiary of the Borrower, as the case may be, and (B) payments made from time to time on the subordinated debt.

**“Indemnitee”** has the meaning set forth in Section 9.03(b).

**“Interest Period”** means with respect to each Euro-Dollar Loan, a period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of Conversion/Continuation and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable notice; provided, that:

(i) any Interest Period which would otherwise end on a day which is not a Business Day shall, subject to clauses (iii) and (iv) below, be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Business Day of a calendar month; and

(iii) no Interest Period shall end after the Termination Date.

**“Interest Rate Protection Agreements”** means any agreement providing for an interest rate swap, cap or collar, or any other financial agreement designed to protect against fluctuations in interest rates.

**“Internal Revenue Code”** means the Internal Revenue Code of 1986, as amended, or any successor statute.

**“Issuing Lender”** means (i) each JLA Issuing Bank, each in its capacity as an issuer of Letters of Credit under Section 3.02, and each of their respective successor or successors in such capacity, (ii) any other Lender approved as an “Issuing Lender” pursuant to Section 3.01, and (iii) each issuer of an Existing Letter of Credit, subject in each case to the Fronting Sublimit.

**“Joint Lead Arrangers”** means Wells Fargo Securities, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank, N.A., each in their capacity as joint lead arranger and joint bookrunner in respect of this Agreement.

**“JLA Issuing Bank”** means Wells Fargo Bank, Bank of America, N.A., The Royal Bank of Scotland plc, Barclays Bank PLC, The Bank of Nova Scotia, Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and each other Lender (or Affiliate of a Lender) that shall become (or whose Affiliate shall become) a joint lead arranger pursuant to the terms of the Commitment Letters.

**“Lender”** means each bank or other lending institution listed in the Commitment Appendix as having a Commitment, each Eligible Assignee that becomes a Lender pursuant to Section 9.06(c) and their respective successors and shall include, as the context may require, each Issuing Lender and the Swingline Lender in such capacity.

**“Lender Default”** means (i) the failure (which has not been cured) of any Lender to make available any Loan or any reimbursement for a drawing under a Letter of Credit or refunding of a Swingline Loan, in each case, within one Business Day from the date it is obligated to make such amount available under the terms and conditions of this Agreement or (ii) a Lender having notified, in writing, the Administrative Agent and the Borrower that such Lender does not intend to comply with its obligations under Article II following the appointment of a receiver or conservator with respect to such Lender at the direction or request of any regulatory agency or authority.

**“Letter of Credit”** means an Existing Letter of Credit or an Additional Letter of Credit, and **“Letters of Credit”** means any combination of the foregoing.

**“Letter of Credit Fee”** has the meaning set forth in Section 2.07(b).

**“Letter of Credit Liabilities”** means, for any Lender at any time, the product derived by multiplying (i) the sum, without duplication, of (A) the aggregate amount that is (or may thereafter become) available for drawing under all Letters of Credit outstanding at such time plus (B) the aggregate unpaid amount of all Reimbursement Obligations outstanding at such time by (ii) such Lender’s Commitment Ratio.

**“Letter of Credit Request”** has the meaning set forth in Section 3.03.

**“LIBOR Market Index Rate”** means, for any day, the rate for 1 month U.S. dollar deposits as reported on Reuters Screen LIBOR01 as of 11:00 a.m., London time, for such day, provided, if such day is not a London Business Day, the immediately preceding London Business Day (or if not so reported, then as determined by the Swingline Lender from another recognized source or interbank quotation).

**“Lien”** means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance intended to confer or having the effect of conferring upon a creditor a preferential interest.

**“Loan”** means a Base Rate Loan, whether such loan is a Revolving Loan or Swingline Loan, or a Euro-Dollar Loan and **“Loans”** means any combination of the foregoing.

**“Loan Documents”** means this Agreement and the Notes.

**“London Business Day”** means a day on which commercial banks are open for international business (including dealings in Dollar deposits) in London.

**“London Interbank Offered Rate”** means:

(a) for any Euro-Dollar Loan for any Interest Period, the interest rate for deposits in Dollars for a period of time comparable to such Interest Period which appears on Reuters Screen LIBOR01 at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period; provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01, the term **“London Interbank Offered Rate”** means for any Interest Period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Euro-Dollar Loan of Wells Fargo Bank to which such Interest Period is to apply and for a period of time comparable to such Interest Period.

(b) for any interest rate calculation with respect to a Base Rate Loan, the interest rate for deposits in Dollars for a period equal to one month (commencing on the date of determination of such interest rate) which appears on Reuters Screen LIBOR01 at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted); provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01, the term **“London Interbank Offered Rate”** means for any applicable one-month interest period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted) in an amount approximately equal to the principal amount of the Base Rate Loan of Wells Fargo Bank.

**“Lower Mt. Bethel Lease Financing”** means the existing lease financing associated with the Lower Mount Bethel



project.

“Mandatory Letter of Credit Borrowing” has the meaning set forth in Section 3.09.

“Margin Stock” means “margin stock” as such term is defined in Regulation U.

“Material Adverse Effect” means (i) any material adverse effect upon the business, assets, financial condition or operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole; (ii) a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement, the Notes or the other Loan Documents or (iii) a material adverse effect on the validity or enforceability of this Agreement, the Notes or any of the other Loan Documents.

“Material Debt” means Debt (other than the Notes) of the Borrower and/or one or more of its Restricted Subsidiaries in a principal or face amount exceeding \$40,000,000.

“Material Plan” means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000. For the avoidance of doubt, where any two or more Plans, which individually do not have Unfunded Liabilities in excess of \$50,000,000, but collectively have aggregate Unfunded Liabilities in excess of \$50,000,000, all references to Material Plan shall be deemed to apply to such Plans as a group.

“Moody’s” means Moody’s Investors Service, Inc., a Delaware corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Multiemployer Plan” means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

“New Lender” means with respect to any event described in Section 2.08(b), an Eligible Assignee which becomes a Lender hereunder as a result of such event, and “New Lenders” means any two or more of such New Lenders.

“Non-Defaulting Lender” means each Lender other than a Defaulting Lender, and “Non-Defaulting Lenders” means any two or more of such Lenders.

“Non-Recourse Debt” shall mean Debt that is nonrecourse to the Borrower or any Restricted Subsidiary.

“Non-U.S. Lender” has the meaning set forth in Section 2.17(e).

“Note” shall mean a promissory note, substantially in the form of Exhibit B hereto, issued at the request of a Lender evidencing the obligation of the Borrower to repay outstanding Revolving Loans or Swingline Loans, as applicable.

“Notice of Borrowing” has the meaning set forth in Section 2.03.

“Notice of Conversion/Continuation” has the meaning set forth in Section 2.06(d)(ii).

“Obligations” means:

(i) all principal of and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on any Loan, fees payable or Reimbursement Obligation under, or any Note issued pursuant to, this Agreement or any other Loan Document;

(ii) all other amounts now or hereafter payable by the Borrower and all other obligations or liabilities now existing or hereafter arising or incurred (including, without limitation, any amounts which accrue after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on the part of the Borrower pursuant to this Agreement or any other Loan Document;

(iii) all expenses of the Agents as to which such Agents have a right to reimbursement under Section 9.03(a) hereof or under any other similar provision of any other Loan Document; and

(iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 9.03 hereof or under any other similar provision of any other Loan Document;

together in each case with all renewals, modifications, consolidations or extensions thereof.

“OFAC” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“Optional Increase” has the meaning set forth in Section 2.19(a).

“Other Taxes” has the meaning set forth in Section 2.17(b).

“Participant” has the meaning set forth in Section 9.06(b).

“Participant Register” has the meaning set forth in Section 9.06(b).

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Permitted Business” with respect to any Person means a business that is the same or similar to the business of the Borrower or any Subsidiary as of the Effective Date, or any business reasonably related thereto.

“Person” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or an unincorporated association or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Plan” means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

“Prime Rate” means the rate of interest publicly announced by Wells Fargo Bank from time to time as its Prime Rate.

“Quarterly Date” means the last Business Day of each of March, June, September and December.

“Rating Agency” means S&P or Moody’s, and “Rating Agencies” means both of them.

“Register” has the meaning set forth in Section 9.06(e).

“Regulation U” means Regulation U of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Regulation X” means Regulation X of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Reimbursement Obligations” means at any time all obligations of the Borrower to reimburse the Issuing Lenders pursuant to Section 3.07 for amounts paid by the Issuing Lenders in respect of drawings under Letters of Credit, including any portion of any such obligation to which a Lender has become subrogated pursuant to Section 3.09.

“Replacement Date” has the meaning set forth in Section 2.08(b).

“Replacement Lender” has the meaning set forth in Section 2.08(b).

“Required Lenders” means at any time Non-Defaulting Lenders having at least 51% of the aggregate amount of the Commitments of all Non-Defaulting Lenders or, if the Commitments shall have been terminated, having at least 51% of the aggregate amount of the Revolving Outstandings of the Non-Defaulting Lenders at such time.

“Responsible Officer” means, as to any Person, the chief executive officer, president, chief financial officer, controller, treasurer or assistant treasurer of such Person or any other officer of such Person reasonably acceptable to the Administrative Agent. Any document delivered hereunder that is signed by a Responsible Officer of a Person shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Person and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Person.

“Restricted Subsidiary” means each Subsidiary listed on Schedule 5.11 and each other Subsidiary designated by the Borrower as a “Restricted Subsidiary” in writing to the Administrative Agent, in either case, for so long as such Restricted Subsidiary

shall be a direct Wholly Owned Subsidiary of the Borrower or a direct Wholly Owned Subsidiary of a Restricted Subsidiary.

**“Retiring Lender”** means a Lender that ceases to be a Lender hereunder pursuant to the operation of Section 2.08(b).

**“Revolving”** means, when used with respect to (i) a Borrowing, a Borrowing made by the Borrower under Section 2.01, as identified in the Notice of Borrowing with respect thereto, a Borrowing of Revolving Loans to refund outstanding Swingline Loans pursuant to Section 2.02(b)(i), or a Mandatory Letter of Credit Borrowing and (ii) a Loan, a Loan made under Section 2.01; **provided**, that, if any such loan or loans (or portions thereof) are combined or subdivided pursuant to a Notice of Conversion/Continuation, the term **“Revolving Loan”** shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

**“Revolving Outstandings”** means at any time, with respect to any Lender, the sum of (i) the aggregate principal amount of such Lender’s outstanding Revolving Loans plus (ii) the aggregate amount of such Lender’s Swingline Exposure plus (iii) aggregate amount of such Lender’s Letter of Credit Liabilities.

**“Revolving Outstandings Excess”** has the meaning set forth in Section 2.09.

**“Sanctioned Entity”** shall mean (i) an agency of the government of, (ii) an organization directly or indirectly controlled by, or (iii) a Person resident in, a country that is subject to a sanctions program identified on the list maintained by OFAC and available at <http://www.treas.gov/offices/enforcement/ofac/sanctions/index.html>, or as otherwise published from time to time as such program may be applicable to such agency, organization or Person.

**“Sanctioned Person”** shall mean a Person named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at <http://www.treas.gov/offices/enforcement/ofac/sdn/index.html>, or as otherwise published from time to time.

**“SEC”** means the Securities and Exchange Commission.

**“S&P”** means Standard & Poor’s Ratings Group, a division of McGraw Hill, Inc., a New York corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

**“Special Purpose Subsidiary”** means any Wholly Owned Subsidiary (regardless of the form of organization) of the Borrower formed solely for the purpose of, and which engages in no other activities except those necessary for, effecting financings related to Synthetic Leases.

**“Subsidiary”** means any Corporation, a majority of the outstanding Voting Stock of which is owned, directly or indirectly, by the Borrower or one or more other Subsidiaries of the Borrower.

**“Swingline Borrowing”** means a Borrowing made by the Borrower under Section 2.02, as identified in the Notice of Borrowing with respect thereto.

**“Swingline Exposure”** means, for any Lender at any time, the product derived by multiplying (i) the aggregate principal amount of all outstanding Swingline Loans at such time by (ii) such Lender’s Commitment Ratio.

**“Swingline Lender”** means Wells Fargo Bank, in its capacity as Swingline Lender.

**“Swingline Loan”** means any swingline loan made by the Swingline Lender to the Borrower pursuant to Section 2.02.

**“Swingline Sublimit”** means the lesser of (a) \$200,000,000 and (b) the aggregate Commitments of all Lenders.

**“Swingline Termination Date”** means the first to occur of (a) the resignation of Wells Fargo Bank as Administrative Agent in accordance with Section 8.09 and (b) the Termination Date.

**“Syndication Agents”** means Bank of America, N.A. and The Royal Bank of Scotland plc, each in its capacity as a syndication agent in respect of this Agreement.

**“Synthetic Lease”** means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

**“Taxes”** has the meaning set forth in Section 2.17(a).

“Termination Date” means the earliest to occur of (a) November 6, 2017 and (b) such earlier date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.

“Type”, when used in respect of any Loan or Borrowing, shall refer to the rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined.

“Unfunded Liabilities” means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

“United States” means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

“Voting Stock” means stock (or other interests) of a Corporation having ordinary voting power for the election of directors, managers or trustees thereof, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

“Wells Fargo Bank” means Wells Fargo Bank, National Association, and its successors.

“Wells Fargo Securities” means Wells Fargo Securities, LLC, and its successors and assigns.

“Wholly Owned Subsidiary” means, with respect to any Person at any date, any Subsidiary of such Person all of the Voting Stock of which (except directors’ qualifying shares) is at the time directly or indirectly owned by such Person.

## ARTICLE II THE CREDITS

Section 2.01. Commitments to Lend. Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make Revolving Loans to the Borrower pursuant to this Section 2.01 from time to time during the Availability Period in amounts such that its Revolving Outstandings shall not exceed its Commitment; provided, that, immediately after giving effect to each such Revolving Loan, the aggregate principal amount of all outstanding Revolving Loans (after giving effect to any amount requested) shall not exceed the aggregate Commitments less the sum of all outstanding Swingline Loans and Letter of Credit Liabilities. Each Revolving Borrowing (other than Mandatory Letter of Credit Borrowings) shall be in an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000 (except that any such Borrowing may be in the aggregate amount of the unused Commitments) and shall be made from the several Lenders ratably in proportion to their respective Commitments. Within the foregoing limits, the Borrower may borrow under this Section 2.01, repay, or, to the extent permitted by Section 2.10, prepay, Revolving Loans and reborrow under this Section 2.01.

### Section 2.02. Swingline Loans.

(a) Availability. Subject to the terms and conditions of this Agreement, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time from the Effective Date through, but not including, the Swingline Termination Date; provided, that the aggregate principal amount of all outstanding Swingline Loans (after giving effect to any amount requested), shall not exceed the lesser of (i) the aggregate Commitments less the sum of the aggregate principal amount of all outstanding Revolving Loans and all outstanding Letter of Credit Liabilities and (ii) the Swingline Sublimit; and provided further, that the Borrower shall not use the proceeds of any Swingline Loan to refinance any outstanding Swingline Loan. Each Swingline Loan shall be in an aggregate principal amount of \$5,000,000 or any larger integral multiple of \$1,000,000 (except that any such Borrowing may be in the aggregate amount of the unused Swingline Sublimit). Within the foregoing limits, the Borrower may borrow, repay and reborrow Swingline Loans, in each case under this Section 2.02. Each Swingline Loan shall be a Base Rate Loan.

### (b) Refunding.

(i) Swingline Loans shall be refunded by the Lenders on demand by the Swingline Lender. Such refundings shall be made by the Lenders in accordance with their respective Commitment Ratios and shall thereafter be reflected as Revolving Loans of the Lenders on the books and records of the Administrative Agent. Each Lender shall fund its respective Commitment Ratio of Revolving Loans as required to repay Swingline Loans outstanding to the Swingline Lender upon demand by the Swingline Lender but in no event later than 1:00 P.M. (Charlotte, North Carolina time) on the next

succeeding Business Day after such demand is made. No Lender's obligation to fund its respective Commitment Ratio of a Swingline Loan shall be affected by any other Lender's failure to fund its Commitment Ratio of a Swingline Loan, nor shall any Lender's Commitment Ratio be increased as a result of any such failure of any other Lender to fund its Commitment Ratio of a Swingline Loan.

(ii) The Borrower shall pay to the Swingline Lender on demand, and in no case more than fourteen (14) days after the date that such Swingline Loan is made, the amount of such Swingline Loan to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. In addition, the Borrower hereby authorizes the Administrative Agent to charge any account maintained by the Borrower with the Swingline Lender (up to the amount available therein) in order to immediately pay the Swingline Lender the amount of such Swingline Loans to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. If any portion of any such amount paid to the Swingline Lender shall be recovered by or on behalf of the Borrower from the Swingline Lender in bankruptcy or otherwise, the loss of the amount so recovered shall be ratably shared among all the Lenders in accordance with their respective Commitment Ratios (unless the amounts so recovered by or on behalf of the Borrower pertain to a Swingline Loan extended after the occurrence and during the continuance of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable).

(iii) Each Lender acknowledges and agrees that its obligation to refund Swingline Loans (other than Swingline Loans extended after the occurrence and during the continuation of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable) in accordance with the terms of this Section is absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, non-satisfaction of the conditions set forth in Article IV. Further, each Lender agrees and acknowledges that if prior to the refunding of any outstanding Swingline Loans pursuant to this Section, one of the events described in Section 7.01(h) or (i) shall have occurred, each Lender will, on the date the applicable Revolving Loan would have been made, purchase an undivided participating interest in the Swingline Loan to be refunded in an amount equal to its Commitment Ratio of the aggregate amount of such Swingline Loan. Each Lender will immediately transfer to the Swingline Lender, in immediately available funds, the amount of its participation and upon receipt thereof the Swingline Lender will deliver to such Lender a certificate evidencing such participation dated the date of receipt of such funds and for such amount. Whenever, at any time after the Swingline Lender has received from any Lender such Lender's participating interest in a Swingline Loan, the Swingline Lender receives any payment on account thereof, the Swingline Lender will distribute to such Lender its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded).

Section 2.03. Notice of Borrowings. The Borrower shall give the Administrative Agent notice substantially in the form of Exhibit A-1 hereto (a "Notice of Borrowing") not later than (a) 11:30 A.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the third Business Day before each Euro-Dollar Borrowing, specifying:

- (i) the date of such Borrowing, which shall be a Business Day;
- (ii) the aggregate amount of such Borrowing;
- (iii) whether such Borrowing is comprised of Revolving Loans or a Swingline Loan;
- (iv) in the case of a Revolving Borrowing, the initial Type of the Loans comprising such Borrowing; and
- (v) in the case of a Euro-Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

Notwithstanding the foregoing, no more than six (6) Groups of Euro-Dollar Loans shall be outstanding at any one time, and any Loans which would exceed such limitation shall be made as Base Rate Loans.

Section 2.04. Notice to Lenders; Funding of Revolving Loans and Swingline Loans.

(a) Notice to Lenders. Upon receipt of a Notice of Borrowing (other than in respect of a Borrowing of a Swingline Loan), the Administrative Agent shall promptly notify each Lender of such Lender's ratable share (if any) of the Borrowing referred to in the Notice of Borrowing, and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) Funding of Loans. Not later than (a) 1:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate

Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing, each Lender shall make available its ratable share of such Borrowing, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. Unless the Administrative Agent determines that any applicable condition specified in Article IV has not been satisfied, the Administrative Agent shall apply any funds so received in respect of a Borrowing available to the Borrower at the Administrative Agent's address not later than (a) 3:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 2:00 P.M. (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing. Revolving Loans to be made for the purpose of refunding Swingline Loans shall be made by the Lenders as provided in Section 2.02(b).

(c) Funding By the Administrative Agent in Anticipation of Amounts Due from the Lenders. Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing (except in the case of a Base Rate Borrowing, in which case prior to the time of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsection (b) of this Section, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such share available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount, together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.06, in the case of the Borrower, and (ii) the Federal Funds Rate, in the case of such Lender. Any payment by the Borrower hereunder shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make its share of a Borrowing available to the Administrative Agent. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Loan included in such Borrowing for purposes of this Agreement.

(d) Obligations of Lenders Several. The failure of any Lender to make a Loan required to be made by it as part of any Borrowing hereunder shall not relieve any other Lender of its obligation, if any, hereunder to make any Loan on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on such date of Borrowing.

#### Section 2.05. Noteless Agreement; Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (a) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (b) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (c) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to paragraphs (a) and (b) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Administrative Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) Any Lender may request that its Loans be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to the order of such Lender. Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 9.06(c)) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 9.06(c), except to the extent that any such Lender or assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in paragraphs (a) and (b) above.

#### Section 2.06. Interest Rates.

(a) Interest Rate Options. The Loans shall, at the option of the Borrower and except as otherwise provided herein, be incurred and maintained as, or converted into, one or more Base Rate Loans or Euro-Dollar Loans.

(b) Base Rate Loans. Each Loan which is made as, or converted into, a Base Rate Loan (other than a Swingline Loan) shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made as, or converted into, a Base Rate Loan until it becomes due or is converted into a Loan of any other Type, at a rate per annum equal to the sum of the Base Rate for such day plus the Applicable Percentage for Base Rate Loans for such day. Each Loan which is made as a Swingline Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due at a rate per

annum equal to the LIBOR Market Index Rate for such day plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall, in each case, be payable quarterly in arrears on each Quarterly Date (or, with respect to Base Rate Loans that are Swingline Loans, as the Swingline Lender and the Borrower may otherwise agree in writing) and, with respect to the principal amount of any Base Rate Loan (other than a Swingline Loan) converted to a Euro-Dollar Loan, on the date such Base Rate Loan is so converted. Any overdue principal of or interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for such day.

(c) Euro-Dollar Loans. Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the sum of the Adjusted London Interbank Offered Rate for such Interest Period plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof. Any overdue principal of or interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the sum of (A) the Adjusted London Interbank Offered Rate applicable to such Loan at the date such payment was due plus (B) the Applicable Percentage for Euro-Dollar Loans for such day (or, if the circumstance described in Section 2.14 shall exist, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day).

(d) Method of Electing Interest Rates.

(i) Subject to Section 2.06(a), the Loans included in each Revolving Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Borrowing. Thereafter, with respect to each Group of Loans, the Borrower shall have the option (A) to convert all or any part of (y) so long as no Default is in existence on the date of conversion, outstanding Base Rate Loans to Euro-Dollar Loans and (z) outstanding Euro-Dollar Loans to Base Rate Loans; provided, in each case, that the amount so converted shall be equal to \$10,000,000 or any larger integral multiple of \$1,000,000, or (B) upon the expiration of any Interest Period applicable to outstanding Euro-Dollar Loans, so long as no Default is in existence on the date of continuation, to continue all or any portion of such Loans, equal to \$10,000,000 and any larger integral multiple of \$1,000,000 in excess of that amount as Euro-Dollar Loans. The Interest Period of any Base Rate Loan converted to a Euro-Dollar Loan pursuant to clause (A) above shall commence on the date of such conversion. The succeeding Interest Period of any Euro-Dollar Loan continued pursuant to clause (B) above shall commence on the last day of the Interest Period of the Loan so continued. Euro-Dollar Loans may only be converted on the last day of the then current Interest Period applicable thereto or on the date required pursuant to Section 2.18.

(ii) The Borrower shall deliver a written notice of each such conversion or continuation (a “Notice of Conversion/Continuation”) to the Administrative Agent no later than (A) 12:00 Noon (Charlotte, North Carolina time) at least three (3) Business Days before the effective date of the proposed conversion to, or continuation of, a Euro Dollar Loan and (B) 11:30 A.M. (Charlotte, North Carolina time) on the day of a conversion to a Base Rate Loan. A written Notice of Conversion/Continuation shall be substantially in the form of Exhibit A-2 attached hereto and shall specify: (A) the Group of Loans (or portion thereof) to which such notice applies, (B) the proposed conversion/continuation date (which shall be a Business Day), (C) the aggregate amount of the Loans being converted/continued, (D) an election between the Base Rate and the Adjusted London Interbank Offered Rate and (E) in the case of a conversion to, or a continuation of, Euro-Dollar Loans, the requested Interest Period. Upon receipt of a Notice of Conversion/Continuation, the Administrative Agent shall give each Lender prompt notice of the contents thereof and such Lender’s pro rata share of all conversions and continuations requested therein. If no timely Notice of Conversion/Continuation is delivered by the Borrower as to any Euro-Dollar Loan, and such Loan is not repaid by the Borrower at the end of the applicable Interest Period, such Loan shall be converted automatically to a Base Rate Loan on the last day of the then applicable Interest Period.

(e) Determination and Notice of Interest Rates. The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Lenders of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error. Any notice with respect to Euro-Dollar Loans shall, without the necessity of the Administrative Agent so stating in such notice, be subject to adjustments in the Applicable Percentage applicable to such Loans after the beginning of the Interest Period applicable thereto. When during an Interest Period any event occurs that causes an adjustment in the Applicable Percentage applicable to Loans to which such Interest Period is applicable, the Administrative Agent shall give prompt notice to the Borrower and the Lenders of such event and the adjusted rate of interest so determined for such Loans, and its determination thereof shall be conclusive in the absence of manifest error.

Section 2.07. Fees.

(a) Commitment Fees. The Borrower shall pay to the Administrative Agent for the account of each Lender a fee (the “Commitment Fee”) for each day at a rate per annum equal to the Applicable Percentage for the Commitment Fee for such day. The Commitment Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the amount by which such Lender’s Commitment exceeds the sum of its Revolving Outstandings (solely for this purpose, exclusive of

Swingline Exposure) on such day. The Commitment Fee shall be payable on the last day of each of March, June, September and December and on the Termination Date.

(b) Letter of Credit Fees. The Borrower shall pay to the Administrative Agent a fee (the "Letter of Credit Fee") for each day at a rate per annum equal to the Applicable Percentage for the Letter of Credit Fee for such day. The Letter of Credit Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the aggregate amount available for drawing under any Letters of Credit outstanding on such day and shall be payable for the account of the Lenders ratably in proportion to their participations in such Letter(s) of Credit. In addition, the Borrower shall pay to each Issuing Lender a fee (the "Fronting Fee") in respect of each Letter of Credit issued by such Issuing Lender computed at the rate of 0.20% per annum on the average amount available for drawing under such Letter(s) of Credit. Fronting Fees shall be due and payable quarterly in arrears on each Quarterly Date and on the Termination Date (or such earlier date as all Letters of Credit shall be canceled or expire). In addition, the Borrower agrees to pay to each Issuing Lender, upon each issuance of, payment under, and/or amendment of, a Letter of Credit, such amount as shall at the time of such issuance, payment or amendment be the administrative charges and expenses which such Issuing Lender is customarily charging for issuances of, payments under, or amendments to letters of credit issued by it.

(c) Payments. Except as otherwise provided in this Section 2.07, accrued fees under this Section 2.07 in respect of Loans and Letter of Credit Liabilities shall be payable quarterly in arrears on each Quarterly Date, on the last day of the Availability Period and, if later, on the date the Loans and Letter of Credit Liabilities shall be repaid in their entirety. Fees paid hereunder shall not be refundable under any circumstances.

#### Section 2.08. Adjustments of Commitments.

(a) Optional Termination or Reductions of Commitments (Pro-Rata). The Borrower may, upon at least three Business Days' prior written notice to the Administrative Agent, permanently (i) terminate the Commitments, if there are no Revolving Outstandings at such time or (ii) ratably reduce from time to time by a minimum amount of \$10,000,000 or any larger integral multiple of \$5,000,000, the aggregate amount of the Commitments in excess of the aggregate Revolving Outstandings. Upon receipt of any such notice, the Administrative Agent shall promptly notify the Lenders. If the Commitments are terminated in their entirety, all accrued fees shall be payable on the effective date of such termination.

(b) Optional Termination of Commitments (Non-Pro-Rata). If (i) any Lender has demanded compensation or indemnification pursuant to Sections 2.14, 2.15, 2.16 or 2.17, (ii) the obligation of any Lender to make Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (iii) any Lender is a Defaulting Lender (each such Lender described in clauses (i), (ii) or (iii) being a "Retiring Lender"), the Borrower shall have the right, if no Default then exists, to replace such Lender with one or more Eligible Assignees (which may be one or more of the Continuing Lenders) (each a "Replacement Lender" and, collectively, the "Replacement Lenders") reasonably acceptable to the Administrative Agent. The replacement of a Retiring Lender pursuant to this Section 2.08(b) shall be effective on the tenth Business Day (the "Replacement Date") following the date of notice given by the Borrower of such replacement to the Retiring Lender and each Continuing Lender through the Administrative Agent, subject to the satisfaction of the following conditions:

(i) the Replacement Lender shall have satisfied the conditions to assignment and assumption set forth in Section 9.06(c) (with all fees payable pursuant to Section 9.06(c) to be paid by the Borrower) and, in connection therewith, the Replacement Lender(s) shall pay:

(A) to the Retiring Lender an amount equal in the aggregate to the sum of (x) the principal of, and all accrued but unpaid interest on, all outstanding Loans of the Retiring Lender, (y) all unpaid drawings that have been funded by (and not reimbursed to) the Retiring Lender under Section 3.10, together with all accrued but unpaid interest with respect thereto and (z) all accrued but unpaid fees owing to the Retiring Lender pursuant to Section 2.07; and

(B) to the Swingline Lender an amount equal to the aggregate amount owing by the Retiring Lender to the Swingline Lender in respect of all unpaid refundings of Swingline Loans requested by the Swingline Lender pursuant to Section 2.02(b)(i), to the extent such amount was not theretofore funded by such Retiring Lender; and

(C) to the Issuing Lenders an amount equal to the aggregate amount owing by the Retiring Lender to the Issuing Lenders as reimbursement pursuant to Section 3.09, to the extent such amount was not theretofore funded by such Retiring Lender; and

(ii) the Borrower shall have paid to the Administrative Agent for the account of the Retiring Lender an amount equal to all obligations owing to the Retiring Lender by the Borrower pursuant to this Agreement and the other Loan Documents (other than those obligations of the Borrower referred to in clause (i)(A) above).



On the Replacement Date, each Replacement Lender that is a New Lender shall become a Lender hereunder and shall succeed to the obligations of the Retiring Lender with respect to outstanding Swingline Loans and Letters of Credit to the extent of the Commitment of the Retiring Lender assumed by such Replacement Lender, and the Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall continue to inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

In lieu of the foregoing, subject to Section 2.08(e), upon express written consent of Continuing Lenders holding more than 50% of the aggregate amount of the Commitments of the Continuing Lenders, the Borrower shall have the right to permanently terminate the Commitment of a Retiring Lender in full. Upon payment by the Borrower to the Administrative Agent for the account of the Retiring Lender of an amount equal to the sum of (i) the aggregate principal amount of all Loans and Reimbursement Obligations owed to the Retiring Lender and (ii) all accrued interest, fees and other amounts owing to the Retiring Lender hereunder, including, without limitation, all amounts payable by the Borrower to the Retiring Lender under Sections 2.12, 2.16, 2.17 or 9.03, such Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

(c) Optional Termination of Defaulting Lender Commitment (Non-Pro-Rata). At any time a Lender is a Defaulting Lender, subject to Section 2.08(e), the Borrower may terminate in full the Commitment of such Defaulting Lender by giving notice to such Defaulting Lender and the Administrative Agent, provided, that, (i) at the time of such termination, (A) no Default has occurred and is continuing (or alternatively, the Required Lenders shall consent to such termination) and (B) either (x) no Revolving Loans or Swingline Loans are outstanding or (y) the aggregate Revolving Outstandings of such Defaulting Lender in respect of Revolving Loans is zero; (ii) concurrently with such termination, the aggregate Commitments shall be reduced by the Commitment of the Defaulting Lender; and (iii) concurrently with any subsequent payment of interest or fees to the Lenders with respect to any period before the termination of a Defaulting Lender's Commitment, the Borrower shall pay to such Defaulting Lender its ratable share (based on its Commitment Ratio before giving effect to such termination) of such interest or fees, as applicable. The termination of a Defaulting Lender's Commitment pursuant to this Section 2.08(c) shall not be deemed to be a waiver of any right that the Borrower, Administrative Agent, any Issuing Lender or any other Lender may have against such Defaulting Lender.

(d) Termination Date. The Commitments shall terminate on the Termination Date.

(e) Redetermination of Commitment Ratios. On the date of termination of the Commitment of a Retiring Lender or Defaulting Lender pursuant to Section 2.08(b) or (c), the Commitment Ratios of the Continuing Lenders shall be redetermined after giving effect thereto, and the participations of the Continuing Lenders in and obligations of the Continuing Lenders in respect of any then outstanding Swingline Loans and Letters of Credit shall thereafter be based upon such redetermined Commitment Ratios (to the extent not previously adjusted pursuant to Section 2.20). The right of the Borrower to effect such a termination is conditioned on there being sufficient unused availability in the Commitments of the Continuing Lenders such that the aggregate Revolving Outstandings will not exceed the aggregate Commitments after giving effect to such termination and redetermination.

## Section 2.09. Maturity of Loans; Mandatory Prepayments.

### (a) Scheduled Repayments and Prepayments of Loans; Overline Repayments.

(i) The Revolving Loans shall mature on the Termination Date, and any Revolving Loans, Swingline Loans and Letter of Credit Liabilities then outstanding (together with accrued interest thereon and fees in respect thereof) shall be due and payable or, in the case of Letters of Credit, cash collateralized pursuant to Section 2.09(a)(ii), on such date.

(ii) If on any date the aggregate Revolving Outstandings exceed the aggregate amount of the Commitments (such excess, a "Revolving Outstandings Excess"), the Borrower shall prepay, and there shall become due and payable (together with accrued interest thereon) on such date, an aggregate principal amount of Revolving Loans and/or Swingline Loans equal to such Revolving Outstandings Excess. If, at a time when a Revolving Outstandings Excess exists and (x) no Revolving Loans or Swingline Loans are outstanding or (y) the Commitment has been terminated pursuant to this Agreement and, in either case, any Letter of Credit Liabilities remain outstanding, then, in either case, the Borrower shall cash collateralize any Letter of Credit Liabilities by depositing into a cash collateral account established and maintained (including the investments made pursuant thereto) by the Administrative Agent pursuant to a cash collateral agreement in form and substance satisfactory to the Administrative Agent an amount in cash equal to the then outstanding Letter of Credit Liabilities. In determining Revolving Outstandings for purposes of this clause (ii), Letter of Credit Liabilities shall be reduced to the extent that they are cash collateralized as contemplated by this Section 2.09(a)(ii).

### (b) Applications of Prepayments and Reductions.

(i) Each payment or prepayment of Loans pursuant to this Section 2.09 shall be applied ratably to the respective Loans of all of the Lenders.

(ii) Each payment of principal of the Loans shall be made together with interest accrued on the amount repaid to the date of payment.

(iii) Each payment of the Loans shall be applied to such Groups of Loans as the Borrower may designate (or, failing such designation, as determined by the Administrative Agent).

#### Section 2.10. Optional Prepayments and Repayments.

(a) Prepayments of Loans. Other than in respect of Swingline Loans, the repayment of which is governed pursuant to Section 2.02(b), subject to Section 2.12, the Borrower may (i) upon at least one (1) Business Day's notice to the Administrative Agent, prepay any Base Rate Borrowing or (ii) upon at least three (3) Business Days' notice to the Administrative Agent, prepay any Euro-Dollar Borrowing, in each case in whole at any time, or from time to time in part in amounts aggregating \$10,000,000 or any larger integral multiple of \$1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Lenders included in such Borrowing.

(b) Notice to Lenders. Upon receipt of a notice of prepayment pursuant to Section 2.10(a), the Administrative Agent shall promptly notify each Lender of the contents thereof and of such Lender's ratable share (if any) of such prepayment, and such notice shall not thereafter be revocable by the Borrower.

#### Section 2.11. General Provisions as to Payments.

(a) Payments by the Borrower. The Borrower shall make each payment of principal of and interest on the Loans and Letter of Credit Liabilities and fees hereunder (other than fees payable directly to the Issuing Lenders) not later than 12:00 Noon (Charlotte, North Carolina time) on the date when due, without set-off, counterclaim or other deduction, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. The Administrative Agent will promptly distribute to each Lender its ratable share of each such payment received by the Administrative Agent for the account of the Lenders. Whenever any payment of principal of or interest on the Base Rate Loans or Letter of Credit Liabilities or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. Whenever any payment of principal of or interest on the Euro-Dollar Loans shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Distributions by the Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date, and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.12. Funding Losses. If the Borrower makes any payment of principal with respect to any Euro-Dollar Loan pursuant to the terms and provisions of this Agreement (any conversion of a Euro-Dollar Loan to a Base Rate Loan pursuant to Section 2.18 being treated as a payment of such Euro-Dollar Loan on the date of conversion for purposes of this Section 2.12) on any day other than the last day of the Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.06(c), or if the Borrower fails to borrow, convert or prepay any Euro-Dollar Loan after notice has been given in accordance with the provisions of this Agreement, or in the event of payment in respect of any Euro-Dollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.08(b), the Borrower shall reimburse each Lender within fifteen (15) days after demand for any resulting loss or expense incurred by it (and by an existing Participant in the related Loan), including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or failure to borrow or prepay; provided, that such Lender shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.13. Computation of Interest and Fees. Interest on Loans based on the Prime Rate hereunder and Letter of Credit Fees shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed. All

other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.14. Basis for Determining Interest Rate Inadequate, Unfair or Unavailable. If on or prior to the first day of any Interest Period for any Euro-Dollar Loan: (a) Lenders having 50% or more of the aggregate amount of the Commitments advise the Administrative Agent that the Adjusted London Interbank Offered Rate as determined by the Administrative Agent, will not adequately and fairly reflect the cost to such Lenders of funding their Euro-Dollar Loans for such Interest Period; or (b) the Administrative Agent shall determine that no reasonable means exists for determining the Adjusted London Interbank Offered Rate, the Administrative Agent shall forthwith give notice thereof to the Borrower and the Lenders, whereupon, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Lenders to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans shall be suspended; and (ii) each outstanding Euro-Dollar Loan shall be converted into a Base Rate Loan on the last day of the current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at least two (2) Domestic Business Days before the date of (or, if at the time the Borrower receives such notice the day is the date of, or the date immediately preceding, the date of such Euro-Dollar Borrowing, by 10:00 A.M. on the date of) any Euro-Dollar Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 2.15. Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Lender (or its Euro-Dollar Lending Office) to make, maintain or fund its Euro-Dollar Loans and such Lender shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Borrower, whereupon until such Lender notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans, shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Lender shall designate a different Euro-Dollar Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. If such notice is given, each Euro-Dollar Loan of such Lender then outstanding shall be converted to a Base Rate Loan either (i) on the last day of the then current Interest Period applicable to such Euro-Dollar Loan if such Lender may lawfully continue to maintain and fund such Loan to such day or (ii) immediately if such Lender shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

Section 2.16. Increased Cost and Reduced Return.

(a) Increased Costs. If after the Effective Date, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance assessment or similar requirement against Letters of Credit issued or participated in by, assets of, deposits with or for the account of or credit extended by, any Lender (or its Applicable Lending Office) or shall impose on any Lender (or its Applicable Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Euro-Dollar Loans, Notes, obligation to make Euro-Dollar Loans or obligations hereunder in respect of Letters of Credit, and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making or maintaining any Euro-Dollar Loan, or of issuing or participating in any Letter of Credit, or to reduce the amount of any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement or under its Notes with respect thereto, then, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts, as determined by such Lender in good faith, as will compensate such Lender for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(b) Capital Adequacy. If any Lender shall have determined that, after the Effective Date, the adoption of any applicable law, rule or regulation regarding capital adequacy or liquidity, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Lender (or any Person controlling such Lender) as a consequence of such Lender's obligations hereunder to a level below that which such Lender (or any Person controlling such Lender) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy), then from time to time, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts as will

compensate such Lender (or any Person controlling such Lender) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(c) Notices. Each Lender will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the Effective Date, that will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

(d) Notwithstanding anything to the contrary herein, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "change in law" under this Article II regardless of the date enacted, adopted or issued.

#### Section 2.17. Taxes.

(a) Payments Net of Certain Taxes. Any and all payments by the Borrower to or for the account of any Lender or any Agent hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income (including branch profits or similar taxes) of, and gross receipts, franchise or similar taxes imposed on, any Agent or any Lender by the jurisdiction (or subdivision thereof) under the laws of which such Lender or Agent is organized or in which its principal executive office is located or, in the case of each Lender, in which its Applicable Lending Office is located, (ii) in the case of each Lender, any United States withholding tax imposed on such payments, but only to the extent that such Lender is subject to United States withholding tax at the time such Lender first becomes a party to this Agreement or changes its Applicable Lending Office, (iii) any backup withholding tax imposed by the United States (or any state or locality thereof) on a Lender or Administrative Agent that is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code, and (iv) any taxes imposed by FATCA (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender or any Agent, (i) the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this Section 2.17(a)) such Lender or Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower shall furnish to the Administrative Agent, for delivery to such Lender, the original or a certified copy of a receipt evidencing payment thereof.

(b) Other Taxes. In addition, the Borrower agrees to pay any and all present or future stamp or court or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement, any Note or any other Loan Document or from the execution, delivery, performance, registration or enforcement of, or otherwise with respect to, this Agreement, any Note or any other Loan Document (collectively, "Other Taxes").

(c) Indemnification. The Borrower agrees to indemnify each Lender and each Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 2.17(c)), whether or not correctly or legally asserted, paid by such Lender or Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Borrower by each Lender or Agent seeking indemnification pursuant to this Section 2.17(c). This indemnification shall be paid within 15 days after such Lender or Agent (as the case may be) makes demand therefor.

(d) Refunds or Credits. If a Lender or Agent receives a refund, credit or other reduction from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.17, it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund, credit or other reduction to the Borrower (but only to the extent of indemnity payments made or additional amounts paid by the Borrower under this Section 2.17 with respect to the Taxes or Other Taxes giving rise to such refund, credit or other reduction), net of all reasonable out-of-pocket expenses of such Lender or Agent (as the case may be) and without interest (other than interest paid by the relevant taxation authority with respect to such refund, credit or other reduction); provided, however, that the Borrower agrees to repay, upon the request of such Lender or Agent (as the case may be), the amount paid over to the Borrower (plus penalties, interest or other charges) to such Lender or Agent in the event such Lender or Agent is required to repay such refund or credit to such taxation authority.

(e) Tax Forms and Certificates. On or before the date it becomes a party to this Agreement, from time to time

thereafter if reasonably requested by the Borrower or the Administrative Agent, and at any time it changes its Applicable Lending Office: (i) each Lender that is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Administrative Agent two (2) properly completed and duly executed copies of Internal Revenue Service Form W-9, or any successor form prescribed by the Internal Revenue Service, or such other documentation or information prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, as the case may be, certifying that such Lender is a United States person and is entitled to an exemption from United States backup withholding tax or information reporting requirements; and (ii) each Lender that is not a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code (a "Non-U.S. Lender") shall deliver to the Borrower and the Administrative Agent: (A) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, certifying that such Non-U.S. Lender is entitled to the benefits under an income tax treaty to which the United States is a party which exempts the Non-U.S. Lender from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Non-U.S. Lender; (B) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 ECI, or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable pursuant to this Agreement and the other Loan Documents is effectively connected with the conduct of a trade or business in the United States; or (C) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, together with a certificate to the effect that (x) such Non-U.S. Lender is not (1) a "bank" within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (2) a "10-percent shareholder" of the Borrower within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or (3) a "controlled foreign corporation" that is described in Section 881(c)(3)(C) of the Internal Revenue Code and is related to the Borrower within the meaning of Section 864(d)(4) of the Internal Revenue Code and (y) the interest payments in question are not effectively connected with a U.S. trade or business conducted by such Non-U.S. Lender or are effectively connected but are not includible in the Non-U.S. Lender's gross income for United States federal income tax purposes under an income tax treaty to which the United States is a party; or (D) to the extent the Non-U.S. Lender is not the beneficial owner, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 IMY, or any successor form prescribed by the Internal Revenue Service, accompanied by an Internal Revenue Service Form W-8 ECI, W-8 BEN, W-9, and/or other certification documents from each beneficial owner, as applicable. If a payment made to a Lender under any Loan Document would be subject to U.S. Federal withholding tax imposed by FATCA if such Lender fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (e), "FATCA" shall include any amendments made to FATCA after the date of this Agreement. In addition, each Lender agrees that from time to time after the Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to the Borrower and the Administrative Agent two new accurate and complete signed originals of Internal Revenue Service Form W-9, W-8 BEN, W-8 ECI or W-8 IMY or FATCA-related documentation described above, or successor forms, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any other Loan Document, or it shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such Form or certificate.

(f) Exclusions. The Borrower shall not be required to indemnify any Non-U.S. Lender, or to pay any additional amount to any Non-U.S. Lender, pursuant to Section 2.17(a), (b) or (c) in respect of Taxes or Other Taxes to the extent that the obligation to indemnify or pay such additional amounts would not have arisen but for the failure of such Non-U.S. Lender to comply with the provisions of subsection (e) above.

(g) Mitigation. If the Borrower is required to pay additional amounts to or for the account of any Lender pursuant to this Section 2.17, then such Lender will use reasonable efforts (which shall include efforts to rebook the Revolving Loans held by such Lender to a new Applicable Lending Office, or through another branch or affiliate of such Lender) to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of such Lender, such efforts (i) will eliminate or, if it is not possible to eliminate, reduce to the greatest extent possible any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous, in the sole determination of such Lender, to such Lender. Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section shall use reasonable efforts (consistent with legal and regulatory restrictions) to deliver to Borrower any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole determination of such Lender, be otherwise disadvantageous to such Lender.

(h) Confidentiality. Nothing contained in this Section shall require any Lender or any Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

Section 2.18. Base Rate Loans Substituted for Affected Euro-Dollar Loans. If (a) the obligation of any Lender to make or maintain, or to convert outstanding Loans to, Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (b) any Lender has demanded compensation under Section 2.16(a) with respect to its Euro-Dollar Loans and, in any such case, the Borrower shall, by at least four Business Days' prior notice to such Lender through the Administrative Agent, have elected that the provisions of this Section shall apply to such Lender, then, unless and until such Lender notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(i) all Loans which would otherwise be made by such Lender as (or continued as or converted into) Euro-Dollar Loans shall instead be Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Lenders); and

(ii) after each of its Euro-Dollar Loans has been repaid, all payments of principal that would otherwise be applied to repay such Loans shall instead be applied to repay its Base Rate Loans.

If such Lender notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Base Rate Loan shall be converted into a Euro-Dollar Loan on the first day of the next succeeding Interest Period applicable to the related Euro-Dollar Loans of the other Lenders.

#### Section 2.19. Increases to the Commitment.

(a) Subject to the terms and conditions of this Agreement, the Borrower may, during the Availability Period by delivering to the Administrative Agent and the Lenders a Notice of Revolving Increase in the form of Exhibit E, request increases to the Lenders' Commitments (each such request, an "Optional Increase"); provided that: (i) the Borrower may not request any increase to the Commitments after the occurrence and during the continuance of a Default; (ii) each Optional Increase shall be in a minimum amount of \$50,000,000 and (iii) the aggregate amount of all Optional Increases shall be no more than \$500,000,000.

(b) Each Lender may, but shall not be obligated to, participate in any Optional Increase, subject to the approval of the Issuing Lenders and the Swingline Lender (such approval not to be unreasonably withheld), and the decision of any Lender to commit to an Optional Increase shall be at such Lender's sole discretion and shall be made in writing. The Borrower may, at its own expense, solicit additional Commitments from third party financial institutions reasonably acceptable to the Administrative Agent, the Swingline Lender and the Issuing Lender. Any such financial institution (if not already a Lender hereunder) shall become a party to this Agreement as a Lender, pursuant to a joinder agreement in form and substance reasonably satisfactory to the Administrative Agent and the Borrower.

(c) As a condition precedent to the Optional Increase, the Borrower shall deliver to the Administrative Agent a certificate of the Borrower dated the effective date of the Optional Increase, signed by a Responsible Officer of the Borrower, certifying that: (i) the resolutions adopted by the Borrower approving or consenting to such Optional Increase are attached thereto and such resolutions are true and correct and have not been altered, amended or repealed and are in full force and effect and (ii) before and after giving effect to the Optional Increase, (A) the representations and warranties contained in Article V and the other Loan Documents are true and correct in all material respects on and as of the effective date of the Optional Increase, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and (B) that no Default exists, is continuing, or would result from the Optional Increase.

(d) The Revolving Outstandings will be reallocated by the Administrative Agent on the effective date of any Optional Increase among the Lenders in accordance with their revised Commitment Ratios, and the Borrower hereby agrees to pay any and all costs (if any) required pursuant to Section 2.12 incurred by any Lender in connection with the exercise of the Optional Increase.

#### Section 2.20. Defaulting Lenders.

(a) Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(i) fees shall cease to accrue on the unfunded portion of the Commitment of such Defaulting Lender pursuant to Section 2.07(a);

(ii) with respect to any Letter of Credit Liabilities or Swingline Exposure of such Defaulting Lender that exists at the time a Lender becomes a Defaulting Lender or thereafter:

(A) all or any part of such Defaulting Lender's Letter of Credit Liabilities and its Swingline Exposure shall be reallocated among the Non-Defaulting Lenders in accordance with their

respective Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment) but only to the extent that (x) the conditions set forth in Section 4.02 are satisfied at such time and (y) such reallocation does not cause the Revolving Outstandings of any Non-Defaulting Lender to exceed such Non-Defaulting Lender's Commitment;

(B) if the reallocation described in clause (ii)(A) above cannot, or can only partially, be effected, each Issuing Lender and the Swingline Lender, in its discretion may require the Borrower to (i) reimburse all amounts paid by an Issuing Lender upon any drawing under a Letter of Credit, (ii) repay an outstanding Swingline Loan, and/or (iii) cash collateralize (in accordance with Section 2.09(a)(ii)) all obligations of such Defaulting Lender in respect of outstanding Letters of Credit and Swingline Loans, in each case, in an amount at least equal to the aggregate amount of the obligations (contingent or otherwise) of such Defaulting Lender in respect of such Letters of Credit or Swingline Loans (after giving effect to any partial reallocation pursuant to Section 2.20(a)(ii)(A) above);

(iii) if the Borrower cash collateralizes any portion of such Defaulting Lender's pursuant to Section 2.20(a)(ii)(B) then the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities during the period such Defaulting Lender's Letter of Credit Liabilities are cash collateralized;

(iv) if the Letter of Credit Liabilities and/or Swingline Exposure of the Non-Defaulting Lenders is reallocated pursuant to Section 2.20(a)(ii)(A) above, then the fees payable to the Lenders pursuant to Section 2.07(a) and Section 2.07(b) shall be adjusted in accordance with such Non-Defaulting Lenders' Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment); and

(v) if any Defaulting Lender's Letter of Credit Liabilities and/or Swingline Exposure is neither reimbursed, repaid, cash collateralized nor reallocated pursuant to this Section 2.20(a)(ii), then, without prejudice to any rights or remedies of the Issuing Lenders, the Swingline Lender or any other Lender hereunder, all fees that otherwise would have been payable to such Defaulting Lender (solely with respect to the portion of such Defaulting Lender's Commitment that was utilized by such Letter of Credit Liabilities and/or Swingline Exposure) and letter of credit fees payable under Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities shall be payable to the Issuing Lenders and the Swingline Lender, pro rata, until such Letter of Credit Liabilities and/or Swingline Exposure is cash collateralized, reallocated and/or repaid in full.

(b) So long as any Lender is a Defaulting Lender, (i) no Issuing Lender shall be required to issue, amend or increase any Letter of Credit, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders and/or cash collateral will be provided by the Borrower in accordance with Section 2.20(a), and participating interests in any such newly issued or increased Letter of Credit shall be allocated among Non-Defaulting Lenders in a manner consistent with Section 3.05 (and Defaulting Lenders shall not participate therein) and (ii) the Swingline Lender shall not be required to advance any Swingline Loan, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders.

### ARTICLE III LETTERS OF CREDIT

Section 3.01. Issuing Lenders. Subject to the terms and conditions hereof, the Borrower may from time to time identify and arrange for one or more of the Lenders (in addition to the JLA Issuing Banks) to act as Issuing Lenders hereunder. Any such designation by the Borrower shall be notified to the Administrative Agent at least four Business Days prior to the first date upon which the Borrower proposes that such Issuing Lender issue its first Letter of Credit, so as to provide adequate time for such proposed Issuing Lender to be approved by the Administrative Agent hereunder (such approval not to be unreasonably withheld). Within two Business Days following the receipt of any such designation of a proposed Issuing Lender, the Administrative Agent shall notify the Borrower as to whether such designee is acceptable to the Administrative Agent. Nothing contained herein shall be deemed to require any Lender (other than a JLA Issuing Bank) to agree to act as an Issuing Lender, if it does not so desire.

#### Section 3.02. Letters of Credit.

(a) Existing Letters of Credit. On the Effective Date, each Issuing Lender under the Existing Credit Agreement (as defined therein) that has issued an Existing Letter of Credit shall be deemed, without further action by any party to this Agreement, to have issued such Existing Letter of Credit under this Agreement pursuant to the terms and subject to the conditions of this Article III; provided, that immediately after each Letter of Credit is deemed to have been issued, the aggregate Revolving Outstandings shall not exceed the aggregate amount of the Commitments.

(b) Additional Letters of Credit. Each Issuing Lender agrees, on the terms and conditions set forth in this Agreement,

to issue Letters of Credit from time to time before the fifth day prior to the Termination Date, for the account, and upon the request, of the Borrower and in support of such obligations of the Borrower or any Affiliate of the Borrower (other than PPL Electric Utilities Corporation) that are reasonably acceptable to such Issuing Lender; provided, that immediately after each Letter of Credit is issued, (A) the aggregate Revolving Outstandings shall not exceed the aggregate amount of the Commitments and (B) the aggregate fronting exposure of any Issuing Lender shall not exceed its Fronting Sublimit.

**Section 3.03. Method of Issuance of Additional Letters of Credit.** The Borrower shall give an Issuing Lender notice substantially in the form of Exhibit A-3 to this Agreement (a "Letter of Credit Request") of the requested issuance or extension of an Additional Letter of Credit prior to 1:00 P.M. (Charlotte, North Carolina time) on the proposed date of the issuance or extension of Additional Letters of Credit (which shall be a Business Day) (or such shorter period as may be agreed by such Issuing Lender in any particular instance), specifying the date such Letter of Credit is to be issued or extended and describing the terms of such Letter of Credit and the nature of the transactions to be supported thereby. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit, and if any Letter of Credit contains a provision pursuant to which it is deemed to be extended unless notice of termination is given by an Issuing Lender, such Issuing Lender shall timely give such notice of termination unless it has theretofore timely received a Letter of Credit Request and the other conditions to issuance of a Letter of Credit have theretofore been met with respect to such extension. No Letter of Credit shall have a term of more than one year, provided, that no Letter of Credit shall have a term extending or be so extendible beyond the fifth Business Day before the Termination Date.

**Section 3.04. Conditions to Issuance of Letters of Credit.** The issuance by an Issuing Lender of each Additional Letter of Credit shall, in addition to the conditions precedent set forth in Article IV, be subject to the conditions precedent that (i) such Letter of Credit shall be satisfactory in form and substance to such Issuing Lender, (ii) the Borrower and, if applicable, any such Affiliate of the Borrower, shall have executed and delivered such other instruments and agreements relating to such Letter of Credit as such Issuing Lender shall have reasonably requested and (iii) such Issuing Lender shall have confirmed on the date of (and after giving effect to) such issuance that (A) the aggregate Revolving Outstandings will not exceed the aggregate amount of the Commitments and (B) the aggregate fronting exposure of any Issuing Lender shall not exceed the Fronting Sublimit. Notwithstanding any other provision of this Section 3.04, no Issuing Lender shall be under any obligation to issue any Additional Letter of Credit if: any order, judgment or decree of any governmental authority shall by its terms purport to enjoin or restrain such Issuing Lender from issuing such Additional Letter of Credit, or any requirement of law applicable to such Issuing Lender or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over such Issuing Lender shall prohibit, or request that such Issuing Lender refrain from, the issuance of letters of credit generally or such Additional Letter of Credit in particular or shall impose upon such Issuing Lender with respect to such Additional Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Lender is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon such Issuing Lender any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which such Issuing Lender in good faith deems material to it.

**Section 3.05. Purchase and Sale of Letter of Credit Participations.** Upon the issuance by an Issuing Lender of a Letter of Credit, such Issuing Lender shall be deemed, without further action by any party hereto, to have sold to each Lender, and each Lender shall be deemed, without further action by any party hereto, to have purchased from such Issuing Lender, without recourse or warranty, an undivided participation interest in such Letter of Credit and the related Letter of Credit Liabilities in accordance with its respective Commitment Ratio (although the Fronting Fee payable under Section 2.07(b) shall be payable directly to the Administrative Agent for the account of the applicable Issuing Lender, and the Lenders (other than such Issuing Lender) shall have no right to receive any portion of any such Fronting Fee) and any security therefor or guaranty pertaining thereto.

**Section 3.06. Drawings under Letters of Credit.** Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the applicable Issuing Lender shall determine in accordance with the terms of such Letter of Credit whether such drawing should be honored. If such Issuing Lender determines that any such drawing shall be honored, such Issuing Lender shall make available to such beneficiary in accordance with the terms of such Letter of Credit the amount of the drawing and shall notify the Borrower as to the amount to be paid as a result of such drawing and the payment date.

**Section 3.07. Reimbursement Obligations.** The Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse the applicable Issuing Lender for any amounts paid by such Issuing Lender upon any drawing under any Letter of Credit, together with any and all reasonable charges and expenses which such Issuing Lender may pay or incur relative to such drawing and interest on the amount drawn at the rate applicable to Base Rate Loans for each day from and including the date such amount is drawn to but excluding the date such reimbursement payment is due and payable. Such reimbursement payment shall be due and payable (i) at or before 1:00 P.M. (Charlotte, North Carolina time) on the date the applicable Issuing Lender notifies the Borrower of such drawing, if such notice is given at or before 10:00 A.M. (Charlotte, North Carolina time) on such date or (ii) at or before 10:00 A.M. (Charlotte, North Carolina time) on the next succeeding Business Day; provided, that no payment otherwise required by this sentence to be made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on any day shall be overdue hereunder if arrangements for such payment satisfactory to the applicable Issuing Lender, in its reasonable discretion, shall have been made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on such day and such payment is actually made at or before 3:00 P.M. (Charlotte, North Carolina time) on such day. In addition, the Borrower agrees to pay to the applicable Issuing Lender interest, payable on demand, on any



and all amounts not paid by the Borrower to such Issuing Lender when due under this Section 3.07, for each day from and including the date when such amount becomes due to but excluding the date such amount is paid in full, whether before or after judgment, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day. Each payment to be made by the Borrower pursuant to this Section 3.07 shall be made to the applicable Issuing Lender in Federal or other funds immediately available to it at its address referred to Section 9.01.

**Section 3.08. Duties of Issuing Lenders to Lenders; Reliance.** In determining whether to pay under any Letter of Credit, the relevant Issuing Lender shall not have any obligation relative to the Lenders participating in such Letter of Credit or the related Letter of Credit Liabilities other than to determine that any document or documents required to be delivered under such Letter of Credit have been delivered and that they substantially comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by an Issuing Lender under or in connection with any Letter of Credit shall not create for such Issuing Lender any resulting liability if taken or omitted in the absence of gross negligence or willful misconduct. Each Issuing Lender shall be entitled (but not obligated) to rely, and shall be fully protected in relying, on the representation and warranty by the Borrower set forth in the last sentence of Section 4.02 to establish whether the conditions specified in clauses (b) and (c) of Section 4.02 are met in connection with any issuance or extension of a Letter of Credit. Each Issuing Lender shall be entitled to rely, and shall be fully protected in relying, upon advice and statements of legal counsel, independent accountants and other experts selected by such Issuing Lender and upon any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopier, telex or teletype message, statement, order or other document believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary unless the beneficiary and the Borrower shall have notified such Issuing Lender that such documents do not comply with the terms and conditions of the Letter of Credit. Each Issuing Lender shall be fully justified in refusing to take any action requested of it under this Section in respect of any Letter of Credit unless it shall first have received such advice or concurrence of the Required Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take, or omitting or continuing to omit, any such action. Notwithstanding any other provision of this Section, each Issuing Lender shall in all cases be fully protected in acting, or in refraining from acting, under this Section in respect of any Letter of Credit in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant hereto shall be binding upon all Lenders and all future holders of participations in such Letter of Credit; provided, that this sentence shall not affect any rights the Borrower may have against any Issuing Lender or the Lenders that make such request.

**Section 3.09. Obligations of Lenders to Reimburse Issuing Lender for Unpaid Drawings.** If any Issuing Lender makes any payment under any Letter of Credit and the Borrower shall not have reimbursed such amount in full to such Issuing Lender pursuant to Section 3.07, such Issuing Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Lender (other than the relevant Issuing Lender), and each such Lender shall promptly and unconditionally pay to the Administrative Agent, for the account of such Issuing Lender, such Lender's share of such payment (determined in accordance with its respective Commitment Ratio) in Dollars in Federal or other immediately available funds, the aggregate of such payments relating to each unreimbursed amount being referred to herein as a "Mandatory Letter of Credit Borrowing"; provided, however, that no Lender shall be obligated to pay to the Administrative Agent its pro rata share of such unreimbursed amount for any wrongful payment made by the relevant Issuing Lender under a Letter of Credit as a result of acts or omissions constituting willful misconduct or gross negligence by such Issuing Lender. If the Administrative Agent so notifies a Lender prior to 11:00 A.M. (Charlotte, North Carolina time) on any Business Day, such Lender shall make available to the Administrative Agent at its address referred to in Section 9.01 and for the account of the relevant Issuing Lender such Lender's pro rata share of the amount of such payment by 3:00 P.M. (Charlotte, North Carolina time) on the Business Day following such Lender's receipt of notice from the Administrative Agent, together with interest on such amount for each day from and including the date of such drawing to but excluding the day such payment is due from such Lender at the Federal Funds Rate for such day (which funds the Administrative Agent shall promptly remit to such Issuing Lender). The failure of any Lender to make available to the Administrative Agent for the account of an Issuing Lender its pro rata share of any unreimbursed drawing under any Letter of Credit shall not relieve any other Lender of its obligation hereunder to make available to the Administrative Agent for the account of such Issuing Lender its pro rata share of any payment made under any Letter of Credit on the date required, as specified above, but no such Lender shall be responsible for the failure of any other Lender to make available to the Administrative Agent for the account of such Issuing Lender such other Lender's pro rata share of any such payment. Upon payment in full of all amounts payable by a Lender under this Section 3.09, such Lender shall be subrogated to the rights of the relevant Issuing Lender against the Borrower to the extent of such Lender's pro rata share of the related Letter of Credit Liabilities (including interest accrued thereon). If any Lender fails to pay any amount required to be paid by it pursuant to this Section 3.09 on the date on which such payment is due, interest shall accrue on such Lender's obligation to make such payment, for each day from and including the date such payment became due to but excluding the date such Lender makes such payment, whether before or after judgment, at a rate per annum equal to (i) for each day from the date such payment is due to the third succeeding Business Day, inclusive, the Federal Funds Rate for such day as determined by the relevant Issuing Lender and (ii) for each day thereafter, the sum of 2% plus the rate applicable to its Base Rate Loans for such day. Any payment made by any Lender after 3:00 P.M. (Charlotte, North Carolina time) on any Business Day shall be deemed for purposes of the preceding sentence to have been made on the next succeeding Business Day.

Section 3.10. Funds Received from the Borrower in Respect of Drawn Letters of Credit. Whenever an Issuing Lender receives a payment of a Reimbursement Obligation as to which the Administrative Agent has received for the account of such Issuing Lender any payments from the other Lenders pursuant to Section 3.09 above, such Issuing Lender shall pay the amount of such payment to the Administrative Agent, and the Administrative Agent shall promptly pay to each Lender which has paid its pro rata share thereof, in Dollars in Federal or other immediately available funds, an amount equal to such Lender's pro rata share of the principal amount thereof and interest thereon for each day after relevant date of payment at the Federal Funds Rate.

Section 3.11. Obligations in Respect of Letters of Credit Unconditional. The obligations of the Borrower under Section 3.07 above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

(a) any lack of validity or enforceability of this Agreement or any Letter of Credit or any document related hereto or thereto;

(b) any amendment or waiver of or any consent to departure from all or any of the provisions of this Agreement or any Letter of Credit or any document related hereto or thereto;

(c) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);

(d) the existence of any claim, set-off, defense or other rights that the Borrower may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), any Issuing Lender or any other Person, whether in connection with this Agreement or any Letter of Credit or any document related hereto or thereto or any unrelated transaction;

(e) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(f) payment under a Letter of Credit against presentation to an Issuing Lender of a draft or certificate that does not comply with the terms of such Letter of Credit; provided, that the relevant Issuing Lender's determination that documents presented under such Letter of Credit comply with the terms thereof shall not have constituted gross negligence or willful misconduct of such Issuing Lender; or

(g) any other act or omission to act or delay of any kind by any Issuing Lender or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (g), constitute a legal or equitable discharge of the Borrower's obligations hereunder.

Nothing in this Section 3.11 is intended to limit the right of the Borrower to make a claim against any Issuing Lender for damages as contemplated by the proviso to the first sentence of Section 3.12.

Section 3.12. Indemnification in Respect of Letters of Credit. The Borrower hereby indemnifies and holds harmless each Lender (including each Issuing Lender) and the Administrative Agent from and against any and all claims, damages, losses, liabilities, costs or expenses which such Lender or the Administrative Agent may incur by reason of or in connection with the failure of any other Lender to fulfill or comply with its obligations to such Issuing Lender hereunder (but nothing herein contained shall affect any rights which the Borrower may have against such defaulting Lender), and none of the Lenders (including any Issuing Lender) nor the Administrative Agent, their respective affiliates nor any of their respective officers, directors, employees or agents shall be liable or responsible, by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit, including, without limitation, any of the circumstances enumerated in Section 3.11, as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any error in interpretation of technical terms, (iii) any loss or delay in the transmission of any document required in order to make a drawing under a Letter of Credit, (iv) any consequences arising from causes beyond the control of such indemnitee, including without limitation, any government acts, or (v) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit; provided, that the Borrower shall not be required to indemnify any Issuing Lender for any claims, damages, losses, liabilities, costs or expenses, and the Borrower shall have a claim against such Issuing Lender for direct (but not consequential) damages suffered by it, to the extent found by a court of competent jurisdiction in a final, non-appealable judgment or order to have been caused by (i) the willful misconduct or gross negligence of such Issuing Lender in determining whether a request presented under any Letter of Credit issued by it complied with the terms of such Letter of Credit or (ii) such Issuing Lender's failure to pay under any Letter of Credit issued by it after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit. Nothing in this Section 3.12 is intended to limit the obligations of the Borrower under any other provision of this Agreement.

Section 3.13. ISP98. The rules of the "International Standby Practices 1998" as published by the International Chamber of

Commerce most recently at the time of issuance of any Letter of Credit shall apply to such Letter of Credit unless otherwise expressly provided in such Letter of Credit.

## **ARTICLE IV CONDITIONS**

Section 4.01. Conditions to Closing. The obligation of each Lender to make a Loan or issue a Letter of Credit on the occasion of the first Credit Event hereunder is subject to the satisfaction of the following conditions:

(a) This Agreement. The Administrative Agent shall have received counterparts hereof signed by each of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex, facsimile or other written confirmation from such party of execution of a counterpart hereof by such party) to be held in escrow and to be delivered to the Borrower upon satisfaction of the other conditions set forth in this Section 4.01.

(b) Notes. On or prior to the Effective Date, the Administrative Agent shall have received a duly executed Note for the account of each Lender requesting delivery of a Note pursuant to Section 2.05.

(c) Officers' Certificates. The Administrative Agent shall have received a certificate dated the Effective Date signed on behalf of the Borrower by the Chairman of the Board, the President, any Vice President, the Treasurer or the Assistant Treasurer of the Borrower stating that (A) on the Effective Date and after giving effect to the Loans and Letters of Credit being made or issued on the Effective Date, no Default shall have occurred and be continuing and (B) the representations and warranties of the Borrower contained in the Loan Documents are true and correct on and as of the Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date.

(d) Proceedings. On the Effective Date, the Administrative Agent shall have received (i) a certificate of the Secretary of State of the State of Delaware, dated as of a recent date, as to the good standing of the Borrower and (ii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Effective Date and certifying (A) that attached thereto is a true, correct and complete copy of (x) the Borrower's certificate of formation certified by the Secretary of State of the State of Delaware and (y) the limited liability company agreement of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the managers of the Borrower authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party and each other document delivered in connection herewith or therewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing the Loan Documents to which the Borrower is a party or any other document delivered in connection herewith or therewith.

(e) Opinions of Counsel. On the Effective Date, the Administrative Agent shall have received from counsel to the Borrower, opinions addressed to the Administrative Agent and each Lender, dated the Effective Date, substantially in the form of Exhibit D hereto.

(f) [Intentionally Omitted]

(g) Consents. All necessary governmental (domestic or foreign), regulatory and third party approvals, if any, in connection with the transactions contemplated by this Agreement and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of such transactions; provided, that any such approvals with respect to elections by the Borrower to increase the Commitment as contemplated by Section 2.19 need not be obtained or provided until the Borrower makes any such election.

(h) Payment of Fees. All costs, fees and expenses due to the Administrative Agent, the Joint Lead Arrangers and the Lenders accrued through the Effective Date (including Commitment Fees and Letter of Credit Fees) shall have been paid in full.

(i) Counsel Fees. The Administrative Agent shall have received full payment from the Borrower of the fees and expenses of Davis Polk & Wardwell LLP described in Section 9.03 which are billed through the Effective Date and which have been invoiced one Business Day prior to the Effective Date.

(j) Amendment Fee. The Borrower shall have paid to the Administrative Agent for the account of each Lender a non-refundable and fully earned fee (the "Amendment Fee") as set forth in the Fee Letter, on or before the Effective Date.

Section 4.02. Conditions to All Credit Events. The obligation of any Lender to make any Loan, and the obligation of any Issuing Lender to issue (or renew or extend the term of) any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.03, or receipt by an Issuing Lender of a Letter of Credit Request as required by Section 3.03;

(b) the fact that, immediately before and after giving effect to such Credit Event, no Default shall have occurred and be continuing; and

(c) the fact that the representations and warranties of the Borrower contained in this Agreement and the other Loan Documents shall be true and correct on and as of the date of such Credit Event, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations in Section 5.04(c), Section 5.06, Section 5.15 and Section 5.16, which shall be deemed only to relate to the matters referred to therein on and as of the Effective Date.

Each Credit Event under this Agreement shall be deemed to be a representation and warranty by the Borrower on the date of such Credit Event as to the facts specified in clauses (b) and (c) of this Section.

## ARTICLE V REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

Section 5.01. Status. The Borrower is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware and has the limited liability company authority to make and perform this Agreement and each other Loan Document to which it is a party.

Section 5.02. Authority; No Conflict. The execution, delivery and performance by the Borrower of this Agreement and each other Loan Document to which it is a party have been duly authorized by all necessary limited liability company action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its limited liability company agreement, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which the Borrower is a party; provided, that any exercise of the option to increase the Commitment as contemplated in Section 2.19 may require further authorization of the Borrower's Board of Managers.

Section 5.03. Legality; Etc. This Agreement and each other Loan Document (other than the Notes) to which the Borrower is a party constitute the legal, valid and binding obligations of the Borrower, and the Notes, when executed and delivered in accordance with this Agreement, will constitute legal, valid and binding obligations of the Borrower, in each case enforceable against the Borrower in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

Section 5.04. Financial Condition.

(a) Audited Financial Statements. The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 2011 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by Ernst & Young, LLP, copies of which have been delivered to each of the Administrative Agent and the Lenders, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) Interim Financial Statements. The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of June 30, 2012 and the related unaudited consolidated statements of income and cash flows for the six months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such six-month period (subject to normal year-end audit adjustments).

(c) Material Adverse Change. Since December 31, 2011 there has been no change in the business, assets, financial condition or operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Borrower's ability to perform any of its obligations under this Agreement, the Notes or the other Loan Documents.

Section 5.05. Rights to Properties. The Borrower and its Restricted Subsidiaries have good and valid fee, leasehold, easement or other right, title or interest in or to all the properties necessary to the conduct of their business as conducted on the Effective Date and as then proposed to be conducted, except to the extent the failure to have such rights or interests would not have a Material Adverse

Effect.

Section 5.06. Litigation. Except as disclosed in or contemplated by the Borrower's Form 10-K Report to the SEC for the year ended December 31, 2011 or in any subsequent Form 10-K, 10-Q or 8-K Report, no litigation, arbitration or administrative proceeding against the Borrower is pending or, to the Borrower's knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of the Borrower to perform any of its obligations under this Agreement, the Notes or the other Loan Documents. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of the Borrower, threatened which questions the validity of this Agreement or the other Loan Documents to which it is a party.

Section 5.07. No Violation. No part of the proceeds of the borrowings by hereunder will be used, directly or indirectly by the Borrower for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulations U or X of said Board of Governors. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock".

Section 5.08. ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 5.09. Governmental Approvals. No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Borrower of this Agreement, the Notes and the other Loan Documents to which it is a party, except such authorizations, consents and approvals as shall have been obtained prior to the Effective Date and shall be in full force and effect.

Section 5.10. Investment Company Act. The Borrower is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 5.11. Restricted Subsidiaries, Etc. Set forth in Schedule 5.11 hereto is a complete and correct list as of the Effective Date of the Restricted Subsidiaries of the Borrower, together with, for each such Subsidiary, the jurisdiction of organization of such Subsidiary. Except as disclosed in Schedule 5.11 hereto, as of the Effective Date, each such Subsidiary (i) is a Wholly Owned Subsidiary of the Borrower and (ii) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has all corporate or other organizational powers to carry on its businesses.

Section 5.12. Tax Returns and Payments. The Borrower and each of its Restricted Subsidiaries has filed or caused to be filed all Federal, state, local and foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which the Borrower or its Restricted Subsidiaries, as the case may be, shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

Section 5.13. Compliance with Laws. To the knowledge of the Borrower or any of its Restricted Subsidiaries, the Borrower and each of its Restricted Subsidiaries is in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance would not reasonably be expected to materially and adversely affect its ability to perform any of its obligations under this Agreement, the Notes or any other Loan Document to which it is a party.

Section 5.14. No Default. No Default has occurred and is continuing.

Section 5.15. Environmental Matters.

(a) Except (i) as disclosed in or contemplated by the Borrower's Form 10-K Report to the SEC for the year ended December 31, 2011 or in any subsequent Form 10-K, 10-Q or 8-K Report, or (ii) to the extent that the liabilities of the Borrower and its Subsidiaries, taken as a whole, that relate to or could reasonably be expected to result from the matters referred to in clauses (i) through (iii) of this Section 5.15(a), inclusive, would not reasonably be expected to result in a Material Adverse Effect:

(i) no notice, notification, citation, summons, complaint or order has been received by the Borrower or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Borrower's or any of its Subsidiaries' knowledge, threatened by any governmental or other entity with respect to any (A) alleged violation by or liability of the Borrower or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Borrower or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;

(ii) to the Borrower's or any of its Subsidiaries' knowledge, no Hazardous Substance has been released (and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, on or under any property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries; and

(iii) no property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries or, to the Borrower's or any of its Subsidiaries' knowledge, any property to which the Borrower or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Borrower's or any of its Subsidiaries' knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

(b) Except as disclosed in or contemplated by the Borrower's Form 10-K Report to the SEC for the year ended December 31, 2011 or in any subsequent Form 10-K, 10-Q or 8-K Report, to the Borrower's or any of its Subsidiaries' knowledge, there are no Environmental Liabilities that have resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) For purposes of this Section 5.15, the terms "the Borrower" and "Subsidiary" shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Borrower or any of its Subsidiaries from the time such business or business entity became a Subsidiary of PPL Corporation, a Pennsylvania corporation.

Section 5.16. Guarantees. As of the Effective Date, except as set forth in Schedule 5.16 hereto, the Borrower has no Guarantees of any Debt of any Foreign Subsidiary of the Borrower other than such Debt not in excess of \$25,000,000 in the aggregate.

Section 5.17. OFAC. None of the Borrower, any Subsidiary of the Borrower or any Affiliate of the Borrower: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Entities, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Entities. The proceeds of any Loan will not be used and have not been used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Entity.

## ARTICLE VI COVENANTS

The Borrower agrees that so long as any Lender has any Commitment hereunder or any amount payable hereunder or under any Note or other Loan Document remains unpaid or any Letter of Credit Liability remains outstanding:

Section 6.01. Information. The Borrower will deliver or cause to be delivered to each of the Lenders (it being understood that the posting of the information required in clauses (a), (b) and (f) of this Section 6.01 on the Borrower's website (<http://www.pplweb.com>) or making such information available on IntraLinks, Syndtrak (or similar service) shall be deemed to be effective delivery to the Lenders):

(a) Annual Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year and accompanied by an opinion thereon by independent public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of the date of such financial statements and the results of their operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis.

(b) Quarterly Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such fiscal quarter, all certified (subject to normal year-end audit adjustments) as to fairness of presentation, GAAP and consistency by any vice president, the treasurer or the controller of the Borrower.

(c) Officer's Certificate. Simultaneously with the delivery of each set of financial statements referred to in subsections (a) and (b) above, a certificate of the chief accounting officer or controller of the Borrower, (i) setting forth in reasonable detail the calculations required to establish compliance with the requirements of Section 6.11 on the date of such financial statements and (ii) stating whether there exists on the date of such certificate any Default and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(d) Default. Forthwith upon acquiring knowledge of the occurrence of any (i) Default or (ii) Event of Default, in either case a certificate of a vice president or the treasurer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(e) Change in Borrower's Ratings. Promptly, upon the chief executive officer, the president, any vice president or any senior financial officer of the Borrower obtaining knowledge of any change in a Borrower's Rating, a notice of such Borrower's Rating in effect after giving effect to such change.

(f) Securities Laws Filing. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a copy of any Form 10-K Report to the SEC and a copy of any Form 10-Q Report to the SEC, and promptly upon the filing thereof, any other filings with the SEC.

(g) ERISA Matters. If and when any member of the ERISA Group: (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives, with respect to any Material Plan that is a Multiemployer Plan, notice of any complete or partial withdrawal liability under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Material Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code with respect to a Material Plan, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA; or (vii) fails to make any payment or contribution to any Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a copy of such notice, a certificate of the chief accounting officer or controller of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take.

(h) Other Information. From time to time such additional financial or other information regarding the financial condition, results of operations, properties, assets or business of the Borrower or any of its Subsidiaries as any Lender may reasonably request.

The Borrower hereby acknowledges that (a) the Administrative Agent will make available to the Lenders and each Issuing Lender materials and/or information provided by or on behalf of the Borrower hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks or another similar electronic system (the "Platform") and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a "Public Lender"). The Borrower hereby agrees that it will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all such Borrower Materials shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," the Borrower shall be deemed to have authorized the Administrative Agent, the Issuing Lenders and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Borrower or its securities for purposes of United States Federal and state securities laws (provided, however, that to the extent such Borrower Materials constitute Information (as defined below), they shall be treated as set forth in Section 9.12); (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor;" and (z) the Administrative Agent shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting (subject to Section 9.12) on a portion of the Platform not designated "Public Investor." "Information" means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or any Issuing Lender on a nonconfidential basis prior to disclosure by the Borrower or any of its Subsidiaries; provided that, in the case of information received from the Borrower or any of its Subsidiaries after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

**Section 6.02. Maintenance of Property; Insurance.**

(a) **Maintenance of Properties.** The Borrower will keep, and will cause each of its Restricted Subsidiaries to keep, all property useful and necessary in their respective businesses in good working order and condition, subject to ordinary wear and tear, unless the Borrower determines in good faith that the continued maintenance of any of such properties is no longer economically desirable and so long as the failure to so maintain such properties would not reasonably be expected to have a Material Adverse Effect.

(b) **Insurance.** The Borrower will maintain, or cause to be maintained, insurance with financially sound (determined in the reasonable judgment of the Borrower) and responsible companies in such amounts (and with such risk retentions) and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which the Borrower and its Restricted Subsidiaries operate.

**Section 6.03. Conduct of Business and Maintenance of Existence.** The Borrower will (i) continue, and will cause each of its Restricted Subsidiaries to continue, to engage in businesses of the same general type as now conducted by the Borrower and its Subsidiaries and businesses related thereto or arising out of such businesses, except to the extent that the failure to maintain any existing business would not have a Material Adverse Effect and (ii) except as otherwise permitted in Section 6.08, preserve, renew and keep in full force and effect, and will cause each of its Subsidiaries to preserve, renew and keep in full force and effect, their respective limited liability company (or other entity) existence and their respective rights, privileges and franchises necessary or material to the normal conduct of business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

**Section 6.04. Compliance with Laws, Etc.** The Borrower will comply, and will cause each of its Restricted Subsidiaries to comply, with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance could not reasonably be expected to have a Material Adverse Effect.

**Section 6.05. Books and Records.** The Borrower (i) will keep, and will cause each of its Restricted Subsidiaries to keep, proper books of record and account in conformity with GAAP and (ii) will permit representatives of the Administrative Agent and each of the Lenders to visit and inspect any of their respective properties, to examine and make copies from any of their respective books and records and to discuss their respective affairs, finances and accounts with their officers, any employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired; provided, that, the rights created in this Section 6.05 to "visit", "inspect", "discuss" and copy shall not extend to any matters which the Borrower deems, in good faith, to be confidential, unless the Administrative Agent and any such Lender agree in writing to keep such matters confidential.

**Section 6.06. Use of Proceeds.** The proceeds of the Loans made under this Agreement will be used by the Borrower to repay loans under the Existing Credit Agreement on the Effective Date and for general corporate purposes of the Borrower and its Affiliates, including for working capital purposes, and for making investments in or loans to Affiliates. The Borrower will request the issuance of Letters of Credit solely for general corporate purposes of the Borrower and its Affiliates. No such use of the proceeds for general corporate purposes will be, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock within the meaning of Regulation U.

**Section 6.07. Restriction on Liens.** The Borrower will not, nor will it permit any of its Restricted Subsidiaries to, create, incur, assume or suffer to exist any Lien upon or with respect to any property or assets of any kind (real or personal, tangible or intangible) of the Borrower or any such Restricted Subsidiary (including, without limitation, their Voting Stock), except:

(a) Liens for taxes, assessments or governmental charges or levies not yet due or which are being contested in good faith and by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books;

(b) Liens imposed by law, such as carriers', landlords', warehousemen's and mechanics' Liens and other similar Liens arising in the ordinary course of business which secure payment of obligations not more than 45 days past due or which are being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books;

(c) Liens arising out of pledges or deposits under worker's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation;

(d) easements (including, without limitation, reciprocal easement agreements and utility agreements), rights-of-way, covenants, consents, reservations, encroachments, variances and other restrictions, charges or encumbrances (whether or not recorded) affecting the use of real property;



(e) Liens existing on the Effective Date and described in Schedule 6.07 hereto;

(f) judgment Liens arising from judgments which secure payment of legal obligations that would not constitute a Default under Section 7.01;

(g) any vendor's Liens, purchase money Liens or any other Lien on any property or asset acquired by the Borrower or any of its Restricted Subsidiaries after the Effective Date existing on any such property or asset at the time of acquisition thereof (and not created in anticipation thereof); provided, that, in any such case no such Lien shall extend to or cover any other asset of the Borrower or such Restricted Subsidiaries, as the case may be;

(h) Liens, deposits and/or similar arrangements to secure the performance of bids, tenders or contracts (other than contracts for borrowed money), public or statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business by the Borrower or any of its Restricted Subsidiaries, including Liens to secure obligations under agreements for or relating to the purchase and sale of any commodity (including power purchase and sale agreements, any commodity hedge or derivative regardless of whether any such transaction is a "financial" or "physical transaction") provided, that, with respect to any Lien on electric generating plants of any Restricted Subsidiary to secure obligations under agreements for or relating to the purchase and sale of any commodity, the amount of the outstanding obligations secured by such Lien or Liens shall not, at any time, in the aggregate, exceed \$1.5 billion;

(i) Liens on assets of the Borrower and its Restricted Subsidiaries arising out of obligations or duties to any municipality or public authority with respect to any franchise, grant, license, permit or certificate;

(j) rights reserved to or vested in any municipality or public authority to control or regulate any asset of the Borrower or any of its Restricted Subsidiaries or to use such asset in a manner which does not materially impair the use of such asset for the purposes for which it is held by the Borrower or any of its Restricted Subsidiaries;

(k) irregularities in or deficiencies of title to any asset which do not materially adversely affect the use of such property by the Borrower or any of its Restricted Subsidiaries in the normal course of its business;

(l) any Lien on any property or asset of any corporation or other entity existing at the time such corporation or entity is acquired, merged or consolidated or amalgamated with or into the Borrower or any of its Restricted Subsidiaries and not created in contemplation of such event;

(m) any Lien on any asset securing Debt incurred or assumed for the purpose of financing all or any part of the cost of acquiring, constructing or improving such asset; provided, that any such Lien attaches to such asset, solely to extent of the value of the obligation secured by such Lien, concurrently with or within 180 days after the acquisition, construction or improvement thereof;

(n) any Liens in connection with the issuance of tax-exempt industrial development or pollution control bonds or other similar bonds issued pursuant to Section 103(b) of the Internal Revenue Code of 1986, as amended, to finance all or any part of the purchase price of or the cost of constructing, equipping or improving property;

(o) rights of lessees arising under leases entered into by the Borrower or any of its Restricted Subsidiaries as lessor, in the ordinary course of business;

(p) any Liens on or reservations with respect to governmental and other licenses, permits, franchises, consents and allowances; any Liens on patents, patent licenses and other patent rights, patent applications, trade names, trademarks, copyrights, claims, credits, choses in action and other intangible property and general intangibles including, but not limited to, computer software;

(q) any Liens on automobiles, buses, trucks and other similar vehicles and movable equipment; marine equipment; airplanes, helicopters and other flight equipment; and parts, accessories and supplies used in connection with any of the foregoing;

(r) any Liens on furniture and furnishings; and computers and data processing, data storage, data transmission, telecommunications and other facilities, equipment and apparatus, which, in any case, are used primarily for administrative or clerical purposes;

(s) Liens securing letters of credit entered into in the ordinary course of business;

(t) Liens granted on the capital stock of Subsidiaries that are not Restricted Subsidiaries for the purpose of securing the obligations of such Subsidiaries;

(u) Liens in addition to those permitted by clauses (a) through (t) on the property or assets of a Special Purpose Subsidiary arising in connection with the Lower Mt. Bethel Lease Financing or the lease of such property or assets through one or more

other lease financings;

(v) Liens by any Wholly Owned Subsidiary of the Borrower or any Restricted Subsidiary for the benefit of the Borrower or any such Restricted Subsidiary;

(w) Liens on property which is the subject of a Capital Lease Obligation designating the Borrower or any of its Restricted Subsidiaries as lessee and all right, title and interest of the Borrower or any of its Restricted Subsidiaries in and to such property and in, to and under such lease agreement, whether or not such lease agreement is intended as a security; provided, that the aggregate fair market value of the obligations subject to such Liens shall not at any time exceed \$500,000,000;

(x) Liens on property which is the subject of one or more leases designating the Borrower or any of its Restricted Subsidiaries as lessee and all right, title and interest of the Borrower or any of its Restricted Subsidiaries in and to such property and in, to and under any such lease agreement, whether or not any such lease agreement is intended as a security;

(y) Liens arising out of the refinancing, extension, renewal or refunding of any Debt or other obligation secured by any Lien permitted by clauses (a) through (x) of this Section; provided, that such Debt or other obligation is not increased and is not secured by any additional assets;

(z) other Liens on assets or property of the Borrower or any of its Restricted Subsidiaries, so long as the aggregate value of the obligations secured by such Liens does not exceed the greater of \$250,000,000 or 15% of the total consolidated assets of the Borrower and its Consolidated Subsidiaries as of the most recent fiscal quarter of the Borrower for which financial statements are available.

(aa) Liens granted to the Administrative Agent pursuant to Sections 2.09(a)(ii) and 2.20(a)(ii)(B) on cash collateral securing Letter of Credit Liabilities.

**Section 6.08. Merger or Consolidation.** The Borrower will not merge with or into or consolidate with or into any other corporation or entity, unless (i) immediately after giving effect thereto, no event shall occur and be continuing which constitutes a Default, (ii) the surviving or resulting Person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of the Borrower under this Agreement, (iii) substantially all of the consolidated assets and consolidated revenues of the surviving or resulting Person, as the case may be, are anticipated to come from the utility or energy businesses and (iv) the senior long-term debt ratings from both Rating Agencies of the surviving or resulting Person, as the case may be, immediately following the merger or consolidation is equal to or greater than the senior long-term debt ratings from both Rating Agencies of the Borrower immediately preceding the announcement of such consolidation or merger. No Restricted Subsidiary will merge or consolidate with any other Person if such Restricted Subsidiary is not the surviving or resulting Person, unless such other Person is (a) the Borrower or a successor of the Borrower permitted hereunder or (b) any other Person which is a Wholly Owned Restricted Subsidiary of the Borrower or a successor of the Borrower permitted hereunder.

**Section 6.09. Asset Sales.** Except for the sale of assets required to be sold to conform with governmental requirements, the Borrower shall not, and shall not permit any of its Restricted Subsidiaries to, consummate any Asset Sale, if the aggregate net book value of all such Asset Sales consummated during the four calendar quarters immediately preceding any date of determination would exceed 25% of the total assets of the Borrower and its Consolidated Subsidiaries as of the beginning of the Borrower's most recently ended full fiscal quarter; provided, however, that any such Asset Sale will be disregarded for purposes of the 25% limitation specified above: (a) if any such Asset Sale is in the ordinary course of business of the Borrower and its Subsidiaries; (b) if the assets subject to any such Asset Sale are worn out or are no longer useful or necessary in connection with the operation of the businesses of the Borrower or its Subsidiaries; (c) if the assets subject to any such Asset Sale are being transferred to a Wholly Owned Subsidiary of the Borrower; (d) if the proceeds from any such Asset Sale (i) are, within twelve (12) months of such Asset Sale, invested or reinvested by the Borrower or any Subsidiary in a Permitted Business, (ii) are used by the Borrower or a Subsidiary to repay Debt of the Borrower or such Subsidiary, or (iii) are retained by the Borrower or its Subsidiaries; or (e) if, prior to any such Asset Sale, both Rating Agencies confirm the then-current Borrower Ratings after giving effect to any such Asset Sale.

**Section 6.10. Restrictive Agreements.** Except as set forth in Schedule 6.10, the Borrower will not permit any of its Restricted Subsidiaries to enter into or assume any agreement prohibiting or otherwise restricting the ability of any Restricted Subsidiary to pay dividends or other distributions on its respective equity and equity equivalents to the Borrower or any of its Restricted Subsidiaries.

**Section 6.11. Consolidated Debt to Consolidated Capitalization Ratio.** The ratio of Consolidated Debt of the Borrower to Consolidated Capitalization of the Borrower shall not exceed 65%, measured as of the end of each fiscal quarter.

**Section 6.12. Indebtedness.** The Borrower will not permit any of its Restricted Subsidiaries to incur, create, assume or permit to exist any Debt of such Restricted Subsidiaries except:

- (a) Existing Debt and any extensions, renewals or refinancings thereof;
- (b) Debt owing to the Borrower or a Wholly Owned Restricted Subsidiary;
- (c) any Debt incurred in respect of the Lower Mt. Bethel Lease Financing;
- (d) Non-Recourse Debt; and
- (e) other Debt, the aggregate principal amount of which does not exceed \$500,000,000 at any time.

## ARTICLE VII DEFAULTS

Section 7.01. Events of Default. If one or more of the following events (each an “Event of Default”) shall have occurred and be continuing:

- (a) the Borrower shall fail to pay when due any principal on any Loans or Reimbursement Obligations; or
- (b) the Borrower shall fail to pay when due any interest on the Loans 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 hereunder; or
- (c) the Borrower shall fail to observe or perform any covenant or agreement contained in clause (ii) of Section 6.05, or Sections 6.06, 6.08, 6.09, 6.11 or 6.12; or
- (d) the Borrower shall fail to observe or perform any covenant or agreement contained in Section 6.01(d)(i) for 30 days after any such failure or in Section 6.01(d)(ii) for ten (10) days after any such failure; or
- (e) the Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement or any other Loan Document (other than those covered by clauses (a), (b), (c) or (d) 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
- (f) any representation, warranty or certification made by the Borrower in this 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
- (g) the Borrower or any Restricted Subsidiary 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
- (h) the Borrower or any Restricted Subsidiary of the Borrower 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
- (i) an involuntary case or other proceeding shall be commenced against the Borrower or any Restricted Subsidiary 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 Borrower or any Restricted Subsidiary under the Bankruptcy Code; or
- (j) 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

(k) the Borrower or any of its Restricted Subsidiaries 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 Borrower or any such Restricted Subsidiary that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(l) a Change of Control shall have occurred;

then, and in every such event, while such event is continuing, the Administrative Agent may (A) if requested by the Required Lenders, by notice to the Borrower terminate the Commitments, and the Commitments shall thereupon terminate, and (B) if requested by the Lenders holding more than 50% of the sum of the aggregate outstanding principal amount of the Loans and Letter of Credit Liabilities at such time, by notice to the Borrower declare the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Loans and Letter of Credit Liabilities shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind (except as set forth in clause (A) above), all of which are hereby waived by the Borrower and require the Borrower to, and the Borrower shall, cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding; provided, that, in the case of any Default or any Event of Default specified in clause 7.01(h) or 7.01(i) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or any Lender, the Commitments shall thereupon terminate and the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, and the Borrower shall cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding.

## ARTICLE VIII THE AGENTS

Section 8.01. Appointment and Authorization. Each Lender hereby irrevocably designates and appoints the Administrative Agent to act as specified herein and in the other Loan Documents and to take such actions on its behalf under the provisions of this Agreement and the other Loan Documents and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent agrees to act as such upon the express conditions contained in this Article VIII. Notwithstanding any provision to the contrary elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent. The provisions of this Article VIII are solely for the benefit of the Administrative Agent and Lenders, and no other Person shall have any rights as a third party beneficiary of any of the provisions hereof. For the sake of clarity, the Lenders hereby agree that no Agent other than the Administrative Agent shall have, in such capacity, any duties or powers with respect to this Agreement or the other Loan Documents.

Section 8.02. Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower and its Affiliates as though the Administrative Agent were not an Agent. With respect to the Loans made by it and all obligations owing to it, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not an Agent, and the terms "Required Lenders", "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

Section 8.03. Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents or attorneys-in-fact. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care except to the extent otherwise required by Section 8.07.

Section 8.04. Reliance by the Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy or other electronic facsimile transmission, telex, telegram, cable, teletype, electronic transmission by modem, computer disk or any other message, statement, order or other writing or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders, or all of the Lenders, if applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take

any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders or all of the Lenders, if applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

**Section 8.05. Notice of Default.** The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default hereunder unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default and stating that such notice is a "notice of default". If the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders.

**Section 8.06. Non-Reliance on the Agents and Other Lenders.** Each Lender expressly acknowledges that no Agent or officer, director, employee, agent, attorney-in-fact or affiliate of any Agent has made any representations or warranties to it and that no act by any Agent hereafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by such Agent to any Lender. Each Lender acknowledges to the Agents that it has, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower. No Agent shall have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, assets, property, financial and other condition, prospects or creditworthiness of the Borrower which may come into the possession of such Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

**Section 8.07. Exculpatory Provisions.** The Administrative Agent shall not, and no officers, directors, employees, agents, attorneys-in-fact or affiliates of the Administrative Agent, shall (i) be liable for any action lawfully taken or omitted to be taken by it under or in connection with this Agreement or any other Loan Document (except for its own gross negligence, willful misconduct or bad faith) or (ii) be responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any of its officers contained in this Agreement, in any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for any failure of the Borrower or any of its officers to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower. The Administrative Agent shall not be responsible to any Lender for the effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any other Loan Document or for any representations, warranties, recitals or statements made by any other Person herein or therein or made by any other Person in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders or by or on behalf of the Borrower to the Administrative Agent or any Lender or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the Loans or of the existence or possible existence of any Default.

**Section 8.08. Indemnification.** To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Sections 9.03(a), (b) or (c) to be paid by it to the Administrative Agent (or any sub-agent thereof), the Lenders severally agree to indemnify the Administrative Agent, in its capacity as such, and hold the Administrative Agent, in its capacity as such, harmless ratably according to their respective Commitments from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and reasonable expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the full payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against the Administrative Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Document, or any documents contemplated hereby or referred to herein or the transactions contemplated hereby or any action taken or omitted to be taken by the Administrative Agent under or in connection with any of the foregoing, but only to the extent that any of the foregoing is not paid by the Borrower; provided, that no Lender shall be liable to the Administrative Agent for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs or expenses or disbursements resulting from the gross negligence, willful misconduct or bad faith of the Administrative Agent. If any indemnity furnished to the Administrative Agent for any purpose shall, in the reasonable opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished. The agreement in this Section 8.08 shall survive the payment of all Loans, Letter of Credit Liabilities,

fees and other obligations of the Borrower arising hereunder.

Section 8.09. Resignation; Successors. The Administrative Agent may resign as Administrative Agent upon twenty (20) days notice to the Lenders. Upon the resignation of the Administrative Agent, the Required Lenders shall have the right to appoint from among the Lenders a successor to the Administrative Agent, subject to prior approval by the Borrower (so long as no Event of Default exists) (such approval not to be unreasonably withheld), whereupon such successor Administrative Agent shall succeed to and become vested with all the rights, powers and duties of the retiring Administrative Agent, and the term "Administrative Agent" shall include such successor Administrative Agent effective upon its appointment, and the retiring Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any other Loan Document. If no successor shall have been appointed by the Required Lenders and approved by the Borrower and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may at its election give notice to the Lenders and the Borrower of the immediate effectiveness of its resignation and such resignation shall thereupon become effective and the Lenders collectively shall perform all of the duties of the Administrative Agent hereunder and under the other Loan Documents until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After the retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement or any other Loan Document.

Section 8.10. Administrative Agent's Fees. The Borrower shall pay to the Administrative Agent for its own account fees in the amount and at the times agreed to and accepted by the Borrower pursuant to the Fee Letter.

## ARTICLE IX MISCELLANEOUS

Section 9.01. Notices. Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing (for purposes hereof, the term "writing" shall include information in electronic format such as electronic mail and internet web pages) or by telephone subsequently confirmed in writing; provided that the foregoing shall not apply to notices to any Lender, the Swingline Lender or Issuing Lender pursuant to Article II or Article III, as applicable, if such Lender, Swingline Lender or Issuing Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article in electronic format. Any notice shall have been duly given and shall be effective if delivered by hand delivery or sent via electronic mail, telecopy, recognized overnight courier service or certified or registered mail, return receipt requested, or posting on an internet web page, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by electronic mail, posting on an internet web page, or telecopy, (ii) on the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iii) on the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or telecopy numbers, in the case of the Borrower and the Administrative Agent, set forth below, and, in the case of the Lenders, set forth on signature pages hereto, or at such other address as such party may specify by written notice to the other parties hereto:

if to the Borrower:

PPL Energy Supply, LLC  
Two North Ninth Street (GENTW14)  
Allentown, Pennsylvania 18101-1179  
Attention: Russell R. Clelland  
Telephone: 610-774-5151  
Facsimile: 610-774-5235

with a copy to:

PPL Energy Supply, LLC  
Two North Ninth Street (GENTW4)  
Allentown, Pennsylvania 18101-1179  
Attention: Frederick C. Paine, Esq.  
Telephone: 610-774-7445  
Facsimile: 610-774-6726

if to the Administrative Agent:

Wells Fargo Bank, National Association  
1525 West W.T. Harris Boulevard  
Mail Code: MAC D1109-019

Charlotte, NC 28262  
Attention: Syndication Agency Services  
Telephone: 704.590.2706  
Telecopier: 704.590.2790  
Electronic Mail: [agencycservices.requests@wellsfargo.com](mailto:agencycservices.requests@wellsfargo.com)

with a copy to:

Wells Fargo Bank, National Association  
90 S 7th Street, MAC: N9305-070  
Minneapolis, MN 55402  
Attention: Keith Luettel  
Telephone: 612-667-4747  
Facsimile: 602-316-0506

with a copy to:

Davis Polk & Wardwell LLP  
450 Lexington Avenue  
New York, New York 10017  
Attention: Jason Kyrwood  
Telephone : 212-450-4653  
Facsimile: 212-450-5653

Section 9.02. No Waivers; Non-Exclusive Remedies. No failure by any Agent or any Lender to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any Note or other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and in the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03. Expenses; Indemnification.

(a) Expenses. The Borrower shall pay (i) all out-of-pocket expenses of the Agents, including legal fees and disbursements of Davis Polk & Wardwell LLP and any other local counsel retained by the Administrative Agent, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of the Loan Documents, the syndication efforts of the Agents with respect thereto, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) all reasonable out-of-pocket expenses incurred by the Agents and each Lender, including (without duplication) the fees and disbursements of outside counsel, in connection with any restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings in connection with the enforcement and protection of its rights; provided, that the Borrower shall not be liable for any legal fees or disbursements of any counsel for the Agents and the Lenders other than Davis Polk & Wardwell LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) Indemnity in Respect of Loan Documents. The Borrower agrees to indemnify the Agents and each Lender, their respective Affiliates and the respective directors, officers, trustees, agents, employees, trustees and advisors of the foregoing (each an "Indemnitee") and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, the reasonable fees and disbursements of counsel and any civil penalties or fines assessed by OFAC), which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened (by any third party, by the Borrower or any Subsidiary of the Borrower) in any way relating to or arising out of this Agreement, any other Loan Document or any documents contemplated hereby or referred to herein or any actual or proposed use of proceeds of Loans hereunder; provided, that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee's own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) Indemnity in Respect of Environmental Liabilities. The Borrower agrees to indemnify each Indemnitee and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in respect of or in connection with any actual or alleged presence or release of

Hazardous Substances on or from any property now or previously owned or operated by the Borrower or any of its Subsidiaries or any predecessor of the Borrower or any of its Subsidiaries, or any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Borrower hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses and disbursements in respect of or in connection with Environmental Liabilities that it might have by statute or otherwise against any Indemnitee.

(d) Waiver of Damages. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in clause (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby; provided that nothing in this Section 9.03(d) shall relieve any Lender from its obligations under Section 9.12.

Section 9.04. Sharing of Set-Offs. Each Lender agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Loan made or Note held by it and any Letter of Credit Liabilities which is greater than the proportion received by any other Lender in respect of the aggregate amount of principal and interest due with respect to any Loan, Note and Letter of Credit Liabilities made or held by such other Lender, the Lender receiving such proportionately greater payment shall purchase such participations in the Loan made or Notes and Letter of Credit Liabilities held by the other Lenders, and such other adjustments shall be made, in each case as may be required so that all such payments of principal and interest with respect to the Loan made or Notes and Letter of Credit Liabilities made or held by the Lenders shall be shared by the Lenders pro rata; provided, that nothing in this Section shall impair the right of any Lender to exercise any right of set-off or counterclaim it may have for payment of indebtedness of the Borrower other than its indebtedness hereunder.

Section 9.05. Amendments and Waivers. Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Lenders (and, if the rights or duties of the Administrative Agent, Swingline Lender or any Issuing Lenders are affected thereby, by the Administrative Agent, Swingline Lender or such Issuing Lender, as relevant); provided, that no such amendment or waiver shall, (a) unless signed by each Lender adversely affected thereby, (i) increase the Commitment of any Lender or subject any Lender to any additional obligation (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or of mandatory reductions in the Commitments shall not constitute an increase of the Commitment of any Lender, and that an increase in the available portion of any Commitment of any Lender as in effect at any time shall not constitute an increase in such Commitment), (ii) reduce the principal of or rate of interest on any Loan (except in connection with a waiver of applicability of any post-default increase in interest rates) or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder, (iii) postpone the date fixed for any payment of interest on any Loan or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder or for any scheduled reduction or termination of any Commitment or (except as expressly provided in Article III) expiration date of any Letter of Credit, (iv) postpone or change the date fixed for any scheduled payment of principal of any Loan, (v) change any provision hereof in a manner that would alter the pro rata funding of Loans required by Section 2.04(b), the pro rata sharing of payments required by Sections 2.11(a), 2.09(b) or 9.04 or the pro rata reduction of Commitments required by Section 2.08(a) or (vi) change the currency in which Loans are to be made, Letters of Credit are to be issued or payment under the Loan Documents is to be made, or add additional borrowers or (b) unless signed by each Lender, change the definition of Required Lender or this Section 9.05 or Section 9.06(a).

#### Section 9.06. Successors and Assigns.

(a) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all of the Lenders, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.08 of this Agreement.

(b) Participations. Any Lender may at any time grant to one or more banks or other financial institutions or special purpose funding vehicle (each a "Participant") participating interests in its Commitments and/or any or all of its Loans and Letter of Credit Liabilities. In the event of any such grant by a Lender of a participating interest to a Participant, whether or not upon notice to the Borrower and the Administrative Agent, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrower, the Issuing Lenders, Swingline Lender and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided, that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement which would (i) extend the Termination Date, reduce the rate or extend the time



of payment of principal, interest or fees on any Loan or Letter of Credit Liability in which such Participant is participating (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the Participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default or of a mandatory reduction in the Commitments shall not constitute a change in the terms of such participation, and that an increase in any Commitment or Loan or Letter of Credit Liability shall be permitted without the consent of any Participant if the Participant's participation is not increased as a result thereof) or (ii) allow the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, without the consent of the Participant, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.08 of this Agreement. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article II with respect to its participating interest to the same extent as if it were a Lender, subject to the same limitations, and in no case shall any Participant be entitled to receive any amount payable pursuant to Article II that is greater than the amount the Lender granting such Participant's participating interest would have been entitled to receive had such Lender not sold such participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b). Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register (solely for tax purposes) on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"). The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(c) Assignments Generally. Any Lender may at any time assign to one or more Eligible Assignees (each, an "Assignee") all, or a proportionate part (equivalent to an initial amount of not less than \$5,000,000 or any larger integral multiple of \$1,000,000), of its rights and obligations under this Agreement and the Notes with respect to its Loans and, if still in existence, its Commitment, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit C attached hereto executed by such Assignee and such transferor, with (and subject to) the consent of the Borrower, which shall not be unreasonably withheld or delayed, the Administrative Agent, Swingline Lender and the Issuing Lenders, which consent shall not be unreasonably withheld or delayed; provided, that if an Assignee is an Affiliate of such transferor Lender or was a Lender immediately prior to such assignment, no such consent of the Borrower or the Administrative Agent shall be required; provided, further, that if at the time of such assignment a Default or an Event of Default has occurred and is continuing, no such consent of the Borrower shall be required; provided, further, that no such assignment may be made prior to the Effective Date without the prior written consent of the Joint Lead Arrangers; provided, further, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a transferor with respect to any Loans made, any Letters of Credit issued or any other actions taken by such transferor while it was a Lender. Upon execution and delivery of such instrument and payment by such Assignee to such transferor of an amount equal to the purchase price agreed between such transferor and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender with a Commitment, if any, as set forth in such instrument of assumption, and the transferor shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this subsection (c), the transferor, the Administrative Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to the Assignee. In connection with any such assignment, the transferor shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$3,500; provided that the Administrative Agent may, in its sole discretion, elect to waive such administrative fee in the case of any assignment. Each Assignee shall, on or before the effective date of such assignment, deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States Taxes in accordance with Section 2.17(e).

(d) Assignments to Federal Reserve Banks. Any Lender may at any time assign all or any portion of its rights under this Agreement and its Note to a Federal Reserve Bank. No such assignment shall release the transferor Lender from its obligations hereunder.

(e) Register. The Borrower hereby designates the Administrative Agent to serve as the Borrower's agent, solely for purposes of this Section 9.06(e), to (i) maintain a register (the "Register") on which the Administrative Agent will record the Commitments from time to time of each Lender, the Loans made by each Lender and each repayment in respect of the principal amount of the Loans of each Lender and to (ii) retain a copy of each Assignment and Assumption Agreement delivered to the Administrative Agent pursuant to this Section. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower's obligation in respect of such Loans. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent, Swingline Lender, the Issuing Lenders and the other Lenders shall treat each Person in whose name a Loan and the Note evidencing the same is registered as the owner thereof for all purposes of this Agreement, notwithstanding notice or any provision herein to the contrary. With respect to any Lender, the assignment or other transfer of the Commitments of such Lender and the rights to the principal of, and interest on, any Loan made and any Note issued pursuant to this Agreement shall not be effective until such assignment or other transfer is recorded on the Register and, except to the extent provided in this subsection 9.06(e), otherwise complies with Section 9.06, and prior to such recordation all amounts owing to the transferring Lender with respect to such

Commitments, Loans and Notes shall remain owing to the transferring Lender. The registration of assignment or other transfer of all or part of any Commitments, Loans and Notes for a Lender shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement and payment of the administrative fee referred to in Section 9.06(c). The Register shall be available for inspection by each of the Borrower, the Swingline Lender and each Issuing Lender at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender wishing to consult with other Lenders in connection therewith may request and receive from the Administrative Agent a copy of the Register. The Borrower may not replace any Lender pursuant to Section 2.08(b), unless, with respect to any Notes held by such Lender, the requirements of subsection 9.06(c) and this subsection 9.06(e) have been satisfied.

Section 9.07. Governing Law; Submission to Jurisdiction. This Agreement and each Note shall be governed by and construed in accordance with the internal laws of the State of New York. The Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such court and any claim that any such proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.08. Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Effective Date. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. On and after the Effective Date, this Agreement, the other Loan Documents, and the Fee Letter constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 9.09. Generally Accepted Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries most recently delivered to the Lenders; provided, that, if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article VI to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Article VI for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Lenders.

Section 9.10. Usage. The following rules of construction and usage shall be applicable to this Agreement and to any instrument or agreement that is governed by or referred to in this Agreement.

(a) All terms defined in this Agreement shall have the defined meanings when used in any instrument governed hereby or referred to herein and in any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein.

(b) The words "hereof", "herein", "hereunder" and words of similar import when used in this Agreement or in any instrument or agreement governed here shall be construed to refer to this Agreement or such instrument or agreement, as applicable, in its entirety and not to any particular provision or subdivision hereof or thereof.

(c) References in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, this Agreement unless the context otherwise requires; references in any instrument or agreement governed by or referred to in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, such instrument or agreement unless the context otherwise requires.

(d) The definitions contained in this Agreement shall apply equally to the singular and plural forms of such terms. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The word "will" shall be construed to have the same meaning as the word "shall". The term "including" shall be construed to have the same meaning as the phrase "including without limitation".

(e) Unless the context otherwise requires, any definition of or reference to any agreement, instrument, statute or document contained in this Agreement or in any agreement or instrument that is governed by or referred to in this Agreement shall be construed (i) as referring to such agreement, instrument, statute or document as the same may be amended, supplemented or otherwise

modified from time to time (subject to any restrictions on such amendments, supplements or modifications set forth in this Agreement or in any agreement or instrument governed by or referred to in this Agreement), including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and (ii) to include (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. Any reference to any Person shall be construed to include such Person's successors and permitted assigns.

(f) Unless the context otherwise requires, whenever any statement is qualified by "to the best knowledge of" or "known to" (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

**Section 9.11. WAIVER OF JURY TRIAL. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.**

**Section 9.12. Confidentiality.** Each Lender agrees to hold all non-public information obtained pursuant to the requirements of this Agreement in accordance with its customary procedure for handling confidential information of this nature and in accordance with safe and sound banking practices; provided, that nothing herein shall prevent any Lender from disclosing such information (i) to any other Lender or to any Agent, (ii) to any other Person if reasonably incidental to the administration of the Loans and Letter of Credit Liabilities, (iii) upon the order of any court or administrative agency, (iv) to the extent requested by, or required to be disclosed to, any rating agency or regulatory agency or similar authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (v) which had been publicly disclosed other than as a result of a disclosure by any Agent or any Lender prohibited by this Agreement, (vi) in connection with any litigation to which any Agent, any Lender or any of their respective Subsidiaries or Affiliates may be party, (vii) to the extent necessary in connection with the exercise of any remedy hereunder, (viii) to such Lender's or Agent's Affiliates and their respective directors, officers, employees and agents including legal counsel and independent auditors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (ix) with the consent of the Borrower, (x) to Gold Sheets and other similar bank trade publications, such information to consist solely of deal terms and other information customarily found in such publications and (xi) subject to provisions substantially similar to those contained in this Section, to any actual or proposed Participant or Assignee or to any actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Borrower's Obligations hereunder. Notwithstanding the foregoing, any Agent, any Lender or Davis Polk & Wardwell LLP may circulate promotional materials and place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web, in each case, after the closing of the transactions contemplated by this Agreement in the form of a "tombstone" or other release limited to describing the names of the Borrower or its Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense.

**Section 9.13. USA PATRIOT Act Notice.** Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub.L. 107-56 (signed into law October 26, 2001)) (the "Patriot Act"), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Patriot Act.

**Section 9.14. No Fiduciary Duty.** Each Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph, the "Lender Parties"), may have economic interests that conflict with those of the Borrower, its Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the "Borrower Parties"). The Borrower agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty (other than any implied duty of good faith) between any Lender Party, on the one hand, and any Borrower Party, on the other. The Lender Parties acknowledge and agree that (a) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm's-length commercial transactions between the Lender Parties, on the one hand, and the Borrower, on the other and (b) in connection therewith and with the process leading thereto, (i) no Lender Party has assumed an advisory or fiduciary responsibility in favor of any Borrower Party with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender Party has advised, is currently advising or will advise any Borrower Party on other matters) or any other obligation to any Borrower Party except the obligations expressly set forth in the Loan Documents and (ii) each Lender Party is acting solely as principal and not as the agent or fiduciary of any Borrower Party. The Borrower acknowledges and agrees that the Borrower has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Lender Party has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to any Borrower Party, in connection with such transaction or the

process leading thereto.

Section 9.15. Amendment and Restatement of Existing Credit Agreement. Upon the execution and delivery of this Agreement, the Existing Credit Agreement shall be amended and restated to read in its entirety as set forth herein. With effect from and including the Effective Date, (i) the Commitments of each Lender party hereto (the “**Extending Lenders**”) shall be as set forth on the Commitment Appendix (and any Lender under the Existing Credit Agreement that is not listed on the Commitment Appendix shall cease to be a Lender hereunder; provided that, for the avoidance of doubt, such Lender under the Existing Credit Agreement shall continue to be entitled to the benefits of Section 9.03 of the Existing Credit Agreement), (ii) the Commitment Ratio of the Extending Lenders shall be redetermined based on the Commitments set forth in the Commitment Appendix and the participations of the Extending Lenders in, and the obligations of the Extending Lenders in respect of, any Letters of Credit or Swingline Loans outstanding on the Effective Date shall be reallocated to reflect such redetermined Commitment Ratio and (iii) each JLA Issuing Bank shall have the Fronting Sublimit set forth in the JLA L/C Fronting Sublimits Appendix.

[Signature Pages to Follow]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

PPL ENERGY SUPPLY, LLC

By: /s/ Russell R. Clelland

Name: Russell R. Clelland

Title: Assistant Treasurer

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WELLS FARGO BANK, NATIONAL ASSOCIATION, as  
Administrative Agent, Issuing Lender, Swingline Lender and  
Lender

By: /s/ Keith Luettel

Name: Keith Luettel

Title: Vice President

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BANK OF AMERICA, N.A., as Issuing Lender and Lender

By: /s/ Mike Mason

Name: Mike Mason

Title: Director

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THE ROYAL BANK OF SCOTLAND PLC, as Issuing Lender  
and Lender

By: /s/ Tyler J. McCarthy  
Name: Tyler J. McCarthy  
Title: Director

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BARCLAYS BANK PLC, as Issuing Lender and Lender

By: /s/ Ronnie Glenn

Name: Ronnie Glenn

Title: Vice President

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THE BANK OF NOVA SCOTIA, as Issuing Lender and Lender

By: /s/ Thane Rattew

Name: Thane Rattew

Title: Managing Director

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THE BANK OF TOKYO-MITSUBISHI UFJ, INC. as Issuing  
Lender and Lender

By: /s/ Alan Reiter

Name: Alan Reiter

Title: Vice President

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UNION BANK, N.A., as Issuing Lender and Lender

By: /s/ Carmelo Restifo

Name: Carmelo Restifo

Title: Director

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BNP PARIBAS, as a Lender

By: /s/ Denis O'Meara

Name: Denis O'Meara

Title: Managing Director

BNP PARIBAS, as a Lender

By: /s/ Pasquale A. Perraglia IV

Name: Pasquale A. Perraglia IV

Title: Vice President

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CITIBANK, N.A., as a Lender

By: /s/ Amit Vasani

Name: Amit Vasani

Title: Vice President

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CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH, as a  
Lender

By: /s/ Christopher Reo Day

Name: Christopher Reo Day

Title: Vice President

By: /s/ Vipul Dhadda

Name: Vipul Dhadda

Title: Associate

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GOLDMAN SACHS BANK USA, as a Lender

By: /s/ Mark Walton

Name: Mark Walton

Title: Authorized Signatory

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J.P. MORGAN CHASE BANK, N.A., as a Lender

By: /s/ Juan Javellana

Name: Juan Javellana

Title: Executive Director

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MORGAN STANLEY BANK, N.A., as a Lender

By: /s/ Kelly Chin

Name: Kelly Chin

Title: Authorized Signatory

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ROYAL BANK OF CANADA, as a Lender

By: /s/ Frank Lambrinos

Name: Frank Lambrinos

Title: Authorized Signatory

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UBS LOAN FINANCE LLC, as a Lender

By: /s/ Irja R. Otsa

Name: Irja R. Otsa

Title: Associated Director

UBS LOAN FINANCE LLC, as a Lender

By: /s/ David Urban

Name: David Urban

Title: Associated Director

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CREDIT AGRICOLE CORPORATE AND INVESTMENT  
BANK, as a Lender

By: /s/ Dixon Schultz  
Name: Dixon Schultz  
Title: Managing Director

By: /s/ Sharada Manne  
Name: Sharada Manne  
Title: Managing Director

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KEYBANK NATIONAL ASSOCIATION,, as a Lender

By: /s/ Craig A. Hanselman

Name: Craig A. Hanselman

Title: Vice President

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LLOYDS TSB BANK PLC, as a Lender

By: /s/ Stephen Giacolone

Name: Stephen Giacolone

Title: Assistant Vice President -G011

LLOYDS TSB BANK PLC, as a Lender

By: /s/ Julia R. Franklin

Name: Julia R. Franklin

Title: Vice President - F014

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MUZUHO CORPORATE BANK, LTD., as a Lender

By: /s/ Leon Mo

Name: Leon Mo

Title: Authorized Signatory

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SUNTRUST BANK, as a Lender

By: /s/ Andrew Johnson

Name: Andrew Johnson

Title: Director

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THE BANK OF NEW YORK MELLON, as a Lender

By: /s/ Mark W. Rogers

Name: Mark W. Rogers

Title: Vice President

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U.S. BANK NATIONAL ASSOCIATION, as a Lender

By: /s/ John M. Eyerman

Name: John M. Eyerman

Title: Vice President

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CANADIAN IMPERIAL BANK OF COMMERCE, New York  
Agency, as a Lender

By: /s/ Robert Casey

Name: Robert Casey

Title: Authorized Signatory

By: /s/ Jonathan J. Kim

Name: Jonathan J. Kim

Title: Authorized Signatory

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COMPASS BANK, as a Lender

By: /s/ Susana Campuzano

Name: Susana Campuzano

Title: Senior Vice President

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PNC BANK, NATIONAL ASSOCIATION, as a Lender

By: /s/ Edward M. Tessalone

Name: Edward M. Tessalone

Title: Senior Vice President PNC Bank, N.A.

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SOVEREIGN BANK, N.A., as a Lender

By: /s/ William Maag

Name: William Maag

Title: Senior Vice President

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SUMITOMO MITSUI BANKING CORPORATION, as a Lender

By: /s/ Shugi Yabe

Name: Shugi Yabe

Title: Managing Director

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THE NORTHERN TRUST COMPANY, as a Lender

By: /s/ Daniel Boote

Name: Daniel Boote

Title: Senior Vice President

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## Commitment Appendix

<b>Lender</b>	<b>Revolving Commitment</b>
Wells Fargo Bank, National Association	\$154,285,714.30
Bank of America, N.A.	\$154,285,714.30
The Royal Bank of Scotland plc	\$154,285,714.29
Barclays Bank PLC	\$141,071,428.57
The Bank of Nova Scotia	\$141,071,428.57
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$70,535,714.29
Union Bank, N.A.	\$70,535,714.29
BNP Paribas	\$141,071,428.57
Citibank, N.A.	\$141,071,428.57
Credit Suisse AG, Cayman Islands Branch	\$141,071,428.57
Goldman Sachs Bank USA	\$141,071,428.57
JPMorgan Chase Bank, N.A.	\$141,071,428.57
Morgan Stanley Bank, N.A.	\$141,071,428.57
Royal Bank of Canada	\$141,071,428.57
UBS Loan Finance LLC	\$141,071,428.57
Credit Agricole Corporate & Investment Bank	\$100,714,285.71
KeyBank National Association	\$100,714,285.71
Lloyds Bank	\$100,714,285.71
Mizuho Corporate Bank, Ltd.	\$100,714,285.71
SunTrust Bank	\$100,714,285.71
The Bank of New York Mellon	\$100,714,285.71
U.S. Bank National Association	\$100,714,285.71
Canadian Imperial Bank of Commerce	\$48,928,571.43
Compass Bank	\$48,928,571.43
PNC Bank, National Association	\$48,928,571.43
Sovereign Bank, N.A.	\$48,928,571.43
Sumitomo Mitsui Banking Corporation	\$48,928,571.43
The Northern Trust Company	\$35,714,285.71
<b>Total</b>	<b>\$3,000,000,000.00</b>

## JLA L/C Fronting Sublimits Appendix

<b>Issuing Lender</b>	<b>L/C Fronting Sublimit</b>
Wells Fargo Bank, National Association	\$583,333,333.33
Bank of America, N.A.	\$583,333,333.33
The Royal Bank of Scotland plc	\$583,333,333.33
Barclays Bank PLC	\$416,666,666.67
The Bank of Nova Scotia	\$416,666,666.67
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$416,666,666.67
<b>Total</b>	<b>\$3,000,000,000.00</b>

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Restricted Subsidiaries<sup>1</sup>

<u>Restricted Subsidiary</u>	<u>Jurisdiction of Organization</u>
PPL Generation, LLC	Delaware
PPL Montana Holdings, LLC	Delaware
PPL Montana, LLC	Delaware
PPL Martins Creek, LLC	Delaware
PPL Brunner Island, LLC	Delaware
PPL Montour, LLC	Delaware
PPL Susquehanna, LLC	Delaware
PPL Holtwood, LLC	Delaware
PPL EnergyPlus, LLC	Pennsylvania
PPL Investment Corporation	Delaware

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<sup>1</sup> As of November 6, 2012

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**Guaranties of Foreign Subsidiary Debt**

None.

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SCHEDULE 6.07

Existing Liens

Debtor	State	Jurisdiction	Services	Original File Date and Number	Secured Party	Related Filings
PPL Brunner Island, LLC	DE	Secretary of State	UCC/FTL Search-Central	10-10-08 #2008 3433164	Golf Cart Services, Inc.	
PPL EnergyPlus, LLC	PA	Department of State	UCC Search - Central - Direct Access	10-28-09 #2009102806037	Midwest Transmission System Operator, Inc.	
PPL Generation, LLC	DE	Secretary of State	UCC/FTL Search-Central	05-30-07 #2007 2013067	General Electric Capital Corporation	
PPL Montana, LLC	DE	Secretary of State	UCC/FTL Search-Central	07-21-00 #0046682	The Bank of New York, as Assignee of the Secured Party	Continuation 06-03-05 Amendment 11-30-06
PPL Montana, LLC	DE	Secretary of State	UCC/FTL Search-Central	07-21-00 #0046686	The Bank of New York, as Assignee of the Secured Party	Continuation 06-03-05 Amendment 11-30-06
PPL Montana, LLC	DE	Secretary of State	UCC/FTL Search-Central	07-21-00 #0046689	The Bank of New York, as Assignee of the Secured Party	Continuation 06-03-05 Amendment 11-30-06
PPL Montana, LLC	DE	Secretary of State	UCC/FTL Search-Central	07-21-00 #046695	The Bank of New York, as Assignee of the Secured Party	Continuation 06-03-05 Amendment 11-30-06
PPL Montana, LLC	DE	Secretary of State	UCC/FTL Search-Central	09-27-01 #112644 1	Dell Financial Services, L.P.	Continuation 09-06-06
PPL Montana, LLC	MT	US District Court	Pending Suits and Judgments	01-09-03 #03-cv-00001	Margaret A. McGreevey	
PPL Montana, LLC (add'l defendants ABC Corporation, John Does 1-10)	MT	US District Court	Pending Suits and Judgments	03-02-10 #10-cv-00023	Patrick Campbell	

**Restrictive Agreements**

PPL Montana, LLC and PPL Montana Holdings, LLC: Restrictions on the payment of dividends and similar distributions arising in connection with the pass-through certificates, lessor notes and other lease obligations relating to PPL Montana's leases relating to the Colstrip Facility.

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**Existing Debt**

None.

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### Form of Notice of Borrowing

Wells Fargo Bank, National Association,  
 as Administrative Agent  
 1525 W WT Harris Boulevard  
 Charlotte, NC 28262  
 Attention: Syndication Agency Services

Ladies and Gentlemen:

This notice shall constitute a "Notice of Borrowing" pursuant to Section 2.03 of the \$3,000,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among PPL Energy Supply, LLC, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The date of the Borrowing will be \_\_\_\_\_, \_\_\_\_\_.<sup>2</sup>
2. The aggregate principal amount of the Borrowing will be \_\_\_\_\_.<sup>3</sup>
3. The Borrowing will consist of [Revolving] [Swingline] Loans.
4. The Borrowing will consist of [Base Rate] [Euro-Dollar] Loans.<sup>4</sup>
5. The initial Interest Period for the Loans comprising such Borrowing shall be \_\_\_\_\_.<sup>5</sup>

[Insert appropriate delivery instructions, which shall include bank and account number ].

PPL ENERGY SUPPLY, LLC

By: \_\_\_\_\_  
 Name:  
 Title:

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<sup>2</sup> Must be a Business Day.

<sup>3</sup> Revolving Borrowings must be an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000, except the Borrowing may be in the aggregate amount of the remaining unused Revolving Commitment. Swingline Borrowings must be an aggregate principal amount of \$5,000,000 or any larger integral multiple of \$1,000,000.

<sup>4</sup> Applicable for Revolving Loans only.

<sup>5</sup> Applicable for Euro-Dollar Loans only. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of "Interest Period").

## Form of Notice of Conversion/Continuation

Wells Fargo Bank, National Association,  
as Administrative Agent  
1525 W WT Harris Boulevard  
Charlotte, NC 28262  
Attention: Syndication Agency Services

Ladies and Gentlemen:

This notice shall constitute a "Notice of Conversion/Continuation" pursuant to Section 2.06(d)(ii) of the \$3,000,000,000 Amended and Restated Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among PPL Energy Supply, LLC, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The Group of Loans (or portion thereof) to which this notice applies is [all or a portion of all Base Rate Loans currently outstanding] [all or a portion of all Euro-Dollar Loans currently outstanding having an Interest Period of \_\_\_ months and ending on the Election Date specified below].
2. The date on which the conversion/continuation selected hereby is to be effective is \_\_\_\_\_, \_\_\_\_\_ (the "Election Date").<sup>6</sup>
3. The principal amount of the Group of Loans (or portion thereof) to which this notice applies is \$ \_\_\_\_\_.<sup>7</sup>
4. [The Group of Loans (or portion thereof) which are to be converted will bear interest based upon the [Base Rate] [Adjusted London Interbank Offered Rate].] [The Group of Loans (or portion thereof) which are to be continued will bear interest based upon the [Base Rate][Adjusted London Interbank Offered Rate].]
5. The Interest Period for such Loans will be \_\_\_\_\_.<sup>8</sup>

<sup>6</sup> Must be a Business Day.

<sup>7</sup> May apply to a portion of the aggregate principal amount of the relevant Group of Loans; provided that (i) such portion is allocated ratably among the Loans comprising such Group and (ii) the portion to which such notice applies, and the remaining portion to which it does not apply, are each \$10,000,000 or any larger integral multiple of \$1,000,000.

<sup>8</sup> Applicable only in the case of a conversion to, or a continuation of, Euro-Dollar Loans. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of Interest Period).

PPL ENERGY SUPPLY, LLC

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

---

## Form of Letter of Credit Request

\_\_\_\_\_, \_\_\_\_\_  
 [Insert details of Issuing Lender]

Ladies and Gentlemen:

This notice shall constitute a "Letter of Credit Request" pursuant to Section 3.03 of the \$3,000,000,000 Amended and Restated Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among PPL Energy Supply, LLC, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

The undersigned hereby requests that \_\_\_\_\_<sup>9</sup> issue a Standby Letter of Credit on \_\_\_\_\_,  
 \_\_\_\_\_<sup>10</sup> in the aggregate amount of \$ \_\_\_\_\_. [This request is to extend a Letter of Credit previously issued under the  
 Credit Agreement; Letter of Credit No. \_\_\_\_\_.]

The beneficiary of the requested Standby Letter of Credit will be \_\_\_\_\_<sup>11</sup>, and such Standby Letter of Credit  
 will be in support of \_\_\_\_\_<sup>12</sup> and will have a stated termination date of \_\_\_\_\_<sup>13</sup>.

Copies of all documentation with respect to the supported transaction are attached hereto.

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<sup>9</sup> Insert name of Issuing Lender.

<sup>10</sup> Must be a Business Day.

<sup>11</sup> Insert name and address of beneficiary.

<sup>12</sup> Insert a description of the obligations, the name of each agreement and/or a description of the commercial transaction to which this Letter of Credit Request relates.

<sup>13</sup> Insert the last date upon which drafts may be presented (which may not be later than one year after the date of issuance specified above or beyond the fifth Business Day prior to the Termination Date).

---

PPL ENERGY SUPPLY, LLC

By: \_\_\_\_\_  
Name:  
Title:

APPROVED:

[ISSUING LENDER]

By: \_\_\_\_\_  
Name:  
Title:

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## Form of Note

FOR VALUE RECEIVED, the undersigned, PPL ENERGY SUPPLY, LLC, a Delaware limited liability company (the "**Borrower**"), promises to pay to the order of \_\_\_\_\_ (hereinafter, together with its successors and assigns, called the "**Holder**"), at the Administrative Agent's Office or such other place as the Holder may designate in writing to the Borrower, the principal sum of \_\_\_\_\_ AND \_\_\_\_\_/100s DOLLARS (\$ \_\_\_\_\_), or, if less, the principal amount of all Loans advanced by the Holder to the Borrower pursuant to the Credit Agreement (as defined below), plus interest as hereinafter provided. Such Loans may be endorsed from time to time on the grid attached hereto, but the failure to make such notations shall not affect the validity of the Borrower's obligation to repay unpaid principal and interest hereunder.

All capitalized terms used herein shall have the meanings ascribed to them in that certain \$3,000,000,000 Amended and Restated Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (as the same may be amended, modified or supplemented from time to time, the "**Credit Agreement**") by and among the Borrower, the lenders party thereto (collectively, the "**Lenders**") and Wells Fargo Bank, National Association, as administrative agent (the "**Administrative Agent**") for itself and on behalf of the Lenders and the Issuing Lenders, except to the extent such capitalized terms are otherwise defined or limited herein.

The Borrower shall repay principal outstanding hereunder from time to time, as necessary, in order to comply with the Credit Agreement. All amounts paid by the Borrower shall be applied to the Obligations in such order of application as provided in the Credit Agreement.

A final payment of all principal amounts and other Obligations then outstanding hereunder shall be due and payable on the maturity date provided in the Credit Agreement, or such earlier date as payment of the Loans shall be due, whether by acceleration or otherwise.

The Borrower shall be entitled to borrow, repay, reborrow, continue and convert the Holder's Loans (or portion thereof) hereunder pursuant to the terms and conditions of the Credit Agreement. Prepayment of the principal amount of any Loan may be made as provided in the Credit Agreement.

The Borrower hereby promises to pay interest on the unpaid principal amount hereof as provided in Article II of the Credit Agreement. Interest under this Note shall also be due and payable when this Note shall become due (whether at maturity, by reason of acceleration or otherwise). Overdue principal and, to the extent permitted by law, overdue interest, shall bear interest payable on DEMAND at the default rate as provided in the Credit Agreement.

In no event shall the amount of interest due or payable hereunder exceed the maximum rate of interest allowed by applicable law, and in the event any such payment is inadvertently made by the Borrower or inadvertently received by the Holder, then such excess sum shall be credited as a payment of principal, unless the Borrower shall notify the Holder in writing that it elects to have such excess sum returned forthwith. It is the express intent hereof that the Borrower not pay and the Holder not receive, directly or indirectly in any manner whatsoever, interest in excess of that which may legally be paid by the Borrower under applicable law.

All parties now or hereafter liable with respect to this Note, whether the Borrower, any guarantor, endorser or any other Person or entity, hereby waive presentment for payment, demand, notice of non-payment or dishonor, protest and notice of protest.

No delay or omission on the part of the Holder or any holder hereof in exercising its rights under this Note, or delay or omission on the part of the Holder, the Administrative Agent or the Lenders collectively, or any of them, in exercising its or their rights under the Credit Agreement or under any other Loan Document, or course of conduct relating thereto, shall operate as a waiver of such rights or any other right of the Holder or any holder hereof, nor shall any waiver by the Holder, the Administrative Agent, the Required Lenders or the Lenders collectively, or any of them, or any holder hereof, of any such right or rights on any one occasion be deemed a bar to, or waiver of, the same right or rights on any future occasion.

The Borrower promises to pay all reasonable costs of collection, including reasonable attorneys' fees, should this Note be collected by or through an attorney-at-law or under advice therefrom.

This Note evidences the Holder's Loans (or portion thereof) under, and is entitled to the benefits and subject to the terms of, the Credit Agreement, which contains provisions with respect to the acceleration of the maturity of this Note upon the happening of certain stated events, and provisions for prepayment.

This Note shall be governed by and construed in accordance with the internal laws of the State of New York.

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IN WITNESS WHEREOF, the undersigned has caused this Note to be executed by its duly authorized representative as of the day and year first above written.

PPL ENERGY SUPPLY, LLC

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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**LOANS AND PAYMENTS OF PRINCIPAL**

Date	Amount of Loan	Type	Amount of Principal Repaid	Notation Made By

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### Form of Assignment and Assumption Agreement

This Assignment and Assumption (the "Assignment and Assumption") is dated as of the Effective Date set forth below and is entered into by and between [the] [each]<sup>14</sup> Assignor identified on the Schedules hereto as "Assignor" [or "Assignors" (collectively, the "Assignors" and each] an "Assignor") and [the] [each]<sup>15</sup> Assignee identified on the Schedules hereto as "Assignee" or "Assignees" (collectively, the "Assignees" and each an "Assignee"). [It is understood and agreed that the rights and obligations of [the Assignors] [the Assignees]<sup>16</sup> hereunder are several and not joint.]<sup>17</sup> Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the "Credit Agreement"), receipt of a copy of which is hereby acknowledged by [the] [each] Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, [the] [each] Assignor hereby irrevocably sells and assigns to [the Assignee] [the respective Assignees], and [the] [each] Assignee hereby irrevocably purchases and assumes from [the Assignor] [the respective Assignors], subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (a) all of [the Assignor's] [the respective Assignors'] rights and obligations in [its capacity as a Lender] [their respective capacities as Lenders] under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of [the Assignor] [the respective Assignors] under the respective facilities identified below (including without limitation any letters of credit, guarantees, and swingline loans included in such facilities) and (b) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of [the Assignor (in its capacity as a Lender)] [the respective Assignors (in their respective capacities as Lenders)] against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (a) above (the rights and obligations sold and assigned by [the] [any] Assignor to [the] [any] Assignee pursuant to clauses (a) and (b) above being referred to herein collectively as, the "Assigned Interest"). Each such sale and assignment is without recourse to [the] [any] Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by [the] [any] Assignor.

1. Assignor: *See Schedule attached hereto*
2. Assignee: *See Schedule attached hereto*
3. Borrower: PPL Energy Supply, LLC
4. Administrative Agent: Wells Fargo Bank, National Association, as the administrative agent under the Credit Agreement
5. Credit Agreement: The \$3,000,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 by and among PPL Energy Supply, LLC, as Borrower, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent (as amended, restated, supplemented or otherwise modified)
6. Assigned Interest: *See Schedule attached hereto*
- [7. Trade Date: \_\_\_\_\_]<sup>18</sup>

<sup>14</sup> For bracketed language here and elsewhere in this form relating to the Assignor(s), if the assignment is from a single Assignor, choose the first bracketed language. If the assignment is from multiple Assignors, choose the second bracketed language.

<sup>15</sup> For bracketed language here and elsewhere in this form relating to the Assignee(s), if the assignment is to a single Assignee, choose the first bracketed language. If the assignment is to multiple Assignees, choose the second bracketed language.

<sup>16</sup> Select as appropriate.

<sup>17</sup> Include bracketed language if there are either multiple Assignors or multiple Assignees.

<sup>18</sup> To be completed if the Assignor(s) and the Assignee(s) intend that the minimum assignment amount is to be determined as of the Trade Date.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Effective Date: \_\_\_\_\_, 20\_\_\_\_

[TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR

[NAME OF ASSIGNOR]

By: \_\_\_\_\_

Title:

ASSIGNEE

*See Schedule attached hereto*

[Consented to and]<sup>19</sup> Accepted:

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Administrative Agent, [Issuing Lender] and Swingline Lender

By \_\_\_\_\_  
Title:

[Consented to:]<sup>20</sup>

PPL ENERGY SUPPLY, LLC

By \_\_\_\_\_  
Title:

[Consented to]:

[Issuing Lender]<sup>21</sup>,  
as Issuing Lender

By \_\_\_\_\_  
Title:

[Consented to]:

[JOINT LEAD ARRANGERS]<sup>22</sup>

WELLS FARGO BANK, N.A.

By: \_\_\_\_\_  
Title:

BANK OF AMERICA, N.A.

By: \_\_\_\_\_  
Title:

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<sup>19</sup> To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.

<sup>20</sup> To be added only if the consent of the Borrower is required by the terms of the Credit Agreement.

<sup>21</sup> Add all Issuing Lender signature blocks.

<sup>22</sup> To be added if assignment is made before Effective Date.

SCHEDULE

To Assignment and Assumption

By its execution of this Schedule, the Assignee(s) agree(s) to the terms set forth in the attached Assignment and Assumption.

**Assigned Interests:**

Aggregate Amount of Commitment/ Loans for all Lenders <sup>23</sup>	Amount of Commitment/ Loans Assigned <sup>24</sup>	Percentage Assigned of Commitment/ Loans <sup>25</sup>	CUSIP Number
\$	\$	%	

[NAME OF ASSIGNEE]<sup>26</sup>

[and is an Affiliate of [ *identify Lender*]]<sup>27</sup>

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<sup>23</sup> Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

<sup>24</sup> Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

<sup>25</sup> Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

<sup>26</sup> Add additional signature blocks, as needed.

<sup>27</sup> Select as applicable.

ANNEX 1 to Assignment and Assumption

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT DATED AS OF  
NOVEMBER 6, 2012

BY AND AMONG

PPL ENERGY SUPPLY, LLC, AS BORROWER, THE LENDERS PARTY THERETO  
AND WELLS FARGO BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT  
STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1 Assignor. [The] [Each] Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of [the] [the relevant] Assigned Interest, (ii) [the] [such] Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. [The] [Each] Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the] [the relevant] Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, [the] [any] Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations that by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts that have accrued to but excluding the Effective Date and to the Assignee for amounts that have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by and construed in accordance with the internal laws of the State of New York.

## Forms of Opinions of Counsel for the Borrower

[Date]

To the Administrative Agent and  
each of the Lenders party to the Revolving  
Credit Agreement referred to below

Re: PPL Energy Supply, Corporation  
\$300,000,000 Amended and Restated Revolving Credit Agreement

Ladies and Gentlemen:

We have acted as special counsel to PPL Energy Supply, LLC, a Delaware limited liability company (the "Company"), in connection with the negotiation, execution and delivery of the \$3,000,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender, and the other Lenders from time to time party thereto (such Revolving Credit Agreement as so amended, the "Agreement"). This letter is being delivered to you at the request of the Company pursuant to Section 4.01(e) of the Agreement.

In preparing this letter, we have reviewed the Agreement[, and the Notes of the Company executed and delivered by the Company on the date hereof (the "Notes"),] and the other documents executed and delivered by the Company in connection with the Agreement. In addition, we have reviewed the Certificate of Formation of the Company filed with the office of the Secretary of State of the State of Delaware on November 14, 2000, the Company's limited liability company agreement dated March 20, 2001 and certified by an Assistant Secretary of the Company as of the date hereof, and the records of the Company's proceedings relating to the authorization of the Agreement.

Subject to the assumptions, qualifications and other limitations set forth below, it is our opinion that:

1. The Company is a limited liability company validly existing and, based solely upon a certificate issued by the Secretary of State of the State of Delaware dated November \_\_, 2012, in good standing under the Delaware Limited Liability Company Act.
2. The Company has (a) the limited liability company power to execute and deliver, and to perform its obligations under, the Agreement and (b) duly taken or caused to be taken all necessary limited liability company action to authorize the execution, delivery and performance by it of the Agreement [and the Notes].
3. The Agreement [and the Notes] has[ve] been duly executed and delivered by the Company.
4. The Agreement constitutes a valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms.
5. [The Notes constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms.]
6. The Company is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.
7. The borrowings under the Agreement and the use of proceeds thereof as contemplated by the Agreement do not violate Regulation U or X of the Board of Governors of the Federal Reserve System.

In rendering our opinions, we have (a) without independent verification, relied, with respect to factual matters, statements and conclusions, on certificates, notifications and statements, whether written or oral, of governmental officials and individuals identified to us as officers and representatives of the Company and on the representations made by the Company in the Agreement and other documents delivered to you in connection therewith and (b) reviewed originals, or copies of such agreements, documents and records as we have considered relevant and necessary as a basis for our opinions. [In rendering the opinions set forth in paragraphs 1 through 3 above, we note that any exercise by the Company of the option to increase the Commitments as contemplated in Section 2.19 of the

Agreement may require additional authorization by the Company's Board of Managers. We note that, as counsel to the Company, we do not represent it generally and there may be facts relating to the Company of which we have no knowledge.]

We have assumed (a) the accuracy and completeness of all certificates, agreements, documents, records and other materials submitted to us; (b) the authenticity of original certificates, agreements, documents, records and other materials submitted to us; (c) the conformity with the originals of any copies submitted to us; (d) the genuineness of all signatures; (e) the legal capacity of all natural persons; (f) that the Agreement constitutes the valid, legally binding and enforceable agreement of the parties thereto under all applicable law (other than, in the case of the Company, the law of the State of New York); (g) that the execution and delivery by the Company of, and the performance by the Company of its obligations under, the Agreement and the Notes does not and will not (i) breach or violate (A) any agreement or instrument to which the Company or any of its affiliates is a party or by which the Company or any of its affiliates or any of their respective properties may be bound, (B) any authorization, consent, approval or license (or the like) of, or exemption (or the like) from, or any registration or filing (or the like) with, or report or notice (or the like) to, any governmental unit, agency, commission, department or other authority granted to or otherwise applicable to the Company or any of its affiliates or any of their respective properties (each a "Governmental Approval"), (C) any order, decision, judgment or decree that may be applicable to the Company or any of its affiliates or any of their respective properties, or (D) any law (other than the law of the State of New York and the federal law of the United States), or (ii) require any Governmental Approval; (h) that the Company is engaged only in the businesses described in its Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission; (i) that there are no agreements, understandings or negotiations between the parties not set forth in the Agreement that would modify the terms thereof or the rights and obligations of the parties thereunder; and (j) for purposes of our opinion in paragraph 4 as it relates to the choice-of-law provisions in the Agreement, that the choice of law of the State of New York as the governing law of the Agreement would not result in a violation of an important public policy of another state or country having greater contacts with the transactions contemplated by the agreement than the State of New York.

Our opinions are subject to and limited by the effect of (a) applicable bankruptcy, insolvency, fraudulent conveyance, fraudulent transfer, receivership, conservatorship, arrangement, moratorium and other similar laws affecting and relating to the rights of creditors generally; (b) general equitable principles; (c) requirements of reasonableness, good faith, fair dealing and materiality; (d) Article 9 of the Uniform Commercial Code regarding restrictions on assignment or transfer of rights; and (e) additionally in the case of (i) indemnities, a requirement that facts, known to the indemnitee but not the indemnitor, in existence at the time the indemnity becomes effective that would entitle the indemnitee to indemnification be disclosed to the indemnitor, and a requirement that an indemnity provision will not be read to impose obligations upon indemnitors which are neither disclosed at the time of its execution nor reasonably within the scope of its terms and overall intention of the parties at the time of its making, (ii) waivers, Sections 9-602 and 9-603 of the Uniform Commercial Code, and (iii) indemnities, waivers and exculpatory provisions, public policy.

We express no opinion with respect to the following sections of the Agreement: (i) Section 9.02 (cumulative remedies), (ii) provisions relating to rules of evidence or quantum of proof, (iii) Section 9.07 (submission to jurisdiction and waiver of inconvenient forum), insofar as such sections relate to federal courts (except as to the personal jurisdiction thereof), and (choice of venue, i.e., requiring actions to be commenced in a particular court in a particular jurisdiction), and (iv) Section 9.11 (waiver of jury trial), insofar as such section is sought to be enforced in a federal court.

We express no opinion as to the law of any jurisdiction other than the law of the State of New York and the federal law of the United States of America, and, with respect to our opinions in paragraphs 1 through 3, the Delaware Limited Liability Company Act, and in each case, only such law that in our experience is normally applicable to transactions of the type contemplated by the Agreement and excluding (i) any law that is part of a regulatory regime applicable to specific assets or businesses of the lenders and (ii) the statutes and ordinances, the administrative decisions, and the rules and regulations of counties, towns, municipalities and special political subdivisions.

This letter speaks only as of the date hereof. We have no responsibility or obligation to update this letter or to take into account changes in law or facts or any other development of which we may later become aware.

This letter is delivered by us as special counsel for the Company solely for your benefit in connection with the transaction referred to herein and may not be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person or entity without our prior written consent.

Very truly yours,



[Date]

To the Administrative Agent and  
each of the Lenders party to the  
Credit Agreement referred to below

Re:\$3,000,000,000 Amended and Restated Revolving Credit Agreement

Ladies and Gentlemen:

I am Senior Counsel of PPL Services Corporation, an affiliate of PPL Energy Supply, LLC (the "Borrower"), and have acted as counsel to the Borrower in connection with the \$3,000,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 among the Borrower, Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender and the other Lenders from time to time party thereto (the "Agreement"). Capitalized terms used but not defined herein have the meaning assigned to such terms in the Agreement.

I am familiar with the Agreement [and the Notes of the Borrower executed and delivered by the Borrower on the date hereof (the "Notes"),] and the other documents executed and delivered by the Borrower in connection with the Agreement. I have also examined such other documents and satisfied myself as to such other matters as I have deemed necessary in order to render this opinion. I have assumed that the Agreement and instruments referred to in this opinion have been duly authorized, executed and delivered by all parties thereto other than the Borrower.

Based on the foregoing, I am of the opinion that:

1. The execution, delivery and performance by the Borrower of the Agreement [and the Notes] have been duly authorized by the Borrower and do not violate any provision of law or regulation or any decree, order, writ or judgment applicable to the Borrower, or any provision of its limited liability company agreement, or result in the breach of or constitute a default under any indenture or other agreement or instrument known to me to which it is a party.
2. [Each of] the Agreement [and the Notes] has been duly executed and delivered by the Borrower, and constitutes the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, except to the extent limited by (a) bankruptcy, insolvency, reorganization or other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles that may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to indemnification, contribution, waivers and exculpatory provisions.
3. Except as disclosed in or contemplated by the Borrower's Annual Report on Form 10-K for the year ended December 31, 2011, or in other reports filed under the Securities Exchange Act of 1934 from January 1, 2012 to the date hereof, or otherwise furnished in writing to the Administrative Agent, no litigation, arbitration or administrative proceeding or inquiry is pending or, to my knowledge, threatened which, if determined adversely to the Borrower, would materially and adversely affect the ability of the Borrower to perform any of its obligations under the Agreement [or the Notes]. To my knowledge, there is no litigation, arbitration or administrative proceeding pending or threatened that questions the validity of the Agreement [or the Notes].
4. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System.
5. There have not been any "reportable events," as that term is defined in Section 4043 of the Employee Retirement Income Security Act of 1974, as amended, which would result in a material liability of the Borrower.
6. No authorization, consent or approval of any Governmental Authority of the United States of America or the State of New York is required for the execution, delivery or performance of the Agreement by the Borrower or for the borrowings by the Borrower thereunder, except such authorizations, consents and approvals as have been obtained prior to the date hereof, which authorizations, consents and approvals are in full force and effect.

This opinion is limited to the laws of the State of New York, the Delaware Limited Liability Company Act and the federal laws of the United States of America.

Without my prior written consent, this opinion may not be furnished or quoted to, or relied upon by, any other person or entity for any

purpose.

Very truly yours,

Frederick C. Paine

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## Form of Notice of Revolving Increase

Dated as of: \_\_\_\_\_

PPL ENERGY SUPPLY, LLC (the "**Borrower**"), in connection with the \$3,000,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012, among the Borrower, Wells Fargo Bank, National Association, as Administrative Agent, and the Lenders party thereto from time to time (the "**Credit Agreement**"), hereby certifies that:

1. The Borrower has obtained an agreement from certain financial institutions to increase their Revolving Commitments in the aggregate amount of \_\_\_\_\_ (\$ \_\_\_\_\_) <sup>28</sup> (the "**Commitment Increase**").

2. All of the representations and warranties of the Borrower made under the Credit Agreement (including, without limitation, all representations and warranties with respect to the Borrower's Subsidiaries) and the other Loan Documents are as of the date hereof, and will be as of the effective date of the Commitment Increase, true and correct in all material respects except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date.

3. There does not exist, as of this date, and there will not exist after giving effect to the Commitment Increase, any Default or Event of Default under the Credit Agreement.

4. All necessary governmental, regulatory and third party approvals, if required, have been obtained or made, are in full force and effect and are not subject to any pending or, to the knowledge of the Borrower, threatened reversal or cancellation.

5. Attached hereto as Annex A are resolutions adopted by the Borrower authorizing such Commitment Increase, and such resolutions are true and correct and have not been altered, amended or repealed and are in full force and effect.

Capitalized terms used in this Notice of Revolving Increase and not otherwise defined herein are used as defined in the Credit Agreement.

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<sup>28</sup> Each Optional Commitment Increase shall be in a minimum amount of \$50,000,000.

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IN WITNESS WHEREOF, the Borrower, acting through an authorized signatory, has signed this Notice of Revolving Increase as of the day and year first above written.

PPL ENERGY SUPPLY, LLC

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

---

## Annex A to Exhibit E

\$400,000,000

**AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT**

dated as of November 6, 2012

among

**KENTUCKY UTILITIES COMPANY,**

**THE LENDERS FROM TIME TO TIME PARTY HERETO**

and

**WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Administrative Agent, Issuing Lender and Swingline Lender**

---

**WELLS FARGO SECURITIES, LLC,  
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED, RBS SECURITIES INC.,  
BARCLAYS BANK PLC,  
THE BANK OF NOVA SCOTIA**

and

**mitsubishi ufj financial group, inc.,  
Joint Lead Arrangers and Joint Bookrunners**

**BANK OF AMERICA, N.A.**

and

**THE ROYAL BANK OF SCOTLAND PLC,  
Syndication Agents**

**BARCLAYS BANK PLC,  
THE BANK OF NOVA SCOTIA**

and

**mitsubishi ufj financial group, inc.,  
Documentation Agents**

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**Appendices:**

Commitment Appendix  
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**Exhibits:**

Exhibit A-1	-	Form of Notice of Borrowing
Exhibit A-2	-	Form of Notice of Conversion/Continuation
Exhibit A-3	-	Form of Letter of Credit Request
Exhibit B	-	Form of Note
Exhibit C	-	Form of Assignment and Assumption Agreement
Exhibit D	-	Forms of Opinion of Counsel for the Borrower
Exhibit E	-	Form of Notice of Revolving Increase

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**AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT** (this "Agreement") dated as of November 6, 2012 is entered into among KENTUCKY UTILITIES COMPANY, a Kentucky corporation and a Virginia corporation (the "Borrower"), the LENDERS party hereto from time to time and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent. The parties hereto agree as follows:

## RECITALS

WHEREAS, the Borrower is a party to that certain \$400,000,000 Revolving Credit Agreement dated as of November 1, 2010, among the Borrower, the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent, as amended, modified, restated and supplemented from time to time (the "Existing Credit Agreement"); and

WHEREAS, the Borrower has requested that the Administrative Agent and the Lenders amend and restate the Existing Credit Agreement to, among other things, decrease the fronting sublimit for letters of credit and extend the maturity date, and the Administrative Agent and the Lenders have agreed to such amendment and restatement on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree that the Existing Credit Agreement is hereby amended and restated in its entirety, and do further agree as follows:

## ARTICLE I DEFINITIONS

Section 1.01. Definitions. All capitalized terms used in this Agreement or in any Appendix, Schedule or Exhibit hereto which are not otherwise defined herein or therein shall have the respective meanings set forth below.

"Adjusted London Interbank Offered Rate" means, for any Interest Period, a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the nearest 1/100th of 1%) by dividing (i) the London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

"Administrative Agent" means Wells Fargo Bank, in its capacity as administrative agent for the Lenders hereunder and under the other Loan Documents, and its successor or successors in such capacity.

"Administrative Questionnaire" means, with respect to each Lender, an administrative questionnaire in the form provided by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Lender.

"Affiliate" means, with respect to any Person, any other Person who is directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise.

"Agent" means the Administrative Agent, the Syndication Agents, the Joint Lead Arrangers, the Documentation Agents or each Person that shall become a joint lead arranger pursuant to the terms of the Commitment Letters and "Agents" means all of the foregoing.

"Agreement" has the meaning set forth in the introductory paragraph hereto, as this Agreement may be amended, restated, supplemented or modified from time to time.

"Amendment Fee" has the meaning set forth in Section 4.01(i).

"Applicable Lending Office" means, with respect to any Lender, (i) in the case of its Base Rate Loans, its Base Rate Lending Office and (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office.

"Applicable Percentage" means, for purposes of calculating (i) the applicable interest rate for any day for any Base Rate Loans or Euro-Dollar Loans, (ii) the applicable rate for the Commitment Fee for any day for purposes of Section 2.07(a) or (iii) the applicable rate for the Letter of Credit Fee for any day for purposes of Section 2.07(b), the appropriate applicable percentage set forth below corresponding to one rating level below the then current highest Borrower's Ratings; provided, that, in the event that the Borrower's Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

	Borrower's Ratings (S&P / Moody's)	Applicable Percentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
Category A	≥ A from S&P / A2 from Moody's	0.100%	0.000%	1.000%
Category B	≥ A- from S&P / A3 from Moody's	0.125%	0.125%	1.125%
Category C	BBB+ from S&P / Baa1 from Moody's	0.175%	0.250%	1.250%
Category D	BBB from S&P / Baa2 from	0.200%	0.500%	1.500%

	Moody's			
Category E	BBB- from S&P / Baa3 from Moody's	0.250%	0.625%	1.625%
Category F	≤BB+ from S&P / Ba1 from Moody's	0.350%	0.875%	1.875%

**"Asset Sale"** shall mean any sale of any assets, including by way of the sale by the Borrower or any of its Subsidiaries of equity interests in such Subsidiaries.

**"Assignee"** has the meaning set forth in Section 9.06(c).

**"Assignment and Assumption Agreement"** means an Assignment and Assumption Agreement, substantially in the form of attached Exhibit C, under which an interest of a Lender hereunder is transferred to an Eligible Assignee pursuant to Section 9.06(c).

**"Availability Period"** means the period from and including the Effective Date to but excluding the Termination Date.

**"Bankruptcy Code"** means the Bankruptcy Reform Act of 1978, as amended, or any successor statute.

**"Base Rate"** means for any day a rate per annum equal to the highest of (i) the Prime Rate for such day, (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day and (iii) except during any period of time during which a notice delivered to the Borrower under Section 2.14 or Section 2.15 shall remain in effect, the London Interbank Offered Rate plus 1%.

**"Base Rate Borrowing"** means a Borrowing comprised of Base Rate Loans.

**"Base Rate Lending Office"** means, as to each Lender, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Base Rate Lending Office) or such other office as such Lender may hereafter designate as its Base Rate Lending Office by notice to the Borrower and the Administrative Agent.

**"Base Rate Loan"** means (a) a Loan (other than a Swingline Loan) in respect of which interest is computed on the basis of the Base Rate and (b) a Swingline Loan in respect of which interest is computed on the basis of the LIBOR Market Index Rate.

**"Borrower"** has the meaning set forth in the introductory paragraph hereto.

**"Borrower's Rating"** means the senior secured long-term debt rating of the Borrower from S&P or Moody's.

**"Borrowing"** means a group of Loans of a single Type made by the Lenders on a single date and, in the case of a Euro-Dollar Borrowing, having a single Interest Period.

**"Business Day"** means any day except a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or New York, New York are authorized by law to close; provided, that, when used in Article III with respect to any action taken by or with respect to any Issuing Lender, the term "Business Day" shall not include any day on which commercial banks are authorized by law to close in the jurisdiction where the office at which such Issuing Lender books any Letter of Credit is located; and provided, further, that when used with respect to any borrowing of, payment or prepayment of principal of or interest on, or the Interest Period for, a Euro-Dollar Loan, or a notice by the Borrower with respect to any such borrowing payment, prepayment or Interest Period, the term "Business Day" shall also mean that such day is a London Business Day.

**"Capital Lease"** means any lease of property which, in accordance with GAAP, should be capitalized on the lessee's balance sheet.

**"Capital Lease Obligations"** means, with respect to any Person, all obligations of such Person as lessee under Capital Leases, in each case taken at the amount thereof accounted for as liabilities in accordance with GAAP.

**"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 Borrower.

**"Commitment"** means, with respect to any Lender, the commitment of such Lender to (i) make Loans under this Agreement, (ii) refund or purchase participations in Swingline Loans pursuant to Section 2.02 and (iii) purchase participations in Letters of Credit pursuant to Article III hereof, as set forth in the Commitment Appendix and as such Commitment may be reduced from time to time pursuant to Section 2.08 or Section 9.06(c) or increased from time to time pursuant to Section 2.19 or Section 9.06(c).

**"Commitment Appendix"** means the Appendix attached under this Agreement identified as such.

**"Commitment Fee"** has the meaning set forth in Section 2.07(a).

**"Commitment Letters"** means (i) that certain commitment letter dated as of September 24, 2012 among Wells Fargo Securities, LLC, Wells Fargo Bank, National Association, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc. and The Royal Bank of Scotland plc and (ii) that certain commitment letter dated as of October 2, 2012 among Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank, N.A., each commitment letter addressed to and

acknowledged and agreed to by the Borrower.

“Commitment Ratio” shall mean, with respect to any Lender, the percentage equivalent of the ratio which such Lender’s Commitment bears to the aggregate amount of all Commitments.

“Consolidated Capitalization” shall mean the sum of, without duplication, (A) the Consolidated Debt (without giving effect to clause (b) of the definition of “Consolidated Debt”) and (B) the consolidated shareowners’ equity (determined in accordance with GAAP) of the common, preference and preferred shareowners of the Borrower and minority interests recorded on the Borrower’s consolidated financial statements (excluding from shareowner’s equity (i) the effect of all unrealized gains and losses reported under Financial Accounting Standards Board Accounting Standards Codification Topic 815 in connection with (x) forward contracts, futures contracts, options contracts or other derivatives or hedging agreements for the future delivery of electricity, capacity, fuel or other commodities and (y) Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (ii) the balance of accumulated other comprehensive income/loss of the Borrower on any date of determination solely with respect to the effect of any pension and other post-retirement benefit liability adjustment recorded in accordance with GAAP), except that for purposes of calculating Consolidated Capitalization of the Borrower, Consolidated Debt of the Borrower shall exclude Non-Recourse Debt and Consolidated Capitalization of the Borrower shall exclude that portion of shareowners’ equity attributable to assets securing Non-Recourse Debt.

“Consolidated Debt” means the consolidated Debt of the Borrower and its Consolidated Subsidiaries (determined in accordance with GAAP), except that for purposes of this definition (a) Consolidated Debt shall exclude Non-Recourse Debt of the Borrower and its Consolidated Subsidiaries, and (b) Consolidated Debt shall exclude (i) Hybrid Securities of the Borrower and its Consolidated Subsidiaries in an aggregate amount as shall not exceed 15% of Consolidated Capitalization and (ii) Equity-Linked Securities in an aggregate amount as shall not exceed 15% of Consolidated Capitalization.

“Consolidated Subsidiary” means with respect to any Person at any date any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date in accordance with GAAP.

“Continuing Lender” means with respect to any event described in Section 2.08(b), a Lender which is not a Retiring Lender, and “Continuing Lenders” means any two or more of such Continuing Lenders.

“Corporation” means a corporation, association, company, joint stock company, limited liability company, partnership or business trust.

“Credit Event” means a Borrowing or the issuance, renewal or extension of a Letter of Credit.

“Debt” of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all Guarantees by such Person of Debt of others, (iv) all Capital Lease Obligations and Synthetic Leases of such Person, (v) all obligations of such Person in respect of Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the net amount that would be payable upon the acceleration, termination or liquidation thereof), but only to the extent that such net obligations exceed \$75,000,000 in the aggregate and (vi) all obligations of such Person as an account party in respect of letters of credit and bankers’ acceptances; provided, however, that “Debt” of such Person does not include (a) obligations of such Person under any installment sale, conditional sale or title retention agreement or any other agreement relating to obligations for the deferred purchase price of property or services, (b) obligations under agreements relating to the purchase and sale of any commodity, including any power sale or purchase agreements, any commodity hedge or derivative (regardless of whether any such transaction is a “financial” or physical transaction), (c) any trade obligations or other obligations of such Person incurred in the ordinary course of business or (d) obligations of such Person under any lease agreement (including any lease intended as security) that is not a Capital Lease or a Synthetic Lease.

“Default” means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“Defaulting Lender” means at any time any Lender with respect to which a Lender Default is in effect at such time.

“Documentation Agents” means Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank N.A., each in its capacity as a documentation agent in respect of this Agreement.

“Dollars” and the sign “\$” means lawful money of the United States of America.

“Effective Date” means the date on which the Administrative Agent determines that the conditions specified in or pursuant to Section 4.01 have been satisfied.

“Eligible Assignee” means (i) a Lender; (ii) a commercial bank organized under the laws of the United States and having a combined capital and surplus of at least \$100,000,000; (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country, and having a combined capital and surplus of at least \$100,000,000; provided, that such bank is acting through a branch or agency located and licensed in the United States; or (iv) an Affiliate of a Lender that is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended); provided, that, in each case (a) upon and following the occurrence of an Event of Default, an Eligible Assignee shall mean any Person other than the Borrower or any of its Affiliates and (b) notwithstanding the foregoing, “Eligible Assignee” shall not include the Borrower or any of its Affiliates.

“Environmental Laws” means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses or other written governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes into the environment

including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes.

“Environmental Liabilities” means all liabilities (including anticipated compliance costs) in connection with or relating to the business, assets, presently or previously owned, leased or operated property, activities (including, without limitation, off-site disposal) or operations of the Borrower or any of its Subsidiaries which arise under Environmental Laws.

“Equity-Linked Securities” means any securities of the Borrower or any of its Subsidiaries which are convertible into, or exchangeable for, equity securities of the Borrower, such Subsidiary or PPL Corporation, including any securities issued by any of such Persons which are pledged to secure any obligation of any holder to purchase equity securities of the Borrower, any of its Subsidiaries or PPL Corporation.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

“ERISA Group” means the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code.

“Euro-Dollar Borrowing” means a Borrowing comprised of Euro-Dollar Loans.

“Euro-Dollar Lending Office” means, as to each Lender, its office, branch or Affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Dollar Lending Office) or such other office, branch or Affiliate of such Lender as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrower and the Administrative Agent.

“Euro-Dollar Loan” means a Loan in respect of which interest is computed on the basis of the Adjusted London Interbank Offered Rate pursuant to the applicable Notice of Borrowing or Notice of Conversion/Continuation.

“Euro-Dollar Reserve Percentage” of any Lender for the Interest Period of any LIBOR Rate Loan means the reserve percentage applicable to such Lender during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) then applicable to such Lender with respect to liabilities or assets consisting of or including “Eurocurrency Liabilities” (as defined in Regulation D). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

“Event of Default” has the meaning set forth in Section 7.01.

“Existing Credit Agreement” has the meaning set forth in the recitals hereto.

“Extending Lenders” has the meaning set forth in Section 9.15 hereto.

“FATCA” means Sections 1471 through 1474 of the Internal Revenue Code and any regulations (whether final, temporary or proposed) that are issued thereunder or official government interpretations thereof and any agreements entered into pursuant to Section 1471(b) of the Code.

“Federal Funds Rate” means for any day the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average of quotations for such day on such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by the Administrative Agent.

“Fee Letter” means the fee letter dated as of September 24, 2012 among the Borrower, Wells Fargo Securities, LLC, Wells Fargo Bank, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc., and The Royal Bank of Scotland plc, as amended, modified or supplemented from time to time.

“FERC” means the Federal Energy Regulatory Commission.

“Fronting Fee” has the meaning set forth in Section 2.07(b).

“Fronting Sublimit” means, (a) for each JLA Issuing Bank, the amount of such JLA Issuing Bank’s commitment to issue and honor payment obligations under Letters of Credit, as set forth on the JLA L/C Fronting Sublimits Appendix hereto and (b) with respect to any other Issuing Lender, an amount as agreed between the Borrower and such Issuing Lender.

“GAAP” means United States generally accepted accounting principles applied on a consistent basis.

“Governmental Authority” means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity, and any arbitrator with authority to bind a party at law.

“Group of Loans” means at any time a group of Revolving Loans consisting of (i) all Revolving Loans which are Base Rate Loans at such time or (ii) all Revolving Loans which are Euro-Dollar Loans of the same Type having the same Interest Period at such time; provided, that, if a Loan of any particular Lender is converted to or made as a Base Rate Loan pursuant to Sections 2.15 or 2.18, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been in if it had not been so converted or made.

“Guarantee” of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for payment of such Debt, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt; provided, however, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“Hazardous Substances” means any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

“Hybrid Securities” means any trust preferred securities, or deferrable interest subordinated debt with a maturity of at least 20 years issued by the Borrower, or any business trusts, limited liability companies, limited partnerships (or similar entities) (i) all of the common equity, general partner or similar interests of which are owned (either directly or indirectly through one or more Wholly Owned Subsidiaries) at all times by the Borrower or any of its Subsidiaries, (ii) that have been formed for the purpose of issuing hybrid preferred securities and (iii) substantially all the assets of which consist of (A) subordinated debt of the Borrower or a Subsidiary of the Borrower, as the case may be, and (B) payments made from time to time on the subordinated debt.

“Indemnitee” has the meaning set forth in Section 9.03(b).

“Interest Period” means with respect to each Euro-Dollar Loan, a period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of Conversion/Continuation and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable notice; provided, that:

(i) any Interest Period which would otherwise end on a day which is not a Business Day shall, subject to clauses (iii) and (iv) below, be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Business Day of a calendar month; and

(iii) no Interest Period shall end after the Termination Date.

“Interest Rate Protection Agreements” means any agreement providing for an interest rate swap, cap or collar, or any other financial agreement designed to protect against fluctuations in interest rates.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended, or any successor statute.

“Issuing Lender” means (i) each JLA Issuing Bank, each in its capacity as an issuer of Letters of Credit under Section 3.02, and each of their respective successor or successors in such capacity and (ii) any other Lender approved as an “Issuing Lender” pursuant to Section 3.01, subject in each case to the Fronting Sublimit.

“Joint Lead Arrangers” means Wells Fargo Securities, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo Mitsubishi UFJ, Ltd. and Union Bank, N.A., each in their capacity as joint lead arranger and joint bookrunner in respect of this Agreement.

“JLA Issuing Bank” means Wells Fargo Bank, Bank of America, N.A., The Royal Bank of Scotland plc, Barclays Bank PLC, The Bank of Nova Scotia, Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and each other Lender (or Affiliate of a Lender) that shall become (or whose Affiliate shall become) a joint lead arranger pursuant to the terms of the Commitment Letters.

“KPSC” means the Kentucky Public Service Commission.

“Lender” means each bank or other lending institution listed in the Commitment Appendix as having a Commitment, each Eligible Assignee that becomes a Lender pursuant to Section 9.06(c) and their respective successors and shall include, as the context may require, each Issuing Lender and the Swingline Lender in such capacity.

“Lender Default” means (i) the failure (which has not been cured) of any Lender to make available any Loan or any reimbursement for a drawing under a Letter of Credit or refunding of a Swingline Loan, in each case, within one Business Day from the date it is obligated to make such amount available under the terms and conditions of this Agreement or (ii) a Lender having notified, in writing, the Administrative Agent and the Borrower that such Lender does not intend to comply with its obligations under Article II following the appointment of a receiver or conservator with respect to such Lender at the direction or request of any regulatory agency or authority.

**“Letter of Credit”** means each letter of credit issued pursuant to Section 3.02 by an Issuing Lender.

**“Letter of Credit Fee”** has the meaning set forth in Section 2.07(b).

**“Letter of Credit Liabilities”** means, for any Lender at any time, the product derived by multiplying (i) the sum, without duplication, of (A) the aggregate amount that is (or may thereafter become) available for drawing under all Letters of Credit outstanding at such time plus (B) the aggregate unpaid amount of all Reimbursement Obligations outstanding at such time by (ii) such Lender’s Commitment Ratio.

**“Letter of Credit Request”** has the meaning set forth in Section 3.03.

**“LIBOR Market Index Rate”** means, for any day, the rate for 1 month U.S. dollar deposits as reported on Reuters Screen LIBOR01 as of 11:00 a.m., London time, for such day, provided, if such day is not a London Business Day, the immediately preceding London Business Day (or if not so reported, then as determined by the Swingline Lender from another recognized source or interbank quotation).

**“Lien”** means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance intended to confer or having the effect of conferring upon a creditor a preferential interest.

**“Loan”** means a Base Rate Loan, whether such loan is a Revolving Loan or Swingline Loan, or a Euro-Dollar Loan and **“Loans”** means any combination of the foregoing.

**“Loan Documents”** means this Agreement and the Notes.

**“London Business Day”** means a day on which commercial banks are open for international business (including dealings in Dollar deposits) in London.

**“London Interbank Offered Rate”** means:

(a) for any Euro-Dollar Loan for any Interest Period, the interest rate for deposits in Dollars for a period of time comparable to such Interest Period which appears on Reuters Screen LIBOR01 at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period; provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01, the term **“London Interbank Offered Rate”** means for any Interest Period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Euro-Dollar Loan of Wells Fargo Bank to which such Interest Period is to apply and for a period of time comparable to such Interest Period.

(b) for any interest rate calculation with respect to a Base Rate Loan, the interest rate for deposits in Dollars for a period equal to one month (commencing on the date of determination of such interest rate) which appears on Reuters Screen LIBOR01 at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted); provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01, the term **“London Interbank Offered Rate”** means for any applicable one-month interest period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted) in an amount approximately equal to the principal amount of the Base Rate Loan of Wells Fargo Bank.

**“Mandatory Letter of Credit Borrowing”** has the meaning set forth in Section 3.09.

**“Margin Stock”** means “margin stock” as such term is defined in Regulation U.

**“Material Adverse Effect”** means (i) any material adverse effect upon the business, assets, financial condition or operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole; (ii) a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement, the Notes or the other Loan Documents or (iii) a material adverse effect on the validity or enforceability of this Agreement, the Notes or any of the other Loan Documents.

**“Material Debt”** means Debt (other than the Notes) of the Borrower in a principal or face amount exceeding \$50,000,000.

**“Material Plan”** means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000. For the avoidance of doubt, where any two or more Plans, which individually do not have Unfunded Liabilities in excess of \$50,000,000, but collectively have aggregate Unfunded Liabilities in excess of \$50,000,000, all references to Material Plan shall be deemed to apply to such Plans as a group.

**“Moody’s”** means Moody’s Investors Service, Inc., a Delaware corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

**“Multiemployer Plan”** means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

“New Lender” means with respect to any event described in Section 2.08(b), an Eligible Assignee which becomes a Lender hereunder as a result of such event, and “New Lenders” means any two or more of such New Lenders.

“Non-Defaulting Lender” means each Lender other than a Defaulting Lender, and “Non-Defaulting Lenders” means any two or more of such Lenders.

“Non-Recourse Debt” shall mean Debt that is nonrecourse to the Borrower or any asset of the Borrower.

“Non-U.S. Lender” has the meaning set forth in Section 2.17(e).

“Note” shall mean a promissory note, substantially in the form of Exhibit B hereto, issued at the request of a Lender evidencing the obligation of the Borrower to repay outstanding Revolving Loans or Swingline Loans, as applicable.

“Notice of Borrowing” has the meaning set forth in Section 2.03.

“Notice of Conversion/Continuation” has the meaning set forth in Section 2.06(d)(ii).

“Obligations” means:

(i) all principal of and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on any Loan, fees payable or Reimbursement Obligation under, or any Note issued pursuant to, this Agreement or any other Loan Document;

(ii) all other amounts now or hereafter payable by the Borrower and all other obligations or liabilities now existing or hereafter arising or incurred (including, without limitation, any amounts which accrue after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on the part of the Borrower pursuant to this Agreement or any other Loan Document;

(iii) all expenses of the Agents as to which such Agents have a right to reimbursement under Section 9.03(a) hereof or under any other similar provision of any other Loan Document; and

(iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 9.03 hereof or under any other similar provision of any other Loan Document;

together in each case with all renewals, modifications, consolidations or extensions thereof.

“OFAC” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“Optional Increase” has the meaning set forth in Section 2.19(a).

“Other Taxes” has the meaning set forth in Section 2.17(b).

“Participant” has the meaning set forth in Section 9.06(b).

“Participant Register” has the meaning set forth in Section 9.06(b).

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Permitted Business” with respect to any Person means a business that is the same or similar to the business of the Borrower or any Subsidiary as of the Effective Date, or any business reasonably related thereto.

“Person” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or an unincorporated association or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Plan” means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

“Prime Rate” means the rate of interest publicly announced by Wells Fargo Bank from time to time as its Prime Rate.

“Public Reporting Company” means a company subject to the periodic reporting requirements of the Securities and Exchange Act of 1934.

“Quarterly Date” means the last Business Day of each of March, June, September and December.

“Rating Agency” means S&P or Moody’s, and “Rating Agencies” means both of them.



“Register” has the meaning set forth in Section 9.06(e).

“Regulation U” means Regulation U of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Regulation X” means Regulation X of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Reimbursement Obligations” means at any time all obligations of the Borrower to reimburse the Issuing Lenders pursuant to Section 3.07 for amounts paid by the Issuing Lenders in respect of drawings under Letters of Credit, including any portion of any such obligation to which a Lender has become subrogated pursuant to Section 3.09.

“Replacement Date” has the meaning set forth in Section 2.08(b).

“Replacement Lender” has the meaning set forth in Section 2.08(b).

“Required Lenders” means at any time Non-Defaulting Lenders having at least 51% of the aggregate amount of the Commitments of all Non-Defaulting Lenders or, if the Commitments shall have been terminated, having at least 51% of the aggregate amount of the Revolving Outstandings of the Non-Defaulting Lenders at such time.

“Responsible Officer” means, as to any Person, the chief executive officer, president, chief financial officer, controller, treasurer or assistant treasurer of such Person or any other officer of such Person reasonably acceptable to the Administrative Agent. Any document delivered hereunder that is signed by a Responsible Officer of a Person shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Person and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Person.

“Retiring Lender” means a Lender that ceases to be a Lender hereunder pursuant to the operation of Section 2.08(b).

“Revolving” means, when used with respect to (i) a Borrowing, a Borrowing made by the Borrower under Section 2.01, as identified in the Notice of Borrowing with respect thereto, a Borrowing of Revolving Loans to refund outstanding Swingline Loans pursuant to Section 2.02(b)(i), or a Mandatory Letter of Credit Borrowing and (ii) a Loan, a Loan made under Section 2.01; provided, that, if any such loan or loans (or portions thereof) are combined or subdivided pursuant to a Notice of Conversion/Continuation, the term “Revolving Loan” shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

“Revolving Outstandings” means at any time, with respect to any Lender, the sum of (i) the aggregate principal amount of such Lender’s outstanding Revolving Loans plus (ii) the aggregate amount of such Lender’s Swingline Exposure plus (iii) aggregate amount of such Lender’s Letter of Credit Liabilities.

“Revolving Outstandings Excess” has the meaning set forth in Section 2.09.

“Sanctioned Entity” shall mean (i) an agency of the government of, (ii) an organization directly or indirectly controlled by, or (iii) a Person resident in, a country that is subject to a sanctions program identified on the list maintained by OFAC and available at <http://www.treas.gov/offices/enforcement/ofac/sanctions/index.html>, or as otherwise published from time to time as such program may be applicable to such agency, organization or Person.

“Sanctioned Person” shall mean a Person named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at <http://www.treas.gov/offices/enforcement/ofac/sdn/index.html>, or as otherwise published from time to time.

“SEC” means the Securities and Exchange Commission.

“S&P” means Standard & Poor’s Ratings Group, a division of McGraw Hill, Inc., a New York corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Subsidiary” means any Corporation, a majority of the outstanding Voting Stock of which is owned, directly or indirectly, by the Borrower or one or more other Subsidiaries of the Borrower.

“Swingline Borrowing” means a Borrowing made by the Borrower under Section 2.02, as identified in the Notice of Borrowing with respect thereto.

“Swingline Exposure” means, for any Lender at any time, the product derived by multiplying (i) the aggregate principal amount of all outstanding Swingline Loans at such time by (ii) such Lender’s Commitment Ratio.

“Swingline Lender” means Wells Fargo Bank, in its capacity as Swingline Lender.

“Swingline Loan” means any swingline loan made by the Swingline Lender to the Borrower pursuant to Section 2.02.

“Swingline Sublimit” means the lesser of (a) \$20,000,000 and (b) the aggregate Commitments of all Lenders.

“Swingline Termination Date” means the first to occur of (a) the resignation of Wells Fargo Bank as Administrative Agent in accordance with Section 8.09 and (b) the Termination Date.

“Syndication Agents” means Bank of America, N.A. and The Royal Bank of Scotland plc, each in its capacity as a syndication agent in respect of this Agreement.

“Synthetic Lease” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

“Taxes” has the meaning set forth in Section 2.17(a).

“Termination Date” means the earliest to occur of (a) November 6, 2017 and (b) such earlier date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.

“TRA” means the Tennessee Regulatory Authority.

“Type”, when used in respect of any Loan or Borrowing, shall refer to the rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined.

“Unfunded Liabilities” means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

“United States” means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

“Voting Stock” means stock (or other interests) of a Corporation having ordinary voting power for the election of directors, managers or trustees thereof, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

“VSCC” means the Virginia State Corporation Commission.

“Wells Fargo Bank” means Wells Fargo Bank, National Association, and its successors.

“Wells Fargo Securities” means Wells Fargo Securities, LLC, and its successors and assigns.

“Wholly Owned Subsidiary” means, with respect to any Person at any date, any Subsidiary of such Person all of the Voting Stock of which (except directors’ qualifying shares) is at the time directly or indirectly owned by such Person.

## ARTICLE II THE CREDITS

Section 2.01. Commitments to Lend. Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make Revolving Loans to the Borrower pursuant to this Section 2.01 from time to time during the Availability Period in amounts such that its Revolving Outstandings shall not exceed its Commitment; provided, that, immediately after giving effect to each such Revolving Loan, the aggregate principal amount of all outstanding Revolving Loans (after giving effect to any amount requested) shall not exceed the aggregate Commitments less the sum of all outstanding Swingline Loans and Letter of Credit Liabilities. Each Revolving Borrowing (other than Mandatory Letter of Credit Borrowings) shall be in an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000 (except that any such Borrowing may be in the aggregate amount of the unused Commitments) and shall be made from the several Lenders ratably in proportion to their respective Commitments. Within the foregoing limits, the Borrower may borrow under this Section 2.01, repay, or, to the extent permitted by Section 2.10, prepay, Revolving Loans and reborrow under this Section 2.01.

### Section 2.02. Swingline Loans.

(a) Availability. Subject to the terms and conditions of this Agreement, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time from the Effective Date through, but not including, the Swingline Termination Date; provided, that the aggregate principal amount of all outstanding Swingline Loans (after giving effect to any amount requested), shall not exceed the lesser of (i) the aggregate Commitments less the sum of the aggregate principal amount of all outstanding Revolving Loans and all outstanding Letter of Credit Liabilities and (ii) the Swingline Sublimit; and provided further, that the Borrower shall not use the proceeds of any Swingline Loan to refinance any outstanding Swingline Loan. Each Swingline Loan shall be in an aggregate principal amount of \$2,000,000 or any larger integral multiple of \$500,000 (except that any such Borrowing may be in the aggregate amount of the unused Swingline Sublimit). Within the foregoing limits, the Borrower may borrow, repay and reborrow Swingline Loans, in each case under this Section 2.02. Each Swingline Loan shall be a Base Rate Loan.

#### (b) Refunding.

(i) Swingline Loans shall be refunded by the Lenders on demand by the Swingline Lender. Such refundings shall be made by the Lenders in accordance with their respective Commitment Ratios and shall thereafter be reflected as Revolving Loans of the Lenders on the books and records of the Administrative Agent. Each Lender shall fund its respective Commitment Ratio of Revolving Loans as required to repay Swingline Loans outstanding to the Swingline Lender upon demand by the Swingline Lender but in no event later than 1:00 P.M. (Charlotte, North Carolina time) on the next succeeding Business Day after such demand is made. No Lender’s obligation to fund its respective Commitment Ratio of a Swingline Loan shall be affected by any other Lender’s failure to fund its Commitment Ratio of a Swingline Loan, nor shall any Lender’s

Commitment Ratio be increased as a result of any such failure of any other Lender to fund its Commitment Ratio of a Swingline Loan.

(ii) The Borrower shall pay to the Swingline Lender on demand, and in no case more than fourteen (14) days after the date that such Swingline Loan is made, the amount of such Swingline Loan to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. In addition, the Borrower hereby authorizes the Administrative Agent to charge any account maintained by the Borrower with the Swingline Lender (up to the amount available therein) in order to immediately pay the Swingline Lender the amount of such Swingline Loans to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. If any portion of any such amount paid to the Swingline Lender shall be recovered by or on behalf of the Borrower from the Swingline Lender in bankruptcy or otherwise, the loss of the amount so recovered shall be ratably shared among all the Lenders in accordance with their respective Commitment Ratios (unless the amounts so recovered by or on behalf of the Borrower pertain to a Swingline Loan extended after the occurrence and during the continuance of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable).

(iii) Each Lender acknowledges and agrees that its obligation to refund Swingline Loans (other than Swingline Loans extended after the occurrence and during the continuation of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable) in accordance with the terms of this Section is absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, non-satisfaction of the conditions set forth in Article IV. Further, each Lender agrees and acknowledges that if prior to the refunding of any outstanding Swingline Loans pursuant to this Section, one of the events described in Section 7.01(h) or (i) shall have occurred, each Lender will, on the date the applicable Revolving Loan would have been made, purchase an undivided participating interest in the Swingline Loan to be refunded in an amount equal to its Commitment Ratio of the aggregate amount of such Swingline Loan. Each Lender will immediately transfer to the Swingline Lender, in immediately available funds, the amount of its participation and upon receipt thereof the Swingline Lender will deliver to such Lender a certificate evidencing such participation dated the date of receipt of such funds and for such amount. Whenever, at any time after the Swingline Lender has received from any Lender such Lender's participating interest in a Swingline Loan, the Swingline Lender receives any payment on account thereof, the Swingline Lender will distribute to such Lender its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded).

**Section 2.03. Notice of Borrowings.** The Borrower shall give the Administrative Agent notice substantially in the form of Exhibit A-1 hereto (a "Notice of Borrowing") not later than (a) 11:30 A.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the third Business Day before each Euro-Dollar Borrowing, specifying:

- (i) the date of such Borrowing, which shall be a Business Day;
- (ii) the aggregate amount of such Borrowing;
- (iii) whether such Borrowing is comprised of Revolving Loans or a Swingline Loan;
- (iv) in the case of a Revolving Borrowing, the initial Type of the Loans comprising such Borrowing; and
- (v) in the case of a Euro-Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

Notwithstanding the foregoing, no more than six (6) Groups of Euro-Dollar Loans shall be outstanding at any one time, and any Loans which would exceed such limitation shall be made as Base Rate Loans.

**Section 2.04. Notice to Lenders; Funding of Revolving Loans and Swingline Loans.**

(a) Notice to Lenders. Upon receipt of a Notice of Borrowing (other than in respect of a Borrowing of a Swingline Loan), the Administrative Agent shall promptly notify each Lender of such Lender's ratable share (if any) of the Borrowing referred to in the Notice of Borrowing, and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) Funding of Loans. Not later than (a) 1:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing, each Lender shall make available its ratable share of such Borrowing, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. Unless the Administrative Agent determines that any applicable condition specified in Article IV has not been satisfied, the Administrative Agent shall apply any funds so received in respect of a Borrowing available to the Borrower at the Administrative Agent's address not later than (a) 3:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 2:00 P.M. (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing. Revolving Loans to be made for the purpose of refunding Swingline Loans shall be made by the Lenders as provided in Section 2.02(b).

(c) Funding By the Administrative Agent in Anticipation of Amounts Due from the Lenders. Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing (except in the case of a Base Rate Borrowing, in which case prior to the time of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsection (b) of this Section, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such share available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount, together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) a rate per annum equal to the higher of the Federal Funds Rate

and the interest rate applicable thereto pursuant to Section 2.06, in the case of the Borrower, and (ii) the Federal Funds Rate, in the case of such Lender. Any payment by the Borrower hereunder shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make its share of a Borrowing available to the Administrative Agent. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Loan included in such Borrowing for purposes of this Agreement.

(d) Obligations of Lenders Several. The failure of any Lender to make a Loan required to be made by it as part of any Borrowing hereunder shall not relieve any other Lender of its obligation, if any, hereunder to make any Loan on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on such date of Borrowing.

#### Section 2.05. Noteless Agreement; Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (a) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (b) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (c) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to paragraphs (a) and (b) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Administrative Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) Any Lender may request that its Loans be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to the order of such Lender. Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 9.06(c)) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 9.06(c), except to the extent that any such Lender or assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in paragraphs (a) and (b) above.

#### Section 2.06. Interest Rates.

(a) Interest Rate Options. The Loans shall, at the option of the Borrower and except as otherwise provided herein, be incurred and maintained as, or converted into, one or more Base Rate Loans or Euro-Dollar Loans.

(b) Base Rate Loans. Each Loan which is made as, or converted into, a Base Rate Loan (other than a Swingline Loan) shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made as, or converted into, a Base Rate Loan until it becomes due or is converted into a Loan of any other Type, at a rate per annum equal to the sum of the Base Rate for such day plus the Applicable Percentage for Base Rate Loans for such day. Each Loan which is made as a Swingline Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due at a rate per annum equal to the LIBOR Market Index Rate for such day plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall, in each case, be payable quarterly in arrears on each Quarterly Date (or, with respect to Base Rate Loans that are Swingline Loans, as the Swingline Lender and the Borrower may otherwise agree in writing) and, with respect to the principal amount of any Base Rate Loan (other than a Swingline Loan) converted to a Euro-Dollar Loan, on the date such Base Rate Loan is so converted. Any overdue principal of or interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for such day.

(c) Euro-Dollar Loans. Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the sum of the Adjusted London Interbank Offered Rate for such Interest Period plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof. Any overdue principal of or interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the sum of (A) the Adjusted London Interbank Offered Rate applicable to such Loan at the date such payment was due plus (B) the Applicable Percentage for Euro-Dollar Loans for such day (or, if the circumstance described in Section 2.14 shall exist, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day).

#### (d) Method of Electing Interest Rates.

(i) Subject to Section 2.06(a), the Loans included in each Revolving Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Borrowing. Thereafter, with respect to each Group of Loans, the Borrower shall have the option (A) to convert all or any part of (y) so long as no Default is in existence on the date of conversion, outstanding Base Rate Loans to Euro-Dollar Loans and (z) outstanding Euro-Dollar Loans to Base Rate Loans; provided, in each case, that the amount so converted shall be equal to \$10,000,000 or any larger integral multiple of \$1,000,000, or (B) upon the expiration of any Interest Period applicable to outstanding Euro-Dollar Loans, so long as no Default is in existence on the date of continuation, to continue all or any portion of such Loans, equal to \$10,000,000 and any larger integral multiple of \$1,000,000 in excess of that amount as Euro-Dollar Loans. The Interest Period of any Base Rate Loan converted to a Euro-Dollar Loan pursuant to clause(A) above shall commence on the date of such conversion. The succeeding Interest Period of any Euro-Dollar Loan continued pursuant to clause (B) above shall commence on the last day of the Interest Period of the Loan so continued. Euro-Dollar Loans may only be converted on the last day of the then current Interest Period applicable thereto or on the date required pursuant to Section 2.18.

(ii) The Borrower shall deliver a written notice of each such conversion or continuation (a "Notice of Conversion/Continuation") to the Administrative Agent no later than (A) 12:00 Noon (Charlotte, North Carolina time) at least three (3) Business

Days before the effective date of the proposed conversion to, or continuation of, a Euro Dollar Loan and (B) 11:30 A.M. (Charlotte, North Carolina time) on the day of a conversion to a Base Rate Loan. A written Notice of Conversion/Continuation shall be substantially in the form of Exhibit A-2 attached hereto and shall specify: (A) the Group of Loans (or portion thereof) to which such notice applies, (B) the proposed conversion/continuation date (which shall be a Business Day), (C) the aggregate amount of the Loans being converted/continued, (D) an election between the Base Rate and the Adjusted London Interbank Offered Rate and (E) in the case of a conversion to, or a continuation of, Euro-Dollar Loans, the requested Interest Period. Upon receipt of a Notice of Conversion/Continuation, the Administrative Agent shall give each Lender prompt notice of the contents thereof and such Lender's pro rata share of all conversions and continuations requested therein. If no timely Notice of Conversion/Continuation is delivered by the Borrower as to any Euro-Dollar Loan, and such Loan is not repaid by the Borrower at the end of the applicable Interest Period, such Loan shall be converted automatically to a Base Rate Loan on the last day of the then applicable Interest Period.

(e) Determination and Notice of Interest Rates. The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Lenders of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error. Any notice with respect to Euro-Dollar Loans shall, without the necessity of the Administrative Agent so stating in such notice, be subject to adjustments in the Applicable Percentage applicable to such Loans after the beginning of the Interest Period applicable thereto. When during an Interest Period any event occurs that causes an adjustment in the Applicable Percentage applicable to Loans to which such Interest Period is applicable, the Administrative Agent shall give prompt notice to the Borrower and the Lenders of such event and the adjusted rate of interest so determined for such Loans, and its determination thereof shall be conclusive in the absence of manifest error.

#### Section 2.07. Fees.

(a) Commitment Fees. The Borrower shall pay to the Administrative Agent for the account of each Lender a fee (the "Commitment Fee") for each day at a rate per annum equal to the Applicable Percentage for the Commitment Fee for such day. The Commitment Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the amount by which such Lender's Commitment exceeds the sum of its Revolving Outstandings (solely for this purpose, exclusive of Swingline Exposure) on such day. The Commitment Fee shall be payable on the last day of each of March, June, September and December and on the Termination Date.

(b) Letter of Credit Fees. The Borrower shall pay to the Administrative Agent a fee (the "Letter of Credit Fee") for each day at a rate per annum equal to the Applicable Percentage for the Letter of Credit Fee for such day. The Letter of Credit Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the aggregate amount available for drawing under any Letters of Credit outstanding on such day and shall be payable for the account of the Lenders ratably in proportion to their participations in such Letter(s) of Credit. In addition, the Borrower shall pay to each Issuing Lender a fee (the "Fronting Fee") in respect of each Letter of Credit issued by such Issuing Lender computed at the rate of 0.20% per annum on the average amount available for drawing under such Letter(s) of Credit. Fronting Fees shall be due and payable quarterly in arrears on each Quarterly Date and on the Termination Date (or such earlier date as all Letters of Credit shall be canceled or expire). In addition, the Borrower agrees to pay to each Issuing Lender, upon each issuance of, payment under, and/or amendment of, a Letter of Credit, such amount as shall at the time of such issuance, payment or amendment be the administrative charges and expenses which such Issuing Lender is customarily charging for issuances of, payments under, or amendments to letters of credit issued by it.

(c) Payments. Except as otherwise provided in this Section 2.07, accrued fees under this Section 2.07 in respect of Loans and Letter of Credit Liabilities shall be payable quarterly in arrears on each Quarterly Date, on the last day of the Availability Period and, if later, on the date the Loans and Letter of Credit Liabilities shall be repaid in their entirety. Fees paid hereunder shall not be refundable under any circumstances.

#### Section 2.08. Adjustments of Commitments.

(a) Optional Termination or Reductions of Commitments (Pro-Rata). The Borrower may, upon at least three Business Days' prior written notice to the Administrative Agent, permanently (i) terminate the Commitments, if there are no Revolving Outstandings at such time or (ii) ratably reduce from time to time by a minimum amount of \$10,000,000 or any larger integral multiple of \$5,000,000, the aggregate amount of the Commitments in excess of the aggregate Revolving Outstandings. Upon receipt of any such notice, the Administrative Agent shall promptly notify the Lenders. If the Commitments are terminated in their entirety, all accrued fees shall be payable on the effective date of such termination.

(b) Optional Termination of Commitments (Non-Pro-Rata). If (i) any Lender has demanded compensation or indemnification pursuant to Sections 2.14, 2.15, 2.16 or 2.17, (ii) the obligation of any Lender to make Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (iii) any Lender is a Defaulting Lender (each such Lender described in clauses (i), (ii) or (iii) being a "Retiring Lender"), the Borrower shall have the right, if no Default then exists, to replace such Lender with one or more Eligible Assignees (which may be one or more of the Continuing Lenders) (each a "Replacement Lender") and, collectively, the "Replacement Lenders") reasonably acceptable to the Administrative Agent. The replacement of a Retiring Lender pursuant to this Section 2.08(b) shall be effective on the tenth Business Day (the "Replacement Date") following the date of notice given by the Borrower of such replacement to the Retiring Lender and each Continuing Lender through the Administrative Agent, subject to the satisfaction of the following conditions:

(i) the Replacement Lender shall have satisfied the conditions to assignment and assumption set forth in Section 9.06(c) (with all fees payable pursuant to Section 9.06(c) to be paid by the Borrower) and, in connection therewith, the Replacement Lender(s) shall pay:

(A) to the Retiring Lender an amount equal in the aggregate to the sum of (x) the principal of, and all accrued but unpaid interest on, all outstanding Loans of the Retiring Lender, (y) all unpaid drawings that have been funded by (and not reimbursed to) the Retiring Lender under Section 3.10, together with all accrued but unpaid interest with respect thereto and (z) all accrued but unpaid fees owing to the Retiring Lender pursuant to Section 2.07; and

(B) to the Swingline Lender an amount equal to the aggregate amount owing by the Retiring Lender to the Swingline Lender in respect of all unpaid refundings of Swingline Loans requested by the Swingline Lender pursuant to Section 2.02(b)(i), to the extent such amount was not theretofore funded by such Retiring Lender; and

(C) to the Issuing Lenders an amount equal to the aggregate amount owing by the Retiring Lender to the Issuing Lenders as reimbursement pursuant to Section 3.09, to the extent such amount was not theretofore funded by such Retiring Lender; and

(ii) the Borrower shall have paid to the Administrative Agent for the account of the Retiring Lender an amount equal to all obligations owing to the Retiring Lender by the Borrower pursuant to this Agreement and the other Loan Documents (other than those obligations of the Borrower referred to in clause (i)(A) above).

On the Replacement Date, each Replacement Lender that is a New Lender shall become a Lender hereunder and shall succeed to the obligations of the Retiring Lender with respect to outstanding Swingline Loans and Letters of Credit to the extent of the Commitment of the Retiring Lender assumed by such Replacement Lender, and the Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall continue to inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

In lieu of the foregoing, subject to Section 2.08(e), upon express written consent of Continuing Lenders holding more than 50% of the aggregate amount of the Commitments of the Continuing Lenders, the Borrower shall have the right to permanently terminate the Commitment of a Retiring Lender in full. Upon payment by the Borrower to the Administrative Agent for the account of the Retiring Lender of an amount equal to the sum of (i) the aggregate principal amount of all Loans and Reimbursement Obligations owed to the Retiring Lender and (ii) all accrued interest, fees and other amounts owing to the Retiring Lender hereunder, including, without limitation, all amounts payable by the Borrower to the Retiring Lender under Sections 2.12, 2.16, 2.17 or 9.03, such Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

(c) Optional Termination of Defaulting Lender Commitment (Non-Pro-Rata). At any time a Lender is a Defaulting Lender, subject to Section 2.08(e), the Borrower may terminate in full the Commitment of such Defaulting Lender by giving notice to such Defaulting Lender and the Administrative Agent, provided, that, (i) at the time of such termination, (A) no Default has occurred and is continuing (or alternatively, the Required Lenders shall consent to such termination) and (B) either (x) no Revolving Loans or Swingline Loans are outstanding or (y) the aggregate Revolving Outstandings of such Defaulting Lender in respect of Revolving Loans is zero; (ii) concurrently with such termination, the aggregate Commitments shall be reduced by the Commitment of the Defaulting Lender; and (iii) concurrently with any subsequent payment of interest or fees to the Lenders with respect to any period before the termination of a Defaulting Lender's Commitment, the Borrower shall pay to such Defaulting Lender its ratable share (based on its Commitment Ratio before giving effect to such termination) of such interest or fees, as applicable. The termination of a Defaulting Lender's Commitment pursuant to this Section 2.08(c) shall not be deemed to be a waiver of any right that the Borrower, Administrative Agent, any Issuing Lender or any other Lender may have against such Defaulting Lender.

(d) Termination Date. The Commitments shall terminate on the Termination Date.

(e) Redetermination of Commitment Ratios. On the date of termination of the Commitment of a Retiring Lender or Defaulting Lender pursuant to Section 2.08(b) or (c), the Commitment Ratios of the Continuing Lenders shall be redetermined after giving effect thereto, and the participations of the Continuing Lenders in and obligations of the Continuing Lenders in respect of any then outstanding Swingline Loans and Letters of Credit shall thereafter be based upon such redetermined Commitment Ratios (to the extent not previously adjusted pursuant to Section 2.20). The right of the Borrower to effect such a termination is conditioned on there being sufficient unused availability in the Commitments of the Continuing Lenders such that the aggregate Revolving Outstandings will not exceed the aggregate Commitments after giving effect to such termination and redetermination.

#### Section 2.09. Maturity of Loans; Mandatory Prepayments.

##### (a) Scheduled Repayments and Prepayments of Loans; Overline Repayments.

(i) The Revolving Loans shall mature on the Termination Date, and any Revolving Loans, Swingline Loans and Letter of Credit Liabilities then outstanding (together with accrued interest thereon and fees in respect thereof) shall be due and payable or, in the case of Letters of Credit, cash collateralized pursuant to Section 2.09(a)(ii), on such date.

(ii) If on any date the aggregate Revolving Outstandings exceed the aggregate amount of the Commitments (such excess, a "Revolving Outstandings Excess"), the Borrower shall prepay, and there shall become due and payable (together with accrued interest thereon) on such date, an aggregate principal amount of Revolving Loans and/or Swingline Loans equal to such Revolving Outstandings Excess. If, at a time when a Revolving Outstandings Excess exists and (x) no Revolving Loans or Swingline Loans are outstanding or (y) the Commitment has been terminated pursuant to this Agreement and, in either case, any Letter of Credit Liabilities remain outstanding, then, in either case, the Borrower shall cash collateralize any Letter of Credit Liabilities by depositing into a cash collateral account established and maintained (including the investments made pursuant thereto) by the Administrative Agent pursuant to a cash collateral agreement in form and substance satisfactory to the Administrative Agent an amount in cash equal to the then outstanding Letter of Credit Liabilities. In determining Revolving Outstandings for purposes of this clause (ii), Letter of Credit Liabilities shall be reduced to the extent that they are cash collateralized as contemplated by this Section 2.09(a)(ii).

##### (b) Applications of Prepayments and Reductions.

(i) Each payment or prepayment of Loans pursuant to this Section 2.09 shall be applied ratably to the respective Loans of all of the Lenders.

(ii) Each payment of principal of the Loans shall be made together with interest accrued on the amount repaid to the date

of payment.

(iii) Each payment of the Loans shall be applied to such Groups of Loans as the Borrower may designate (or, failing such designation, as determined by the Administrative Agent).

#### Section 2.10. Optional Prepayments and Repayments.

(a) Prepayments of Loans. Other than in respect of Swingline Loans, the repayment of which is governed pursuant to Section 2.02(b), subject to Section 2.12, the Borrower may (i) upon at least one (1) Business Day's notice to the Administrative Agent, prepay any Base Rate Borrowing or (ii) upon at least three (3) Business Days' notice to the Administrative Agent, prepay any Euro-Dollar Borrowing, in each case in whole at any time, or from time to time in part in amounts aggregating \$10,000,000 or any larger integral multiple of \$1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Lenders included in such Borrowing.

(b) Notice to Lenders. Upon receipt of a notice of prepayment pursuant to Section 2.10(a), the Administrative Agent shall promptly notify each Lender of the contents thereof and of such Lender's ratable share (if any) of such prepayment, and such notice shall not thereafter be revocable by the Borrower.

#### Section 2.11. General Provisions as to Payments.

(a) Payments by the Borrower. The Borrower shall make each payment of principal of and interest on the Loans and Letter of Credit Liabilities and fees hereunder (other than fees payable directly to the Issuing Lenders) not later than 12:00 Noon (Charlotte, North Carolina time) on the date when due, without set-off, counterclaim or other deduction, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. The Administrative Agent will promptly distribute to each Lender its ratable share of each such payment received by the Administrative Agent for the account of the Lenders. Whenever any payment of principal of or interest on the Base Rate Loans or Letter of Credit Liabilities or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. Whenever any payment of principal of or interest on the Euro-Dollar Loans shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Distributions by the Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date, and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.12. Funding Losses. If the Borrower makes any payment of principal with respect to any Euro-Dollar Loan pursuant to the terms and provisions of this Agreement (any conversion of a Euro-Dollar Loan to a Base Rate Loan pursuant to Section 2.18 being treated as a payment of such Euro-Dollar Loan on the date of conversion for purposes of this Section 2.12) on any day other than the last day of the Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.06(c), or if the Borrower fails to borrow, convert or prepay any Euro-Dollar Loan after notice has been given in accordance with the provisions of this Agreement, or in the event of payment in respect of any Euro-Dollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.08(b), the Borrower shall reimburse each Lender within fifteen (15) days after demand for any resulting loss or expense incurred by it (and by an existing Participant in the related Loan), including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or failure to borrow or prepay; provided, that such Lender shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.13. Computation of Interest and Fees. Interest on Loans based on the Prime Rate hereunder and Letter of Credit Fees shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed. All other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.14. Basis for Determining Interest Rate Inadequate, Unfair or Unavailable. If on or prior to the first day of any Interest Period for any Euro-Dollar Loan: (a) Lenders having 50% or more of the aggregate amount of the Commitments advise the Administrative Agent that the Adjusted London Interbank Offered Rate as determined by the Administrative Agent, will not adequately and fairly reflect the cost to such Lenders of funding their Euro-Dollar Loans for such Interest Period; or (b) the Administrative Agent shall determine that no reasonable means exists for determining the Adjusted London Interbank Offered Rate, the Administrative Agent shall forthwith give notice thereof to the Borrower and the Lenders, whereupon, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Lenders to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans shall be suspended; and (ii) each outstanding Euro-Dollar Loan shall be converted into a Base Rate Loan on the last day of the current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at least two (2) Domestic Business Days before the date of (or, if at the time the Borrower receives such notice the day is the date of, or the date immediately preceding, the date of such Euro-Dollar Borrowing, by 10:00 A.M. on the date of) any Euro-Dollar Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 2.15. Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable

agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Lender (or its Euro-Dollar Lending Office) to make, maintain or fund its Euro-Dollar Loans and such Lender shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Borrower, whereupon until such Lender notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans, shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Lender shall designate a different Euro-Dollar Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. If such notice is given, each Euro-Dollar Loan of such Lender then outstanding shall be converted to a Base Rate Loan either (i) on the last day of the then current Interest Period applicable to such Euro-Dollar Loan if such Lender may lawfully continue to maintain and fund such Loan to such day or (ii) immediately if such Lender shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

#### Section 2.16. Increased Cost and Reduced Return.

(a) Increased Costs. If after the Effective Date, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance assessment or similar requirement against Letters of Credit issued or participated in by, assets of, deposits with or for the account of or credit extended by, any Lender (or its Applicable Lending Office) or shall impose on any Lender (or its Applicable Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Euro-Dollar Loans, Notes, obligation to make Euro-Dollar Loans or obligations hereunder in respect of Letters of Credit, and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making or maintaining any Euro-Dollar Loan, or of issuing or participating in any Letter of Credit, or to reduce the amount of any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement or under its Notes with respect thereto, then, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts, as determined by such Lender in good faith, as will compensate such Lender for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(b) Capital Adequacy. If any Lender shall have determined that, after the Effective Date, the adoption of any applicable law, rule or regulation regarding capital adequacy or liquidity, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Lender (or any Person controlling such Lender) as a consequence of such Lender's obligations hereunder to a level below that which such Lender (or any Person controlling such Lender) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy), then from time to time, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender (or any Person controlling such Lender) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(c) Notices. Each Lender will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the Effective Date, that will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

(d) Notwithstanding anything to the contrary herein, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "change in law" under this Article II regardless of the date enacted, adopted or issued.

#### Section 2.17. Taxes.

(a) Payments Net of Certain Taxes. Any and all payments by the Borrower to or for the account of any Lender or any Agent hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income (including branch profits or similar taxes) of, and gross receipts, franchise or similar taxes imposed on, any Agent or any Lender by the jurisdiction (or subdivision thereof) under the laws of which such Lender or Agent is organized or in which its principal executive office is located or, in the case of each Lender, in which its Applicable Lending Office is located, (ii) in the case of each Lender, any United States withholding tax imposed on such payments, but only to the extent that such Lender is subject to United States withholding tax at the time such Lender first becomes a party to this Agreement or changes its Applicable Lending Office, (iii) any backup withholding tax imposed by the United States (or any state or locality thereof) on a Lender or Administrative Agent that is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code, and (iv) any taxes imposed by FATCA (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender or any Agent, (i) the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this Section 2.17(a)) such Lender or Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the



Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower shall furnish to the Administrative Agent, for delivery to such Lender, the original or a certified copy of a receipt evidencing payment thereof.

(b) Other Taxes. In addition, the Borrower agrees to pay any and all present or future stamp or court or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement, any Note or any other Loan Document or from the execution, delivery, performance, registration or enforcement of, or otherwise with respect to, this Agreement, any Note or any other Loan Document (collectively, "Other Taxes").

(c) Indemnification. The Borrower agrees to indemnify each Lender and each Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 2.17(c)), whether or not correctly or legally asserted, paid by such Lender or Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Borrower by each Lender or Agent seeking indemnification pursuant to this Section 2.17(c). This indemnification shall be paid within 15 days after such Lender or Agent (as the case may be) makes demand therefor.

(d) Refunds or Credits. If a Lender or Agent receives a refund, credit or other reduction from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.17, it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund, credit or other reduction to the Borrower (but only to the extent of indemnity payments made or additional amounts paid by the Borrower under this Section 2.17 with respect to the Taxes or Other Taxes giving rise to such refund, credit or other reduction), net of all reasonable out-of-pocket expenses of such Lender or Agent (as the case may be) and without interest (other than interest paid by the relevant taxation authority with respect to such refund, credit or other reduction); provided, however, that the Borrower agrees to repay, upon the request of such Lender or Agent (as the case may be), the amount paid over to the Borrower (plus penalties, interest or other charges) to such Lender or Agent in the event such Lender or Agent is required to repay such refund or credit to such taxation authority.

(e) Tax Forms and Certificates. On or before the date it becomes a party to this Agreement, from time to time thereafter if reasonably requested by the Borrower or the Administrative Agent, and at any time it changes its Applicable Lending Office: (i) each Lender that is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Administrative Agent two (2) properly completed and duly executed copies of Internal Revenue Service Form W-9, or any successor form prescribed by the Internal Revenue Service, or such other documentation or information prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, as the case may be, certifying that such Lender is a United States person and is entitled to an exemption from United States backup withholding tax or information reporting requirements; and (ii) each Lender that is not a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code (a "Non-U.S. Lender") shall deliver to the Borrower and the Administrative Agent: (A) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, certifying that such Non-U.S. Lender is entitled to the benefits under an income tax treaty to which the United States is a party which exempts the Non-U.S. Lender from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Non-U.S. Lender; (B) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 ECI, or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable pursuant to this Agreement and the other Loan Documents is effectively connected with the conduct of a trade or business in the United States; or (C) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, together with a certificate to the effect that (x) such Non-U.S. Lender is not (1) a "bank" within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (2) a "10-percent shareholder" of the Borrower within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or (3) a "controlled foreign corporation" that is described in Section 881(c)(3)(C) of the Internal Revenue Code and is related to the Borrower within the meaning of Section 864(d)(4) of the Internal Revenue Code and (y) the interest payments in question are not effectively connected with a U.S. trade or business conducted by such Non-U.S. Lender or are effectively connected but are not includible in the Non-U.S. Lender's gross income for United States federal income tax purposes under an income tax treaty to which the United States is a party; or (D) to the extent the Non-U.S. Lender is not the beneficial owner, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 IMY, or any successor form prescribed by the Internal Revenue Service, accompanied by an Internal Revenue Service Form W-8 ECI, W-8 BEN, W-9, and/or other certification documents from each beneficial owner, as applicable. If a payment made to a Lender under any Loan Document would be subject to U.S. Federal withholding tax imposed by FATCA if such Lender fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (e), "FATCA" shall include any amendments made to FATCA after the date of this Agreement. In addition, each Lender agrees that from time to time after the Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to the Borrower and the Administrative Agent two new accurate and complete signed originals of Internal Revenue Service Form W-9, W-8 BEN, W-8 ECI or W-8 IMY or FATCA-related documentation described above, or successor forms, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any other Loan Document, or it shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such Form or certificate.

(f) Exclusions. The Borrower shall not be required to indemnify any Non-U.S. Lender, or to pay any additional amount to any Non-U.S. Lender, pursuant to Section 2.17(a), (b) or (c) in respect of Taxes or Other Taxes to the extent that the obligation to indemnify or pay such additional amounts would not have arisen but for the failure of such Non-U.S. Lender to comply with the provisions of subsection (e) above.

(g) Mitigation. If the Borrower is required to pay additional amounts to or for the account of any Lender pursuant to this Section 2.17, then such Lender will use reasonable efforts (which shall include efforts to rebook the Revolving Loans held by such Lender to a new Applicable Lending Office, or through another branch or affiliate of such Lender) to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of such Lender, such efforts (i) will eliminate or, if it is not possible to eliminate, reduce to the greatest extent possible any such additional payment which may

thereafter accrue and (ii) is not otherwise disadvantageous, in the sole determination of such Lender, to such Lender. Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section shall use reasonable efforts (consistent with legal and regulatory restrictions) to deliver to Borrower any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole determination of such Lender, be otherwise disadvantageous to such Lender.

(h) Confidentiality. Nothing contained in this Section shall require any Lender or any Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

Section 2.18. Base Rate Loans Substituted for Affected Euro-Dollar Loans. If (a) the obligation of any Lender to make or maintain, or to convert outstanding Loans to, Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (b) any Lender has demanded compensation under Section 2.16(a) with respect to its Euro-Dollar Loans and, in any such case, the Borrower shall, by at least four Business Days' prior notice to such Lender through the Administrative Agent, have elected that the provisions of this Section shall apply to such Lender, then, unless and until such Lender notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(i) all Loans which would otherwise be made by such Lender as (or continued as or converted into) Euro-Dollar Loans shall instead be Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Lenders); and

(ii) after each of its Euro-Dollar Loans has been repaid, all payments of principal that would otherwise be applied to repay such Loans shall instead be applied to repay its Base Rate Loans.

If such Lender notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Base Rate Loan shall be converted into a Euro-Dollar Loan on the first day of the next succeeding Interest Period applicable to the related Euro-Dollar Loans of the other Lenders.

#### Section 2.19. Increases to the Commitment.

(a) Subject to the terms and conditions of this Agreement, the Borrower may, during the Availability Period by delivering to the Administrative Agent and the Lenders a Notice of Revolving Increase in the form of Exhibit E, request increases to the Lenders' Commitments (each such request, an "Optional Increase"); provided that: (i) the Borrower may not request any increase to the Commitments after the occurrence and during the continuance of a Default; (ii) each Optional Increase shall be in a minimum amount of \$50,000,000 and (iii) the aggregate amount of all Optional Increases shall be no more than \$100,000,000.

(b) Each Lender may, but shall not be obligated to, participate in any Optional Increase, subject to the approval of the Issuing Lenders and the Swingline Lender (such approval not to be unreasonably withheld), and the decision of any Lender to commit to an Optional Increase shall be at such Lender's sole discretion and shall be made in writing. The Borrower may, at its own expense, solicit additional Commitments from third party financial institutions reasonably acceptable to the Administrative Agent, the Swingline Lender and the Issuing Lender. Any such financial institution (if not already a Lender hereunder) shall become a party to this Agreement as a Lender, pursuant to a joinder agreement in form and substance reasonably satisfactory to the Administrative Agent and the Borrower.

(c) As a condition precedent to the Optional Increase, the Borrower shall deliver to the Administrative Agent a certificate of the Borrower dated the effective date of the Optional Increase, signed by a Responsible Officer of the Borrower, certifying that: (i) the resolutions adopted by the Borrower approving or consenting to such Optional Increase are attached thereto and such resolutions are true and correct and have not been altered, amended or repealed and are in full force and effect, (ii) before and after giving effect to the Optional Increase, (A) the representations and warranties contained in Article V and the other Loan Documents are true and correct in all material respects on and as of the effective date of the Optional Increase, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and (B) that no Default exists, is continuing, or would result from the Optional Increase and (iii) all necessary governmental, regulatory and third party approvals, including, without limitation, any KPSC, TRA, VSCC and/or FERC approval required to approve the Optional Increase, are attached thereto and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of the Optional Increase.

(d) The Revolving Outstandings will be reallocated by the Administrative Agent on the effective date of any Optional Increase among the Lenders in accordance with their revised Commitment Ratios, and the Borrower hereby agrees to pay any and all costs (if any) required pursuant to Section 2.12 incurred by any Lender in connection with the exercise of the Optional Increase.

#### Section 2.20. Defaulting Lenders.

(a) Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(i) fees shall cease to accrue on the unfunded portion of the Commitment of such Defaulting Lender pursuant to Section 2.07(a);

(ii) with respect to any Letter of Credit Liabilities or Swingline Exposure of such Defaulting Lender that exists at the time a Lender becomes a Defaulting Lender or thereafter:

(A) all or any part of such Defaulting Lender's Letter of Credit Liabilities and its Swingline Exposure shall be reallocated among the Non-Defaulting Lenders in accordance with their respective Commitment Ratios

(calculated without regard to such Defaulting Lender's Commitment) but only to the extent that (x) the conditions set forth in Section 4.02 are satisfied at such time and (y) such reallocation does not cause the Revolving Outstandings of any Non-Defaulting Lender to exceed such Non-Defaulting Lender's Commitment;

(B) if the reallocation described in clause (ii)(A) above cannot, or can only partially, be effected, each Issuing Lender and the Swingline Lender, in its discretion may require the Borrower to (i) reimburse all amounts paid by an Issuing Lender upon any drawing under a Letter of Credit, (ii) repay an outstanding Swingline Loan, and/or (iii) cash collateralize (in accordance with Section 2.09(a)(ii)) all obligations of such Defaulting Lender in respect of outstanding Letters of Credit and Swingline Loans, in each case, in an amount at least equal to the aggregate amount of the obligations (contingent or otherwise) of such Defaulting Lender in respect of such Letters of Credit or Swingline Loans (after giving effect to any partial reallocation pursuant to Section 2.20(a)(ii)(A) above);

(iii) if the Borrower cash collateralizes any portion of such Defaulting Lender's pursuant to Section 2.20(a)(ii)(B) then the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities during the period such Defaulting Lender's Letter of Credit Liabilities are cash collateralized;

(iv) if the Letter of Credit Liabilities and/or Swingline Exposure of the Non-Defaulting Lenders is reallocated pursuant to Section 2.20(a)(ii)(A) above, then the fees payable to the Lenders pursuant to Section 2.07(a) and Section 2.07(b) shall be adjusted in accordance with such Non-Defaulting Lenders' Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment); and

(v) if any Defaulting Lender's Letter of Credit Liabilities and/or Swingline Exposure is neither reimbursed, repaid, cash collateralized nor reallocated pursuant to this Section 2.20(a)(ii), then, without prejudice to any rights or remedies of the Issuing Lenders, the Swingline Lender or any other Lender hereunder, all fees that otherwise would have been payable to such Defaulting Lender (solely with respect to the portion of such Defaulting Lender's Commitment that was utilized by such Letter of Credit Liabilities and/or Swingline Exposure) and letter of credit fees payable under Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities shall be payable to the Issuing Lenders and the Swingline Lender, pro rata, until such Letter of Credit Liabilities and/or Swingline Exposure is cash collateralized, reallocated and/or repaid in full.

(b) So long as any Lender is a Defaulting Lender, (i) no Issuing Lender shall be required to issue, amend or increase any Letter of Credit, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders and/or cash collateral provided by the Borrower in accordance with Section 2.20(a), and participating interests in any such newly issued or increased Letter of Credit shall be allocated among Non-Defaulting Lenders in a manner consistent with Section 3.05 (and Defaulting Lenders shall not participate therein) and (ii) the Swingline Lender shall not be required to advance any Swingline Loan, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders.

### ARTICLE III LETTERS OF CREDIT

Section 3.01. Issuing Lenders. Subject to the terms and conditions hereof, the Borrower may from time to time identify and arrange for one or more of the Lenders (in addition to the JLA Issuing Banks) to act as Issuing Lenders hereunder. Any such designation by the Borrower shall be notified to the Administrative Agent at least four Business Days prior to the first date upon which the Borrower proposes that such Issuing Lender issue its first Letter of Credit, so as to provide adequate time for such proposed Issuing Lender to be approved by the Administrative Agent hereunder (such approval not to be unreasonably withheld). Within two Business Days following the receipt of any such designation of a proposed Issuing Lender, the Administrative Agent shall notify the Borrower as to whether such designee is acceptable to the Administrative Agent. Nothing contained herein shall be deemed to require any Lender (other than a JLA Issuing Bank) to agree to act as an Issuing Lender, if it does not so desire.

#### Section 3.02. Letters of Credit.

(a) Letters of Credit. Each Issuing Lender agrees, on the terms and conditions set forth in this Agreement, to issue Letters of Credit from time to time before the fifth day prior to the Termination Date, for the account, and upon the request, of the Borrower and in support of such obligations of the Borrower or any of its Subsidiaries that are reasonably acceptable to such Issuing Lender; provided, that immediately after each Letter of Credit is issued, (A) the aggregate amount of Letter of Credit Liabilities shall not exceed \$200,000,000, (B) the aggregate Revolving Outstandings shall not exceed the aggregate amount of the Commitments and (C) the aggregate fronting exposure of any Issuing Lender shall not exceed its Fronting Sublimit.

Section 3.03. Method of Issuance of Letters of Credit. The Borrower shall give an Issuing Lender notice substantially in the form of Exhibit A-3 to this Agreement (a "Letter of Credit Request") of the requested issuance or extension of a Letter of Credit prior to 1:00 P.M. (Charlotte, North Carolina time) on the proposed date of the issuance or extension of Letters of Credit (which shall be a Business Day) (or such shorter period as may be agreed by such Issuing Lender in any particular instance), specifying the date such Letter of Credit is to be issued or extended and describing the terms of such Letter of Credit and the nature of the transactions to be supported thereby. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit, and if any Letter of Credit contains a provision pursuant to which it is deemed to be extended unless notice of termination is given by an Issuing Lender, such Issuing Lender shall timely give such notice of termination unless it has theretofore timely received a Letter of Credit Request and the other conditions to issuance of a Letter of Credit have theretofore been met with respect to such extension. No Letter of Credit shall have a term of more than one year, provided, that no Letter of Credit shall have a term extending or be so extendible beyond the fifth Business Day before the Termination Date.

Section 3.04. Conditions to Issuance of Letters of Credit. The issuance by an Issuing Lender of each Letter of Credit shall, in addition to the conditions precedent set forth in Article IV, be subject to the conditions precedent that (i) such Letter of Credit shall be satisfactory in form and substance to such Issuing Lender, (ii) the Borrower and, if applicable, any such Affiliate of the Borrower, shall have executed and delivered such other instruments and agreements relating to such Letter of Credit as such Issuing Lender shall have reasonably requested and (iii) such Issuing Lender shall have confirmed on the date of (and after giving effect to) such issuance that (A) the aggregate amount of Letter of Credit Liabilities shall not exceed \$200,000,000, (B) the aggregate

Revolving Outstandings will not exceed the aggregate amount of the Commitments and (C) the aggregate fronting exposure of any Issuing Lender shall not exceed the Fronting Sublimit. Notwithstanding any other provision of this Section 3.04, no Issuing Lender shall be under any obligation to issue any Letter of Credit if: any order, judgment or decree of any governmental authority shall by its terms purport to enjoin or restrain such Issuing Lender from issuing such Letter of Credit, or any requirement of law applicable to such Issuing Lender or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over such Issuing Lender shall prohibit, or request that such Issuing Lender refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such Issuing Lender with respect to such Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Lender is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon such Issuing Lender any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which such Issuing Lender in good faith deems material to it.

**Section 3.05. Purchase and Sale of Letter of Credit Participations.** Upon the issuance by an Issuing Lender of a Letter of Credit, such Issuing Lender shall be deemed, without further action by any party hereto, to have sold to each Lender, and each Lender shall be deemed, without further action by any party hereto, to have purchased from such Issuing Lender, without recourse or warranty, an undivided participation interest in such Letter of Credit and the related Letter of Credit Liabilities in accordance with its respective Commitment Ratio (although the Fronting Fee payable under Section 2.07(b) shall be payable directly to the Administrative Agent for the account of the applicable Issuing Lender, and the Lenders (other than such Issuing Lender) shall have no right to receive any portion of any such Fronting Fee) and any security therefor or guaranty pertaining thereto.

**Section 3.06. Drawings under Letters of Credit.** Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the applicable Issuing Lender shall determine in accordance with the terms of such Letter of Credit whether such drawing should be honored. If such Issuing Lender determines that any such drawing shall be honored, such Issuing Lender shall make available to such beneficiary in accordance with the terms of such Letter of Credit the amount of the drawing and shall notify the Borrower as to the amount to be paid as a result of such drawing and the payment date.

**Section 3.07. Reimbursement Obligations.** The Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse the applicable Issuing Lender for any amounts paid by such Issuing Lender upon any drawing under any Letter of Credit, together with any and all reasonable charges and expenses which such Issuing Lender may pay or incur relative to such drawing and interest on the amount drawn at the rate applicable to Base Rate Loans for each day from and including the date such amount is drawn to but excluding the date such reimbursement payment is due and payable. Such reimbursement payment shall be due and payable (i) at or before 1:00 P.M. (Charlotte, North Carolina time) on the date the applicable Issuing Lender notifies the Borrower of such drawing, if such notice is given at or before 10:00 A.M. (Charlotte, North Carolina time) on such date or (ii) at or before 10:00 A.M. (Charlotte, North Carolina time) on the next succeeding Business Day; provided, that no payment otherwise required by this sentence to be made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on any day shall be overdue hereunder if arrangements for such payment satisfactory to the applicable Issuing Lender, in its reasonable discretion, shall have been made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on such day and such payment is actually made at or before 3:00 P.M. (Charlotte, North Carolina time) on such day. In addition, the Borrower agrees to pay to the applicable Issuing Lender interest, payable on demand, on any and all amounts not paid by the Borrower to such Issuing Lender when due under this Section 3.07, for each day from and including the date when such amount becomes due to but excluding the date such amount is paid in full, whether before or after judgment, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day. Each payment to be made by the Borrower pursuant to this Section 3.07 shall be made to the applicable Issuing Lender in Federal or other funds immediately available to it at its address referred to Section 9.01.

**Section 3.08. Duties of Issuing Lenders to Lenders; Reliance.** In determining whether to pay under any Letter of Credit, the relevant Issuing Lender shall not have any obligation relative to the Lenders participating in such Letter of Credit or the related Letter of Credit Liabilities other than to determine that any document or documents required to be delivered under such Letter of Credit have been delivered and that they substantially comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by an Issuing Lender under or in connection with any Letter of Credit shall not create for such Issuing Lender any resulting liability if taken or omitted in the absence of gross negligence or willful misconduct. Each Issuing Lender shall be entitled (but not obligated) to rely, and shall be fully protected in relying, on the representation and warranty by the Borrower set forth in the last sentence of Section 4.02 to establish whether the conditions specified in clauses (b) and (c) of Section 4.02 are met in connection with any issuance or extension of a Letter of Credit. Each Issuing Lender shall be entitled to rely, and shall be fully protected in relying, upon advice and statements of legal counsel, independent accountants and other experts selected by such Issuing Lender and upon any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, teletypewriter, telex or teletype message, statement, order or other document believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary unless the beneficiary and the Borrower shall have notified such Issuing Lender that such documents do not comply with the terms and conditions of the Letter of Credit. Each Issuing Lender shall be fully justified in refusing to take any action requested of it under this Section in respect of any Letter of Credit unless it shall first have received such advice or concurrence of the Required Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take, or omitting or continuing to omit, any such action. Notwithstanding any other provision of this Section, each Issuing Lender shall in all cases be fully protected in acting, or in refraining from acting, under this Section in respect of any Letter of Credit in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant hereto shall be binding upon all Lenders and all future holders of participations in such Letter of Credit; provided, that this sentence shall not affect any rights the Borrower may have against any Issuing Lender or the Lenders that make such request.

**Section 3.09. Obligations of Lenders to Reimburse Issuing Lender for Unpaid Drawings.** If any Issuing Lender makes any payment under any Letter of Credit and the Borrower shall not have reimbursed such amount in full to such Issuing Lender pursuant to Section 3.07, such Issuing Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Lender (other than the relevant Issuing Lender), and each such Lender shall promptly and unconditionally pay to the Administrative Agent, for the account of such Issuing Lender, such Lender's share of such payment (determined in accordance with its respective Commitment Ratio) in Dollars in Federal or other immediately available funds, the aggregate of such payments relating to each unreimbursed amount being referred to herein as a "Mandatory Letter of Credit Borrowing"; provided, however, that no Lender shall be obligated to pay to the Administrative Agent its pro rata share of such unreimbursed amount for any wrongful payment made by the relevant Issuing Lender under a Letter of Credit as a result of acts or omissions constituting willful misconduct or gross negligence by such Issuing Lender. If the Administrative Agent so notifies a Lender prior to 11:00 A.M. (Charlotte, North Carolina time) on any Business Day, such Lender shall make available to the Administrative

Agent at its address referred to in Section 9.01 and for the account of the relevant Issuing Lender such Lender's pro rata share of the amount of such payment by 3:00 P.M. (Charlotte, North Carolina time) on the Business Day following such Lender's receipt of notice from the Administrative Agent, together with interest on such amount for each day from and including the date of such drawing to but excluding the day such payment is due from such Lender at the Federal Funds Rate for such day (which funds the Administrative Agent shall promptly remit to such Issuing Lender). The failure of any Lender to make available to the Administrative Agent for the account of an Issuing Lender its pro rata share of any unreimbursed drawing under any Letter of Credit shall not relieve any other Lender of its obligation hereunder to make available to the Administrative Agent for the account of such Issuing Lender its pro rata share of any payment made under any Letter of Credit on the date required, as specified above, but no such Lender shall be responsible for the failure of any other Lender to make available to the Administrative Agent for the account of such Issuing Lender such other Lender's pro rata share of any such payment. Upon payment in full of all amounts payable by a Lender under this Section 3.09, such Lender shall be subrogated to the rights of the relevant Issuing Lender against the Borrower to the extent of such Lender's pro rata share of the related Letter of Credit Liabilities (including interest accrued thereon). If any Lender fails to pay any amount required to be paid by it pursuant to this Section 3.09 on the date on which such payment is due, interest shall accrue on such Lender's obligation to make such payment, for each day from and including the date such payment became due to but excluding the date such Lender makes such payment, whether before or after judgment, at a rate per annum equal to (i) for each day from the date such payment is due to the third succeeding Business Day, inclusive, the Federal Funds Rate for such day as determined by the relevant Issuing Lender and (ii) for each day thereafter, the sum of 2% plus the rate applicable to its Base Rate Loans for such day. Any payment made by any Lender after 3:00 P.M. (Charlotte, North Carolina time) on any Business Day shall be deemed for purposes of the preceding sentence to have been made on the next succeeding Business Day.

**Section 3.10. Funds Received from the Borrower in Respect of Drawn Letters of Credit.** Whenever an Issuing Lender receives a payment of a Reimbursement Obligation as to which the Administrative Agent has received for the account of such Issuing Lender any payments from the other Lenders pursuant to Section 3.09 above, such Issuing Lender shall pay the amount of such payment to the Administrative Agent, and the Administrative Agent shall promptly pay to each Lender which has paid its pro rata share thereof, in Dollars in Federal or other immediately available funds, an amount equal to such Lender's pro rata share of the principal amount thereof and interest thereon for each day after relevant date of payment at the Federal Funds Rate.

**Section 3.11. Obligations in Respect of Letters of Credit Unconditional.** The obligations of the Borrower under Section 3.07 above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

- (a) any lack of validity or enforceability of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (b) any amendment or waiver of or any consent to departure from all or any of the provisions of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (c) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);
- (d) the existence of any claim, set-off, defense or other rights that the Borrower may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), any Issuing Lender or any other Person, whether in connection with this Agreement or any Letter of Credit or any document related hereto or thereto or any unrelated transaction;
- (e) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;
- (f) payment under a Letter of Credit against presentation to an Issuing Lender of a draft or certificate that does not comply with the terms of such Letter of Credit; provided, that the relevant Issuing Lender's determination that documents presented under such Letter of Credit comply with the terms thereof shall not have constituted gross negligence or willful misconduct of such Issuing Lender; or
- (g) any other act or omission to act or delay of any kind by any Issuing Lender or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (g), constitute a legal or equitable discharge of the Borrower's obligations hereunder.

Nothing in this Section 3.11 is intended to limit the right of the Borrower to make a claim against any Issuing Lender for damages as contemplated by the proviso to the first sentence of Section 3.12.

**Section 3.12. Indemnification in Respect of Letters of Credit.** The Borrower hereby indemnifies and holds harmless each Lender (including each Issuing Lender) and the Administrative Agent from and against any and all claims, damages, losses, liabilities, costs or expenses which such Lender or the Administrative Agent may incur by reason of or in connection with the failure of any other Lender to fulfill or comply with its obligations to such Issuing Lender hereunder (but nothing herein contained shall affect any rights which the Borrower may have against such defaulting Lender), and none of the Lenders (including any Issuing Lender) nor the Administrative Agent, their respective affiliates nor any of their respective officers, directors, employees or agents shall be liable or responsible, by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit, including, without limitation, any of the circumstances enumerated in Section 3.11, as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any error in interpretation of technical terms, (iii) any loss or delay in the transmission of any document required in order to make a drawing under a Letter of Credit, (iv) any consequences arising from causes beyond the control of such indemnitee, including without limitation, any government acts, or (v) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit; provided, that the Borrower shall not be required to indemnify any Issuing Lender for any claims, damages, losses, liabilities, costs or expenses, and the Borrower shall have a claim against such Issuing Lender for direct (but not consequential) damages suffered by it, to the extent found by a court of competent jurisdiction in a final, non-appealable judgment or order to have been caused by (i) the willful misconduct or gross negligence of such Issuing Lender in determining whether a request presented under any Letter of Credit issued by it complied with the terms of such Letter of Credit or (ii) such Issuing Lender's failure to pay under any Letter of Credit issued by it after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit. Nothing in this Section 3.12 is intended to limit the obligations of the Borrower under any other provision of this Agreement.

Section 3.13. ISP98. The rules of the "International Standby Practices 1998" as published by the International Chamber of Commerce most recently at the time of issuance of any Letter of Credit shall apply to such Letter of Credit unless otherwise expressly provided in such Letter of Credit.

#### ARTICLE IV CONDITIONS

Section 4.01. Conditions to Closing. The obligation of each Lender to make a Loan or issue a Letter of Credit on the occasion of the first Credit Event hereunder is subject to the satisfaction of the following conditions:

(a) This Agreement. The Administrative Agent shall have received counterparts hereof signed by each of the parties hereto or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex, facsimile or other written confirmation from such party of execution of a counterpart hereof by such party) to be held in escrow and to be delivered to the Borrower upon satisfaction of the other conditions set forth in this Section 4.01.

(b) Notes. On or prior to the Effective Date, the Administrative Agent shall have received a duly executed Note for the account of each Lender requesting delivery of a Note pursuant to Section 2.05.

(c) Officers' Certificates. The Administrative Agent shall have received a certificate dated the Effective Date signed on behalf of the Borrower by the Chairman of the Board, the President, any Vice President, the Treasurer or any Assistant Treasurer of the Borrower stating that (A) on the Effective Date and after giving effect to the Loans and Letters of Credit being made or issued on the Effective Date, no Default shall have occurred and be continuing and (B) the representations and warranties of the Borrower contained in the Loan Documents are true and correct on and as of the Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date.

(d) Proceedings. On the Effective Date, the Administrative Agent shall have received (i) a certificate of the Secretary of State of the Commonwealth of Kentucky, dated as of a recent date, as to the good standing of the Borrower, (ii) a certificate of the Secretary of State of the Commonwealth of Virginia, dated as of a recent date, as to the good standing of the Borrower and (iii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Effective Date and certifying (A) that attached thereto are true, correct and complete copies of (x) the Borrower's articles of incorporation certified by the Secretary of State of the Commonwealth of Kentucky and the Secretary of State of the Commonwealth of Virginia and (y) the bylaws of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party and each other document delivered in connection herewith or therewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing the Loan Documents to which the Borrower is a party or any other document delivered in connection herewith or therewith.

(e) Opinions of Counsel. On the Effective Date, the Administrative Agent shall have received from counsel to the Borrower, opinions addressed to the Administrative Agent and each Lender, dated the Effective Date, substantially in the form of Exhibit D hereto.

(f) Consents. All necessary governmental (domestic or foreign), regulatory and third party approvals, including, without limitation, the orders of the KPSC (the "KPSC Order"), TRA (the "TRA Order"), VSCC (the "VSCC Order") and any required approvals of the FERC, authorizing borrowings hereunder in connection with the transactions contemplated by this Agreement and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of such transactions; provided that any such approvals with respect to elections by the Borrower to increase the Commitment as contemplated by Section 2.19 need not be obtained or provided until the Borrower makes any such election.

(g) Payment of Fees. All costs, fees and expenses due to the Administrative Agent, the Joint Lead Arrangers and the Lenders accrued through the Effective Date (including Commitment Fees and Letter of Credit Fees) shall have been paid in full.

(h) Counsel Fees. The Administrative Agent shall have received full payment from the Borrower of the fees and expenses of Davis Polk & Wardwell LLP described in Section 9.03 which are billed through the Effective Date and which have been invoiced one Business Day prior to the Effective Date.

(i) Amendment Fee. The Borrower shall have paid to the Administrative Agent for the account of each Lender a non-refundable and fully earned fee (the "Amendment Fee") as set forth in the Fee Letter, on or before the Effective Date.

Section 4.02. Conditions to All Credit Events. The obligation of any Lender to make any Loan, and the obligation of any Issuing Lender to issue (or renew or extend the term of) any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.03, or receipt by an Issuing Lender of a Letter of Credit Request as required by Section 3.03;

(b) the fact that, immediately before and after giving effect to such Credit Event, no Default shall have occurred and be continuing; and

(c) the fact that the representations and warranties of the Borrower contained in this Agreement and the other Loan Documents shall be true and correct on and as of the date of such Credit Event, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations in Section 5.04(c), Section 5.05 and Section 5.13, which shall be deemed only to relate to the matters referred to therein on and as of the Effective Date.

Each Credit Event under this Agreement shall be deemed to be a representation and warranty by the Borrower on the date of such Credit Event as to the facts specified in clauses (b) and (c) of this Section.

## ARTICLE V REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

**Section 5.01. Status.** The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Kentucky and the Commonwealth of Virginia and has the corporate authority to make and perform this Agreement and each other Loan Document to which it is a party.

**Section 5.02. Authority; No Conflict.** The execution, delivery and performance by the Borrower of this Agreement and each other Loan Document to which it is a party have been duly authorized by all necessary corporate action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its articles of incorporation or bylaws, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which the Borrower is a party; provided, that any exercise of the option to increase the Commitment as contemplated in Section 2.19 may require further authorization of the Borrower's Board of Directors, or approvals of the KPSC, TRA, VSCC and/or FERC.

**Section 5.03. Legality; Etc.** This Agreement and each other Loan Document (other than the Notes) to which the Borrower is a party constitute the legal, valid and binding obligations of the Borrower, and the Notes, when executed and delivered in accordance with this Agreement, will constitute legal, valid and binding obligations of the Borrower, in each case enforceable against the Borrower in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

### **Section 5.04. Financial Condition.**

(a) **Audited Financial Statements.** The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 2011 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by PricewaterhouseCoopers LLP, copies of which have been delivered to each of the Administrative Agent and the Lenders, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) **Interim Financial Statements.** The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of June 30, 2012 and the related unaudited consolidated statements of income and cash flows for the six months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such six-month period (subject to normal year-end audit adjustments).

(c) **Material Adverse Change.** Since December 31, 2011 there has been no change in the business, assets, financial condition or operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Borrower's ability to perform any of its obligations under this Agreement, the Notes or the other Loan Documents.

**Section 5.05. Litigation.** Except as disclosed in or contemplated by the financial statements referenced in Sections 5.04(a) and 5.05(b) above, or in any subsequent report of the Borrower filed with the SEC on Form 10-K, 10-Q or 8-K, or otherwise furnished in writing to the Administrative Agent and each Lender, no litigation, arbitration or administrative proceeding against the Borrower is pending or, to the Borrower's knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of the Borrower to perform any of its obligations under this Agreement, the Notes or the other Loan Documents. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of the Borrower, threatened which questions the validity of this Agreement or the other Loan Documents to which it is a party.

**Section 5.06. No Violation.** No part of the proceeds of the borrowings by hereunder will be used, directly or indirectly by the Borrower for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulations U or X of said Board of Governors. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock".

**Section 5.07. ERISA.** Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

**Section 5.08. Governmental Approvals.** No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Borrower of this Agreement, the Notes and the other Loan Documents to which it is a party and except such authorizations, consents and approvals, including, without limitation, the KPSC Order, TRA Order and VSCC Order, as shall have been obtained prior to the Effective Date and shall be in full force and effect; provided, that any exercise of the option to increase the Commitment as contemplated in Section 2.19 may require additional approvals of the KPSC, TRA, VSCC and/or FERC.

Section 5.09. Investment Company Act. The Borrower is not an “investment company” within the meaning of the Investment Company Act of 1940, as amended.

Section 5.10. Tax Returns and Payments. The Borrower has filed or caused to be filed all Federal, state, local and foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which the Borrower shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

Section 5.11. Compliance with Laws. To the knowledge of the Borrower, the Borrower is in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance would not reasonably be expected to materially and adversely affect its ability to perform any of its obligations under this Agreement, the Notes or any other Loan Document to which it is a party.

Section 5.12. No Default. No Default has occurred and is continuing.

Section 5.13. Environmental Matters.

(a) Except (i) as disclosed in or contemplated by the financial statements referenced in Sections 5.04(a) and 5.04(b) above, or in any subsequent report of the Borrower filed with the SEC on Form 10-K, 10-Q or 8-K, or otherwise furnished in writing to the Administrative Agent and each Lender, or (ii) to the extent that the liabilities of the Borrower and its Subsidiaries, taken as a whole, that relate to or could reasonably be expected to result from the matters referred to in clauses (i) through (iii) of this Section 5.13(a), inclusive, would not reasonably be expected to result in a Material Adverse Effect:

(i) no notice, notification, citation, summons, complaint or order has been received by the Borrower or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Borrower’s or any of its Subsidiaries’ knowledge, threatened by any governmental or other entity with respect to any (A) alleged violation by or liability of the Borrower or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Borrower or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;

(ii) to the Borrower’s or any of its Subsidiaries’ knowledge, no Hazardous Substance has been released (and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, on or under any property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries; and

(iii) no property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries or, to the Borrower’s or any of its Subsidiaries’ knowledge, any property to which the Borrower or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Borrower’s or any of its Subsidiaries’ knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (“CERCLA”), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

(b) Except as disclosed in or contemplated by the financial statements referenced in Sections 5.04(a) and 5.04(b) above, or in any subsequent report of the Borrower filed with the SEC on Form 10-K, 10-Q or 8-K, or otherwise furnished in writing to the Administrative Agent and each Lender, to the Borrower’s or any of its Subsidiaries’ knowledge, there are no Environmental Liabilities that have resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) For purposes of this Section 5.13, the terms “the Borrower” and “Subsidiary” shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Borrower or any of its Subsidiaries from the time such business or business entity became a Subsidiary of PPL Corporation, a Pennsylvania corporation.

Section 5.14. OFAC. None of the Borrower, any Subsidiary of the Borrower or any Affiliate of the Borrower: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Entities, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Entities. The proceeds of any Loan will not be used and have not been used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Entity.

## ARTICLE VI COVENANTS

The Borrower agrees that so long as any Lender has any Commitment hereunder or any amount payable hereunder or under any Note or other Loan Document remains unpaid or any Letter of Credit Liability remains outstanding:

Section 6.01. Information. The Borrower will deliver or cause to be delivered to each of the Lenders (it being understood that the posting of the information required in clauses (a), (b) and (f) of this Section 6.01 on the Borrower’s website or PPL Corporation’s website ( <http://www.pplweb.com>) or making such information available on IntraLinks, Syndtrak (or similar service) shall be deemed to be effective delivery to the Lenders):

(a) Annual Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within one hundred and five (105) days after the end of each fiscal



year of the Borrower), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year and accompanied by an opinion thereon by independent public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of the date of such financial statements and the results of their operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis.

(b) Quarterly Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within sixty (60) days after the end of each quarterly fiscal period in each fiscal year of the Borrower (other than the last quarterly fiscal period of the Borrower)), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such fiscal quarter, all certified (subject to normal year-end audit adjustments) as to fairness of presentation, GAAP and consistency by any vice president, the treasurer or the controller of the Borrower.

(c) Officer's Certificate. Simultaneously with the delivery of each set of financial statements referred to in subsections (a) and (b) above, a certificate of the chief accounting officer or controller of the Borrower, (i) setting forth in reasonable detail the calculations required to establish compliance with the requirements of Section 6.09 on the date of such financial statements and (ii) stating whether there exists on the date of such certificate any Default and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(d) Default. Forthwith upon acquiring knowledge of the occurrence of any (i) Default or (ii) Event of Default, in either case a certificate of a vice president or the treasurer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(e) Change in Borrower's Ratings. Promptly, upon the chief executive officer, the president, any vice president or any senior financial officer of the Borrower obtaining knowledge of any change in a Borrower's Rating, a notice of such Borrower's Rating in effect after giving effect to such change.

(f) Securities Laws Filing. To the extent the Borrower is a Public Reporting Company, promptly, when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a copy of any Form 10-K Report to the SEC and a copy of any Form 10-Q Report to the SEC, and promptly upon the filing thereof, any other filings with the SEC.

(g) ERISA Matters. If and when any member of the ERISA Group: (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives, with respect to any Material Plan that is a Multiemployer Plan, notice of any complete or partial withdrawal liability under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Material Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code with respect to a Material Plan, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA; or (vii) fails to make any payment or contribution to any Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a copy of such notice, a certificate of the chief accounting officer or controller of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take.

(h) Other Information. From time to time such additional financial or other information regarding the financial condition, results of operations, properties, assets or business of the Borrower or any of its Subsidiaries as any Lender may reasonably request.

The Borrower hereby acknowledges that (a) the Administrative Agent will make available to the Lenders and each Issuing Lender materials and/or information provided by or on behalf of the Borrower hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks or another similar electronic system (the "Platform") and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a "Public Lender"). The Borrower hereby agrees that it will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all such Borrower Materials shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," the Borrower shall be deemed to have authorized the Administrative Agent, the Issuing Lenders and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Borrower or its securities for purposes of United States Federal and state securities laws ( provided, however, that to the extent such Borrower Materials constitute Information (as defined below), they shall be treated as set forth in Section 9.12); (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor;" and (z) the Administrative Agent shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting (subject to Section 9.12) on a portion of the Platform not designated "Public Investor." "Information" means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or any Issuing Lender on a nonconfidential basis prior to disclosure by the Borrower or any of its Subsidiaries; provided that, in the case of information received from the Borrower or any of its Subsidiaries after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

## Section 6.02. Maintenance of Property; Insurance.

(a) Maintenance of Properties. The Borrower will keep all property useful and necessary in its businesses in good working order and condition, subject to ordinary wear and tear, unless the Borrower determines in good faith that the continued maintenance of any of such properties is no longer economically desirable and so long as the failure to so maintain such properties would not reasonably be expected to have a Material Adverse Effect.

(b) Insurance. The Borrower will maintain, or cause to be maintained, insurance with financially sound (determined in the reasonable judgment of the Borrower) and responsible companies in such amounts (and with such risk retentions) and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which the Borrower operates.

Section 6.03. Conduct of Business and Maintenance of Existence. The Borrower will (i) continue to engage in businesses of the same general type as now conducted by the Borrower and its Subsidiaries and businesses related thereto or arising out of such businesses, except to the extent that the failure to maintain any existing business would not have a Material Adverse Effect and (ii) except as otherwise permitted in Section 6.07, preserve, renew and keep in full force and effect, and will cause each of its Subsidiaries to preserve, renew and keep in full force and effect, their respective corporate (or other entity) existence and their respective rights, privileges and franchises necessary or material to the normal conduct of business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.04. Compliance with Laws, Etc. The Borrower will comply with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance could not reasonably be expected to have a Material Adverse Effect.

Section 6.05. Books and Records. The Borrower (i) will keep, and will cause each of its Subsidiaries to keep, proper books of record and account in conformity with GAAP and (ii) will permit representatives of the Administrative Agent and each of the Lenders to visit and inspect any of their respective properties, to examine and make copies from any of their respective books and records and to discuss their respective affairs, finances and accounts with their officers, any employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired; provided, that, the rights created in this Section 6.05 to "visit", "inspect", "discuss" and copy shall not extend to any matters which the Borrower deems, in good faith, to be confidential, unless the Administrative Agent and any such Lender agree in writing to keep such matters confidential.

Section 6.06. Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower to repay loans under the Existing Credit Agreement on the Effective Date and for general corporate purposes of the Borrower and its Subsidiaries, including for working capital purposes and for making investments in or loans to Subsidiaries. The Borrower will request the issuance of Letters of Credit solely for general corporate purposes of the Borrower and its Subsidiaries including to support issuances of tax-exempt pollution control bonds issued on behalf of the Borrower and/or its Subsidiaries. No such use of the proceeds for general corporate purposes will be, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock within the meaning of Regulation U.

Section 6.07. Merger or Consolidation. The Borrower will not merge with or into or consolidate with or into any other corporation or entity, unless (i) immediately after giving effect thereto, no event shall occur and be continuing which constitutes a Default, (ii) the surviving or resulting Person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of the Borrower under this Agreement, (iii) substantially all of the consolidated assets and consolidated revenues of the surviving or resulting Person, as the case may be, are anticipated to come from the utility or energy businesses and (iv) the senior long-term debt ratings from both Rating Agencies of the surviving or resulting Person, as the case may be, immediately following the merger or consolidation is equal to or greater than the senior long-term debt ratings from both Rating Agencies of the Borrower immediately preceding the announcement of such consolidation or merger.

Section 6.08. Asset Sales. Except for the sale of assets required to be sold to conform with governmental requirements, the Borrower shall not consummate any Asset Sale, if the aggregate net book value of all such Asset Sales consummated during the four calendar quarters immediately preceding any date of determination would exceed 25% of the total assets of the Borrower and its Consolidated Subsidiaries as of the beginning of the Borrower's most recently ended full fiscal quarter; provided, however, that any such Asset Sale will be disregarded for purposes of the 25% limitation specified above: (a) if any such Asset Sale is in the ordinary course of business of the Borrower (b) if the assets subject to any such Asset Sale are worn out or are no longer useful or necessary in connection with the operation of the businesses of the Borrower; (c) if the assets subject to any such Asset Sale are being transferred to a Wholly Owned Subsidiary of the Borrower; (d) if the proceeds from any such Asset Sale (i) are, within twelve (12) months of such Asset Sale, invested or reinvested by the Borrower in a Permitted Business, (ii) are used by the Borrower to repay Debt of the Borrower, or (iii) are retained by the Borrower; or (e) if, prior to any such Asset Sale, both Rating Agencies confirm the then-current Borrower Ratings after giving effect to any such Asset Sale.

Section 6.09. Consolidated Debt to Consolidated Capitalization Ratio. The ratio of Consolidated Debt of the Borrower to Consolidated Capitalization of the Borrower shall not exceed 70%, measured as of the end of each fiscal quarter.

## ARTICLE VII DEFAULTS

Section 7.01. Events of Default. If one or more of the following events (each an "Event of Default") shall have occurred and be continuing:

- (a) the Borrower shall fail to pay when due any principal on any Loans or Reimbursement Obligations; or
- (b) the Borrower shall fail to pay when due any interest on the Loans 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 hereunder; or
- (c) the Borrower shall fail to observe or perform any covenant or agreement contained in clause (ii) of Section 6.05, or Sections 6.06, 6.07, 6.08 or 6.09; or

(d) the Borrower shall fail to observe or perform any covenant or agreement contained in Section 6.01(d)(i) for 30 days after any such failure or in Section 6.01(d)(ii) for ten (10) days after any such failure; or

(e) the Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement or any other Loan Document (other than those covered by clauses (a), (b), (c) or (d) 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

(f) any representation, warranty or certification made by the Borrower in this 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

(g) the Borrower 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

(h) the Borrower 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

(i) an involuntary case or other proceeding shall be commenced against the Borrower 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 Borrower under the Bankruptcy Code; or

(j) 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

(k) the Borrower 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 Borrower that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(l) a Change of Control shall have occurred;

then, and in every such event, while such event is continuing, the Administrative Agent may (A) if requested by the Required Lenders, by notice to the Borrower terminate the Commitments, and the Commitments shall thereupon terminate, and (B) if requested by the Lenders holding more than 50% of the sum of the aggregate outstanding principal amount of the Loans and Letter of Credit Liabilities at such time, by notice to the Borrower declare the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Loans and Letter of Credit Liabilities shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind (except as set forth in clause (A) above), all of which are hereby waived by the Borrower and require the Borrower to, and the Borrower shall, cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding; provided, that, in the case of any Default or any Event of Default specified in clause 7.01(h) or 7.01(i) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or any Lender, the Commitments shall thereupon terminate and the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, and the Borrower shall cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding.

## ARTICLE VIII THE AGENTS

Section 8.01. Appointment and Authorization. Each Lender hereby irrevocably designates and appoints the Administrative Agent to act as specified herein and in the other Loan Documents and to take such actions on its behalf under the provisions of this Agreement and the other Loan Documents and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent agrees to act as such upon the express conditions contained in this Article VIII. Notwithstanding any provision to the contrary elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent. The provisions of this Article VIII are solely for the benefit of the Administrative Agent and Lenders, and no other Person shall have any rights as a

third party beneficiary of any of the provisions hereof. For the sake of clarity, the Lenders hereby agree that no Agent other than the Administrative Agent shall have, in such capacity, any duties or powers with respect to this Agreement or the other Loan Documents.

Section 8.02. Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower and its Affiliates as though the Administrative Agent were not an Agent. With respect to the Loans made by it and all obligations owing to it, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not an Agent, and the terms "Required Lenders", "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

Section 8.03. Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents or attorneys-in-fact. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care except to the extent otherwise required by Section 8.07.

Section 8.04. Reliance by the Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy or other electronic facsimile transmission, telex, telegram, cable, teletype, electronic transmission by modem, computer disk or any other message, statement, order or other writing or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders, or all of the Lenders, if applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders or all of the Lenders, if applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

Section 8.05. Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default hereunder unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default and stating that such notice is a "notice of default". If the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders.

Section 8.06. Non-Reliance on the Agents and Other Lenders. Each Lender expressly acknowledges that no Agent or officer, director, employee, agent, attorney-in-fact or affiliate of any Agent has made any representations or warranties to it and that no act by any Agent hereafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by such Agent to any Lender. Each Lender acknowledges to the Agents that it has, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower. No Agent shall have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, assets, property, financial and other condition, prospects or creditworthiness of the Borrower which may come into the possession of such Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

Section 8.07. Exculpatory Provisions. The Administrative Agent shall not, and no officers, directors, employees, agents, attorneys-in-fact or affiliates of the Administrative Agent, shall (i) be liable for any action lawfully taken or omitted to be taken by it under or in connection with this Agreement or any other Loan Document (except for its own gross negligence, willful misconduct or bad faith) or (ii) be responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any of its officers contained in this Agreement, in any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for any failure of the Borrower or any of its officers to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower. The Administrative Agent shall not be responsible to any Lender for the effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any other Loan Document or for any representations, warranties, recitals or statements made by any other Person herein or therein or made by any other Person in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders or by or on behalf of the Borrower to the Administrative Agent or any Lender or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the Loans or of the existence or possible existence of any Default.

Section 8.08. Indemnification. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Sections 9.03(a), (b) or (c) to be paid by it to the Administrative Agent (or any sub-agent thereof), the Lenders severally agree to indemnify the Administrative Agent, in its capacity as such, and hold the Administrative Agent, in its capacity as such, harmless ratably according to their respective Commitments from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and reasonable expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the full payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against the Administrative Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Document, or any documents contemplated hereby or referred to herein or the transactions contemplated hereby or any action taken or omitted to be taken by the Administrative Agent under or in connection with any of the foregoing, but only to the extent that any of the foregoing is not paid by the Borrower; provided, that no Lender shall be liable to the Administrative Agent for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs or expenses or disbursements resulting from the gross negligence, willful misconduct or bad faith of the Administrative

Agent. If any indemnity furnished to the Administrative Agent for any purpose shall, in the reasonable opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished. The agreement in this Section 8.08 shall survive the payment of all Loans, Letter of Credit Liabilities, fees and other obligations of the Borrower arising hereunder.

Section 8.09. Resignation; Successors. The Administrative Agent may resign as Administrative Agent upon twenty (20) days notice to the Lenders. Upon the resignation of the Administrative Agent, the Required Lenders shall have the right to appoint from among the Lenders a successor to the Administrative Agent, subject to prior approval by the Borrower (so long as no Event of Default exists) (such approval not to be unreasonably withheld), whereupon such successor Administrative Agent shall succeed to and become vested with all the rights, powers and duties of the retiring Administrative Agent, and the term "Administrative Agent" shall include such successor Administrative Agent effective upon its appointment, and the retiring Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any other Loan Document. If no successor shall have been appointed by the Required Lenders and approved by the Borrower and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may at its election give notice to the Lenders and the Borrower of the immediate effectiveness of its resignation and such resignation shall thereupon become effective and the Lenders collectively shall perform all of the duties of the Administrative Agent hereunder and under the other Loan Documents until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After the retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement or any other Loan Document.

Section 8.10. Administrative Agent's Fees. The Borrower shall pay to the Administrative Agent for its own account fees in the amount and at the times agreed to and accepted by the Borrower pursuant to the Fee Letter.

## ARTICLE IX MISCELLANEOUS

Section 9.01. Notices. Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing (for purposes hereof, the term "writing" shall include information in electronic format such as electronic mail and internet web pages) or by telephone subsequently confirmed in writing; provided that the foregoing shall not apply to notices to any Lender, the Swingline Lender or Issuing Lender pursuant to Article II or Article III, as applicable, if such Lender, Swingline Lender or Issuing Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article in electronic format. Any notice shall have been duly given and shall be effective if delivered by hand delivery or sent via electronic mail, teletype, recognized overnight courier service or certified or registered mail, return receipt requested, or posting on an internet web page, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by electronic mail, posting on an internet web page, or teletype, (ii) on the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iii) on the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or teletype numbers, in the case of the Borrower and the Administrative Agent, set forth below, and, in the case of the Lenders, set forth on signature pages hereto, or at such other address as such party may specify by written notice to the other parties hereto:

if to the Borrower:

Kentucky Utilities Company  
One Quality Street  
Lexington, Kentucky 40507  
Attention: Treasurer  
Telephone: 502-627-4956  
Facsimile: 502-627-4742

with a copies to:

Kentucky Utilities Company  
One Quality Street  
Lexington, Kentucky 40507  
Attention: General Counsel  
Telephone: 502-627-3450  
Facsimile: 502-627-3367

PPL Services Corporation  
Two North Ninth Street (GENTW4)  
Allentown, Pennsylvania 18101-1179  
Attention: Frederick C. Paine, Esq.  
Telephone: 610-774-7445  
Facsimile: 610-774-6726

PPL Services Corporation  
Two North Ninth Street (GENTW14)  
Allentown, Pennsylvania 18101-1179  
Attention: Russell R. Clelland  
Telephone: 610-774-5151

Facsimile: 610-774-5235

if to the Administrative Agent:

Wells Fargo Bank, National Association  
1525 West W.T. Harris Boulevard  
Mail Code: MAC D1109-019  
Charlotte, NC 28262  
Attention: Syndication Agency Services  
Telephone: 704.590.2706  
Telecopier: 704.590.2790  
Electronic Mail: [agencyervices.requests@wellsfargo.com](mailto:agencyervices.requests@wellsfargo.com)

with a copy to:

Wells Fargo Bank, National Association  
90 S 7th Street, MAC: N9305-070  
Minneapolis, MN 55402  
Attention: Keith Luettel  
Telephone: 612-667-4747

Facsimile: 602-316-0506

with a copy to:

Davis Polk & Wardwell LLP  
450 Lexington Avenue  
New York, New York 10017  
Attention: Jason Kyrwood  
Telephone: 212-450-4653  
Facsimile: 212-450-5653

**Section 9.02. No Waivers; Non-Exclusive Remedies.** No failure by any Agent or any Lender to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any Note or other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and in the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

**Section 9.03. Expenses; Indemnification.**

(a) **Expenses.** The Borrower shall pay (i) all out-of-pocket expenses of the Agents, including legal fees and disbursements of Davis Polk & Wardwell LLP and any other local counsel retained by the Administrative Agent, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of the Loan Documents, the syndication efforts of the Agents with respect thereto, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) all reasonable out-of-pocket expenses incurred by the Agents and each Lender, including (without duplication) the fees and disbursements of outside counsel, in connection with any restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings in connection with the enforcement and protection of its rights; provided, that the Borrower shall not be liable for any legal fees or disbursements of any counsel for the Agents and the Lenders other than Davis Polk & Wardwell LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) **Indemnity in Respect of Loan Documents.** The Borrower agrees to indemnify the Agents and each Lender, their respective Affiliates and the respective directors, officers, trustees, agents, employees, trustees and advisors of the foregoing (each an "Indemnitee") and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, the reasonable fees and disbursements of counsel and any civil penalties or fines assessed by OFAC), which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened (by any third party, by the Borrower or any Subsidiary of the Borrower) in any way relating to or arising out of this Agreement, any other Loan Document or any documents contemplated hereby or referred to herein or any actual or proposed use of proceeds of Loans hereunder; provided, that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee's own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) **Indemnity in Respect of Environmental Liabilities.** The Borrower agrees to indemnify each Indemnitee and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in respect of or in connection with any actual or alleged presence or release of Hazardous Substances on or from any property now or previously owned or operated by the Borrower or any of its Subsidiaries or any predecessor of the Borrower or any of its Subsidiaries, or any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Borrower hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses and disbursements in respect of or in connection with Environmental Liabilities that it might have by statute or otherwise against any Indemnitee.

(d) Waiver of Damages. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in clause (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby; provided that nothing in this Section 9.03(d) shall relieve any Lender from its obligations under Section 9.12.

Section 9.04. Sharing of Set-Offs. Each Lender agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Loan made or Note held by it and any Letter of Credit Liabilities which is greater than the proportion received by any other Lender in respect of the aggregate amount of principal and interest due with respect to any Loan, Note and Letter of Credit Liabilities made or held by such other Lender, the Lender receiving such proportionately greater payment shall purchase such participations in the Loan made or Notes and Letter of Credit Liabilities held by the other Lenders, and such other adjustments shall be made, in each case as may be required so that all such payments of principal and interest with respect to the Loan made or Notes and Letter of Credit Liabilities made or held by the Lenders shall be shared by the Lenders pro rata; provided, that nothing in this Section shall impair the right of any Lender to exercise any right of set-off or counterclaim it may have for payment of indebtedness of the Borrower other than its indebtedness hereunder.

Section 9.05. Amendments and Waivers. Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Lenders (and, if the rights or duties of the Administrative Agent, Swingline Lender or any Issuing Lenders are affected thereby, by the Administrative Agent, Swingline Lender or such Issuing Lender, as relevant); provided, that no such amendment or waiver shall, (a) unless signed by each Lender adversely affected thereby, (i) increase the Commitment of any Lender or subject any Lender to any additional obligation (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or of mandatory reductions in the Commitments shall not constitute an increase of the Commitment of any Lender, and that an increase in the available portion of any Commitment of any Lender as in effect at any time shall not constitute an increase in such Commitment), (ii) reduce the principal or rate of interest on any Loan (except in connection with a waiver of applicability of any post-default increase in interest rates) or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder, (iii) postpone the date fixed for any payment of interest on any Loan or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder or for any scheduled reduction or termination of any Commitment or (except as expressly provided in Article III) expiration date of any Letter of Credit, (iv) postpone or change the date fixed for any scheduled payment of principal of any Loan, (v) change any provision hereof in a manner that would alter the pro rata funding of Loans required by Section 2.04(b), the pro rata sharing of payments required by Sections 2.11(a), 2.09(b) or 9.04 or the pro rata reduction of Commitments required by Section 2.08(a) or (vi) change the currency in which Loans are to be made, Letters of Credit are to be issued or payment under the Loan Documents is to be made, or add additional borrowers or (b) unless signed by each Lender, change the definition of Required Lender or this Section 9.05 or Section 9.06(a).

#### Section 9.06. Successors and Assigns.

(a) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all of the Lenders, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement.

(b) Participations. Any Lender may at any time grant to one or more banks or other financial institutions or special purpose funding vehicle (each a "Participant") participating interests in its Commitments and/or any or all of its Loans and Letter of Credit Liabilities. In the event of any such grant by a Lender of a participating interest to a Participant, whether or not upon notice to the Borrower and the Administrative Agent, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrower, the Issuing Lenders, Swingline Lender and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided, that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement which would (i) extend the Termination Date, reduce the rate or extend the time of payment of principal, interest or fees on any Loan or Letter of Credit Liability in which such Participant is participating (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the Participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default or of a mandatory reduction in the Commitments shall not constitute a change in the terms of such participation, and that an increase in any Commitment or Loan or Letter of Credit Liability shall be permitted without the consent of any Participant if the Participant's participation is not increased as a result thereof) or (ii) allow the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, without the consent of the Participant, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article II with respect to its participating interest to the same extent as if it were a Lender, subject to the same limitations, and in no case shall any Participant be entitled to receive any amount payable pursuant to Article II that is greater than the amount the Lender granting such Participant's participating interest would have been entitled to receive had such Lender not sold such participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b). Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register (solely for tax purposes) on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"). The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(c) Assignments Generally. Any Lender may at any time assign to one or more Eligible Assignees (each, an "Assignee") all, or a proportionate part (equivalent to an initial amount of not less than \$5,000,000 or any larger integral multiple of \$1,000,000), of its rights and obligations under

this Agreement and the Notes with respect to its Loans and, if still in existence, its Commitment, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit C attached hereto executed by such Assignee and such transferor, with (and subject to) the consent of the Borrower, which shall not be unreasonably withheld or delayed, the Administrative Agent, Swingline Lender and the Issuing Lenders, which consent shall not be unreasonably withheld or delayed; provided, that if an Assignee is an Affiliate of such transferor Lender or was a Lender immediately prior to such assignment, no such consent of the Borrower or the Administrative Agent shall be required; provided, further, that if at the time of such assignment a Default or an Event of Default has occurred and is continuing, no such consent of the Borrower shall be required; provided, further, that no such assignment may be made prior to the Effective Date without the prior written consent of the Joint Lead Arrangers; provided, further, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a transferor with respect to any Loans made, any Letters of Credit issued or any other actions taken by such transferor while it was a Lender. Upon execution and delivery of such instrument and payment by such Assignee to such transferor of an amount equal to the purchase price agreed between such transferor and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender with a Commitment, if any, as set forth in such instrument of assumption, and the transferor shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this subsection (c), the transferor, the Administrative Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to the Assignee. In connection with any such assignment, the transferor shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$3,500; provided that the Administrative Agent may, in its sole discretion, elect to waive such administrative fee in the case of any assignment. Each Assignee shall, on or before the effective date of such assignment, deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States Taxes in accordance with Section 2.17(e).

(d) Assignments to Federal Reserve Banks. Any Lender may at any time assign all or any portion of its rights under this Agreement and its Note to a Federal Reserve Bank. No such assignment shall release the transferor Lender from its obligations hereunder.

(e) Register. The Borrower hereby designates the Administrative Agent to serve as the Borrower's agent, solely for purposes of this Section 9.06(e), to (i) maintain a register (the "Register") on which the Administrative Agent will record the Commitments from time to time of each Lender, the Loans made by each Lender and each repayment in respect of the principal amount of the Loans of each Lender and to (ii) retain a copy of each Assignment and Assumption Agreement delivered to the Administrative Agent pursuant to this Section. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower's obligation in respect of such Loans. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent, Swingline Lender, the Issuing Lenders and the other Lenders shall treat each Person in whose name a Loan and the Note evidencing the same is registered as the owner thereof for all purposes of this Agreement, notwithstanding notice or any provision herein to the contrary. With respect to any Lender, the assignment or other transfer of the Commitments of such Lender and the rights to the principal of, and interest on, any Loan made and any Note issued pursuant to this Agreement shall not be effective until such assignment or other transfer is recorded on the Register and, except to the extent provided in this subsection 9.06(e), otherwise complies with Section 9.06, and prior to such recordation all amounts owing to the transferring Lender with respect to such Commitments, Loans and Notes shall remain owing to the transferring Lender. The registration of assignment or other transfer of all or part of any Commitments, Loans and Notes for a Lender shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement and payment of the administrative fee referred to in Section 9.06(c). The Register shall be available for inspection by each of the Borrower, the Swingline Lender and each Issuing Lender at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender wishing to consult with other Lenders in connection therewith may request and receive from the Administrative Agent a copy of the Register. The Borrower may not replace any Lender pursuant to Section 2.08(b), unless, with respect to any Notes held by such Lender, the requirements of subsection 9.06(c) and this subsection 9.06(e) have been satisfied.

Section 9.07. Governing Law; Submission to Jurisdiction. This Agreement and each Note shall be governed by and construed in accordance with the internal laws of the State of New York. The Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such court and any claim that any such proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.08. Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Effective Date. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. On and after the Effective Date, this Agreement, the other Loan Documents and the Fee Letter constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 9.09. Generally Accepted Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries most recently delivered to the Lenders; provided, that, if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article VI to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Article VI for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Lenders.

Section 9.10. Usage. The following rules of construction and usage shall be applicable to this Agreement and to any instrument or agreement that is governed by or referred to in this Agreement.

(a) All terms defined in this Agreement shall have the defined meanings when used in any instrument governed hereby or referred to herein and in any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein.

(b) The words "hereof", "herein", "hereunder" and words of similar import when used in this Agreement or in any instrument or



agreement governed here shall be construed to refer to this Agreement or such instrument or agreement, as applicable, in its entirety and not to any particular provision or subdivision hereof or thereof.

(c) References in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, this Agreement unless the context otherwise requires; references in any instrument or agreement governed by or referred to in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, such instrument or agreement unless the context otherwise requires.

(d) The definitions contained in this Agreement shall apply equally to the singular and plural forms of such terms. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The word "will" shall be construed to have the same meaning as the word "shall". The term "including" shall be construed to have the same meaning as the phrase "including without limitation".

(e) Unless the context otherwise requires, any definition of or reference to any agreement, instrument, statute or document contained in this Agreement or in any agreement or instrument that is governed by or referred to in this Agreement shall be construed (i) as referring to such agreement, instrument, statute or document as the same may be amended, supplemented or otherwise modified from time to time (subject to any restrictions on such amendments, supplements or modifications set forth in this Agreement or in any agreement or instrument governed by or referred to in this Agreement), including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and (ii) to include (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. Any reference to any Person shall be construed to include such Person's successors and permitted assigns.

(f) Unless the context otherwise requires, whenever any statement is qualified by "to the best knowledge of" or "known to" (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

**Section 9.11. WAIVER OF JURY TRIAL.** THE BORROWER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

**Section 9.12. Confidentiality.** Each Lender agrees to hold all non-public information obtained pursuant to the requirements of this Agreement in accordance with its customary procedure for handling confidential information of this nature and in accordance with safe and sound banking practices; provided, that nothing herein shall prevent any Lender from disclosing such information (i) to any other Lender or to any Agent, (ii) to any other Person if reasonably incidental to the administration of the Loans and Letter of Credit Liabilities, (iii) upon the order of any court or administrative agency, (iv) to the extent requested by, or required to be disclosed to, any rating agency or regulatory agency or similar authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (v) which had been publicly disclosed other than as a result of a disclosure by any Agent or any Lender prohibited by this Agreement, (vi) in connection with any litigation to which any Agent, any Lender or any of their respective Subsidiaries or Affiliates may be party, (vii) to the extent necessary in connection with the exercise of any remedy hereunder, (viii) to such Lender's or Agent's Affiliates and their respective directors, officers, employees and agents including legal counsel and independent auditors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (ix) with the consent of the Borrower, (x) to Gold Sheets and other similar bank trade publications, such information to consist solely of deal terms and other information customarily found in such publications and (xi) subject to provisions substantially similar to those contained in this Section, to any actual or proposed Participant or Assignee or to any actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Borrower's Obligations hereunder. Notwithstanding the foregoing, any Agent, any Lender or Davis Polk & Wardwell LLP may circulate promotional materials and place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web, in each case, after the closing of the transactions contemplated by this Agreement in the form of a "tombstone" or other release limited to describing the names of the Borrower or its Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense.

**Section 9.13. USA PATRIOT Act Notice.** Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub.L. 107-56 (signed into law October 26, 2001)) (the "Patriot Act"), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Patriot Act.

**Section 9.14. No Fiduciary Duty.** Each Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph, the "Lender Parties"), may have economic interests that conflict with those of the Borrower, its Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the "Borrower Parties"). The Borrower agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty (other than any implied duty of good faith) between any Lender Party, on the one hand, and any Borrower Party, on the other. The Lender Parties acknowledge and agree that (a) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm's-length commercial transactions between the Lender Parties, on the one hand, and the Borrower, on the other and (b) in connection therewith and with the process leading thereto, (i) no Lender Party has assumed an advisory or fiduciary responsibility in favor of any Borrower Party with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender Party has advised, is currently advising or will advise any Borrower Party on other matters) or any other obligation to any Borrower Party except the obligations expressly set forth in the Loan Documents and (ii) each Lender Party is acting solely as principal and not as the agent or fiduciary of any Borrower Party. The Borrower acknowledges and agrees that the Borrower has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Lender Party has rendered advisory services of any nature or respect, or owes a

fiduciary or similar duty to any Borrower Party, in connection with such transaction or the process leading thereto.

Section 9.15. Amendment and Restatement of Existing Credit Agreement. Upon the execution and delivery of this Agreement, the Existing Credit Agreement shall be amended and restated to read in its entirety as set forth herein. With effect from and including the Effective Date, (i) the Commitments of each Lender party hereto (the "Extending Lenders") shall be as set forth on the Commitment Appendix (and any Lender under the Existing Credit Agreement that is not listed on the Commitment Appendix shall cease to be a Lender hereunder; provided that, for the avoidance of doubt, such Lender under the Existing Credit Agreement shall continue to be entitled to the benefits of Section 9.03 of the Existing Credit Agreement), (ii) the Commitment Ratio of the Extending Lenders shall be redetermined based on the Commitments set forth in the Commitment Appendix and the participations of the Extending Lenders in, and the obligations of the Extending Lenders in respect of, any Letters of Credit or Swingline Loans outstanding on the Effective Date shall be reallocated to reflect such redetermined Commitment Ratio and (iii) each JLA Issuing Bank shall have the Fronting Sublimit set forth in the JLA L/C Fronting Sublimits Appendix.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

KENTUCKY UTILITIES COMPANY

By: /s/ Daniel K. Arbough

Name: Daniel K. Arbough

Title: Treasurer

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WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Administrative Agent, Issuing  
Lender, Swingline Lender and Lender

By: /s/ Keith Luettel  
Name: Keith Luettel  
Title: Vice President

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BANK OF AMERICA, N.A., as Issuing Lender and  
Lender

By: /s/ Mike Mason  
Name: Mike Mason  
Title: Director

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THE ROYAL BANK OF SCOTLAND PLC, as  
Issuing Lender and Lender

By: /s/ Tyler J. McCarthy  
Name: Tyler J McCarthy  
Title: Director

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BARCLAYS BANK PLC, as Issuing Lender and  
Lender

By: /s/ Ronnie Glenn  
Name: Ronnie Glenn  
Title: Vice President

---

THE BANK OF NOVA SCOTIA, as  
Issuing Lender and Lender

By: /s/ Thane Rattew  
Name: Thane Rattew  
Title: Managing Director

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THE BANK OF TOKYO-MITSUBISHI UFJ, INC.  
as Issuing Lender and Lender

By: /s/ Alan Reiter  
Name: Alan Reiter  
Title: Vice President

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UNION BANK, N.A., as a Lender

By: /s/ Carmelo Restifo

Name: Carmelo Restifo

Title: Director

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**BNP PARIBAS, as a Lender**

**By: /s/ Denis O'Meara**  
**Name: Denis O'Meara**  
**Title: Managing Director**

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**BNP PARIBAS, as a Lender**

**By: /s/ Pasquale A. Perraglia IV**  
**Name: Pasquale A. Perraglia IV**  
**Title: Vice President**

---

CITIBANK, N.A., as a Lender

By: /s/ Amit Vasani

Name: Amit Vasani

Title: Vice President

---

CREDIT SUISSE AG, CAYMAN ISLANDS  
BRANCH, as a Lender

By: /s/ Christopher Reo Day

Name: Christopher Reo Day

Title: Vice President

By: /s/ Vipul Dhadda

Name: Vipul Dhadda

Title: Associate

---

GOLDMAN SACHS BANK USA, as a Lender

By: /s/ Mark Walton

Name: Mark Walton

Title: Authorized Signatory

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J.P. MORGAN CHASE BANK, N.A., as a Lender

By: /s/ Juan Javellana

Name: Juan Javellana

Title: Executive Director

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MORGAN STANLEY BANK, N.A., as a Lender

By: /s/ Kelly Chin

Name: Kelly Chin

Title: Authorized Signatory

---

ROYAL BANK OF CANADA, as a Lender

By: /s/ Frank Lambrinos

Name: Frank Lambrinos

Title: Authorized Signatory

---



UBS LOAN FINANCE LLC, as a Lender

By: /s/ Irja R. Otsa

Name: Irja R. Otsa

Title: Associate Director

UBS LOAN FINANCE LLC, as a Lender

By: /s/ David Urban

Name: David Urban

Title: Associate Director

CREDIT AGRICOLE CORPORATE AND  
INVESTMENT BANK, as a Lender

By: /s/ Dixon Schultz  
Name: Dixon Schultz  
Title: Managing Director

By: /s/ Sharada Manne  
Name: Sharada Manne  
Title: Managing Director

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KEYBANK NATIONAL ASSOCIATION, as a  
Lender

By: /s/ Craig A. Hanselman  
Name: Craig A. Hanselman  
Title: Vice President

---

LLOYDS TSB BANK PLC, as a Lender

By: /s/ Stephen Giacolone

Name: Stephen Giacolone

Title: Assistant Vice President –G011

LLOYDS TSB BANK PLC, as a Lender

By: /s/ Julia R. Franklin

Name: Julia R. Franklin

Title: Vice President –F014

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MIZUHO CORPORATE BANK, LTD., as a  
Lender

By: /s/ Leon Mo  
Name: Leon Mo  
Title: Authorized Signatory

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SUNTRUST BANK, as a Lender

By: /s/ Andrew Johnson

Name: Andrew Johnson

Title: Director

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THE BANK OF NEW YORK MELLON, as a  
Lender

By: /s/ Mark W. Rogers

Name: Mark W. Rogers

Title: Vice President

---

U.S. BANK NATIONAL ASSOCIATION, as a  
Lender

By: /s/ John M. Eyerman

Name: John M. Eyerman

Title: Vice President

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CANADIAN IMPERIAL BANK OF  
COMMERCE, New York Agency, as a Lender

By: /s/ Robert Casey  
Name: Robert Casey  
Title: Authorized Signatory

By: /s/ Jonathan J. Kim  
Name: Jonathan J. Kim  
Title: Authorized Signatory

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COMPASS BANK, as a Lender

By: /s/ Susana Campuzano

Name: Susana Campuzano

Title: Senior Vice President

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PNC BANK, NATIONAL ASSOCIATION, as a  
Lender

By: /s/ Edward M. Tessalone  
Name: Edward M. Tessalone  
Title: Senior Vice President PNC Bank, N.A.

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SOVEREIGN BANK, N.A., as a Lender

By: /s/ William Maag  
Name: William Maag  
Title: Senior Vice President

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SUMITOMO MITSUI BANKING  
CORPORATION, as a Lender

By: /s/ Shugi Yabe  
Name: Shugi Yabe  
Title: Managing Director

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THE NORTHERN TRUST COMPANY, as a

By: /s/ Daniel Boote

Name: Daniel Boote

Title: Senior Vice President

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## Commitment Appendix

Lender	Revolving Commitment
Wells Fargo Bank, National Association	\$20,571,428.58
Bank of America, N.A.	\$20,571,428.57
The Royal Bank of Scotland plc	\$20,571,428.58
Barclays Bank PLC	\$18,809,523.81
The Bank of Nova Scotia	\$18,809,523.81
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$9,404,761.90
Union Bank, N.A.	\$9,404,761.90
BNP Paribas	\$18,809,523.81
Citibank, N.A.	\$18,809,523.81
Credit Suisse AG, Cayman Islands Branch	\$18,809,523.81
Goldman Sachs Bank USA	\$18,809,523.81
JPMorgan Chase Bank, N.A.	\$18,809,523.81
Morgan Stanley Bank, N.A.	\$18,809,523.81
Royal Bank of Canada	\$18,809,523.81
UBS Loan Finance LLC	\$18,809,523.81
Credit Agricole Corporate & Investment Bank	\$13,428,571.43
KeyBank National Association	\$13,428,571.43
Lloyds Bank	\$13,428,571.43
Mizuho Corporate Bank, Ltd.	\$13,428,571.43
SunTrust Bank	\$13,428,571.43
The Bank of New York Mellon	\$13,428,571.43
U.S. Bank National Association	\$13,428,571.43
Canadian Imperial Bank of Commerce	\$6,523,809.52
Compass Bank	\$6,523,809.52
PNC Bank, National Association	\$6,523,809.52
Sovereign Bank, N.A.	\$6,523,809.52
Sumitomo Mitsui Banking Corporation	\$6,523,809.52
The Northern Trust Company	\$4,761,904.76
<b>Total</b>	<b>\$400,000,000.00</b>

## JLA L/C Fronting Sublimits Appendix

<b>Issuing Lender</b>	<b>L/C Fronting Sublimit</b>
Wells Fargo Bank, National Association	\$38,888,888.89
Bank of America, N.A.	\$38,888,888.89
The Royal Bank of Scotland plc	\$38,888,888.89
Barclays Bank PLC	\$27,777,777.78
The Bank of Nova Scotia	\$27,777,777.78
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$27,777,777.78
<b>Total</b>	<b>\$200,000,000.00</b>

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## Form of Notice of Borrowing

Wells Fargo Bank, National Association,  
 as Administrative Agent  
 1525 W WT Harris Boulevard  
 Charlotte, NC 28262  
 Attention: Syndication Agency Services

Ladies and Gentlemen:

This notice shall constitute a "Notice of Borrowing" pursuant to Section 2.03 of the \$400,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among Kentucky Utilities Company, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The date of the Borrowing will be \_\_\_\_\_, \_\_\_\_\_.<sup>1</sup>
2. The aggregate principal amount of the Borrowing will be \_\_\_\_\_.<sup>2</sup>
3. The Borrowing will consist of [Revolving] [Swingline] Loans.
4. The Borrowing will consist of [Base Rate] [Euro-Dollar] Loans.<sup>3</sup>
5. The initial Interest Period for the Loans comprising such Borrowing shall be \_\_\_\_\_.<sup>4</sup>

[Insert appropriate delivery instructions, which shall include bank and account number ].

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<sup>1</sup> Must be a Business Day.

<sup>2</sup> Revolving Borrowings must be an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000, except the Borrowing may be in the aggregate amount of the remaining unused Revolving Commitment. Swingline Borrowings must be an aggregate principal amount of \$2,000,000 or any larger integral multiple of \$500,000.

<sup>3</sup> Applicable for Revolving Loans only.

<sup>4</sup> Applicable for Euro-Dollar Loans only. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of "Interest Period").

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KENTUCKY UTILITIES COMPANY

By: \_\_\_\_\_

Name:

Title:

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## Form of Notice of Conversion/Continuation

\_\_\_\_\_

Wells Fargo Bank, National Association,  
as Administrative Agent  
1525 W WT Harris Boulevard  
Charlotte, NC 28262  
Attention: Syndication Agency Services

Ladies and Gentlemen:

This notice shall constitute a "Notice of Conversion/Continuation" pursuant to Section 2.06(d)(ii) of the \$400,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among Kentucky Utilities Company, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The Group of Loans (or portion thereof) to which this notice applies is [all or a portion of all Base Rate Loans currently outstanding] [all or a portion of all Euro-Dollar Loans currently outstanding having an Interest Period of \_\_\_ months and ending on the Election Date specified below].

2. The date on which the conversion/continuation selected hereby is to be effective is \_\_\_\_\_, \_\_\_\_\_ (the "Election Date").<sup>5</sup>

3. The principal amount of the Group of Loans (or portion thereof) to which this notice applies is \$\_\_\_\_\_.<sup>6</sup>

4. [The Group of Loans (or portion thereof) which are to be converted will bear interest based upon the [Base Rate] [Adjusted London Interbank Offered Rate].] [The Group of Loans (or portion thereof) which are to be continued will bear interest based upon the [Base Rate][Adjusted London Interbank Offered Rate].]

5. The Interest Period for such Loans will be \_\_\_\_\_.<sup>7</sup>

\_\_\_\_\_

<sup>5</sup> Must be a Business Day.

<sup>6</sup> May apply to a portion of the aggregate principal amount of the relevant Group of Loans; provided that (i) such portion is allocated ratably among the Loans comprising such Group and (ii) the portion to which such notice applies, and the remaining portion to which it does not apply, are each \$10,000,000 or any larger integral multiple of \$1,000,000.

<sup>7</sup> Applicable only in the case of a conversion to, or a continuation of, Euro-Dollar Loans. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of Interest Period).

KENTUCKY UTILITIES COMPANY

By: \_\_\_\_\_

Name:

Title:

---

## Form of Letter of Credit Request

\_\_\_\_\_, \_\_\_\_\_  
 [Insert details of Issuing Lender]

Ladies and Gentlemen:

This notice shall constitute a "Letter of Credit Request" pursuant to Section 3.03 of the \$400,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among Kentucky Utilities Company, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

The undersigned hereby requests that \_\_\_\_\_<sup>8</sup> issue a [Standby] Letter of Credit on \_\_\_\_\_, \_\_\_\_\_<sup>9</sup> in the aggregate amount of \$\_\_\_\_\_. [This request is to extend a Letter of Credit previously issued under the Credit Agreement; Letter of Credit No. \_\_\_\_\_.]

The beneficiary of the requested Standby Letter of Credit will be \_\_\_\_\_<sup>10</sup>, and such Standby Letter of Credit will be in support of \_\_\_\_\_<sup>11</sup> and will have a stated termination date of \_\_\_\_\_<sup>12</sup>.

Copies of all documentation with respect to the supported transaction are attached hereto.

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<sup>8</sup> Insert name of Issuing Lender.

<sup>9</sup> Must be a Business Day.

<sup>10</sup> Insert name and address of beneficiary.

<sup>11</sup> Insert a description of the obligations, the name of each agreement and/or a description of the commercial transaction to which this Letter of Credit Request relates.

<sup>12</sup> Insert the last date upon which drafts may be presented (which may not be later than one year after the date of issuance specified above or beyond the fifth Business Day prior to the Termination Date).

KENTUCKY UTILITIES COMPANY

By: \_\_\_\_\_  
Name:  
Title:

APPROVED:

[ISSUING LENDER]

By: \_\_\_\_\_  
Name:  
Title:

---

## Form of Note

FOR VALUE RECEIVED, the undersigned, KENTUCKY UTILITIES COMPANY, a Kentucky corporation and Virginia corporation (the "Borrower"), promises to pay to the order of \_\_\_\_\_ (hereinafter, together with its successors and assigns, called the "Holder"), at the Administrative Agent's Office or such other place as the Holder may designate in writing to the Borrower, the principal sum of \_\_\_\_\_ AND \_\_\_\_\_/100s DOLLARS (\$ \_\_\_\_\_), or, if less, the principal amount of all Loans advanced by the Holder to the Borrower pursuant to the Credit Agreement (as defined below), plus interest as hereinafter provided. Such Loans may be endorsed from time to time on the grid attached hereto, but the failure to make such notations shall not affect the validity of the Borrower's obligation to repay unpaid principal and interest hereunder.

All capitalized terms used herein shall have the meanings ascribed to them in that certain \$400,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (as the same may be amended, modified or supplemented from time to time, the "Credit Agreement") by and among the Borrower, the lenders party thereto (collectively, the "Lenders") and Wells Fargo Bank, National Association, as administrative agent (the "Administrative Agent") for itself and on behalf of the Lenders and the Issuing Lenders, except to the extent such capitalized terms are otherwise defined or limited herein.

The Borrower shall repay principal outstanding hereunder from time to time, as necessary, in order to comply with the Credit Agreement. All amounts paid by the Borrower shall be applied to the Obligations in such order of application as provided in the Credit Agreement.

A final payment of all principal amounts and other Obligations then outstanding hereunder shall be due and payable on the maturity date provided in the Credit Agreement, or such earlier date as payment of the Loans shall be due, whether by acceleration or otherwise.

The Borrower shall be entitled to borrow, repay, reborrow, continue and convert the Holder's Loans (or portion thereof) hereunder pursuant to the terms and conditions of the Credit Agreement. Prepayment of the principal amount of any Loan may be made as provided in the Credit Agreement.

The Borrower hereby promises to pay interest on the unpaid principal amount hereof as provided in Article II of the Credit Agreement. Interest under this Note shall also be due and payable when this Note shall become due (whether at maturity, by reason of acceleration or otherwise). Overdue principal and, to the extent permitted by law, overdue interest, shall bear interest payable on DEMAND at the default rate as provided in the Credit Agreement.

In no event shall the amount of interest due or payable hereunder exceed the maximum rate of interest allowed by applicable law, and in the event any such payment is inadvertently made by the Borrower or inadvertently received by the Holder, then such excess sum shall be credited as a payment of principal, unless the Borrower shall notify the Holder in writing that it elects to have such excess sum returned forthwith. It is the express intent hereof that the Borrower not pay and the Holder not receive, directly or indirectly in any manner whatsoever, interest in excess of that which may legally be paid by the Borrower under applicable law.

All parties now or hereafter liable with respect to this Note, whether the Borrower, any guarantor, endorser or any other Person or entity, hereby waive presentment for payment, demand, notice of non-payment or dishonor, protest and notice of protest.

No delay or omission on the part of the Holder or any holder hereof in exercising its rights under this Note, or delay or omission on the part of the Holder, the Administrative Agent or the Lenders collectively, or any of them, in exercising its or their rights under the Credit Agreement or under any other Loan Document, or course of conduct relating thereto, shall operate as a waiver of such rights or any other right of the Holder or any holder hereof, nor shall any waiver by the Holder, the Administrative Agent, the Required Lenders or the Lenders collectively, or any of them, or any holder hereof, of any such right or rights on any one occasion be deemed a bar to, or waiver of, the same right or rights on any future occasion.

The Borrower promises to pay all reasonable costs of collection, including reasonable attorneys' fees, should this Note be collected by or through an attorney-at-law or under advice therefrom.

This Note evidences the Holder's Loans (or portion thereof) under, and is entitled to the benefits and subject to the terms of, the Credit Agreement, which contains provisions with respect to the acceleration of the maturity of this Note upon the happening of certain stated events, and provisions for prepayment.

This Note shall be governed by and construed in accordance with the internal laws of the State of New York.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned has caused this Note to be executed by its duly authorized representative as of the day and year first above written.

KENTUCKY UTILITIES COMPANY

By: \_\_\_\_\_

Name:

Title:

---





### Form of Assignment and Assumption Agreement

This Assignment and Assumption (the "Assignment and Assumption") is dated as of the Effective Date set forth below and is entered into by and between [the] [each]<sup>13</sup> Assignor identified on the Schedules hereto as "Assignor" [or "Assignors" (collectively, the "Assignors" and each an "Assignor") and [the] [each]<sup>14</sup> Assignee identified on the Schedules hereto as "Assignee" or "Assignees" (collectively, the "Assignees" and each an "Assignee"). [It is understood and agreed that the rights and obligations of [the Assignors] [the Assignees]<sup>15</sup> hereunder are several and not joint.]<sup>16</sup> Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the "Credit Agreement"), receipt of a copy of which is hereby acknowledged by [the] [each] Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, [the] [each] Assignor hereby irrevocably sells and assigns to [the Assignee] [the respective Assignees], and [the] [each] Assignee hereby irrevocably purchases and assumes from [the Assignor] [the respective Assignors], subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (a) all of [the Assignor's] [the respective Assignors'] rights and obligations in [its capacity as a Lender] [their respective capacities as Lenders] under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of [the Assignor] [the respective Assignors] under the respective facilities identified below (including without limitation any letters of credit, guarantees, and swingline loans included in such facilities) and (b) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of [the Assignor (in its capacity as a Lender)] [the respective Assignors (in their respective capacities as Lenders)] against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (a) above (the rights and obligations sold and assigned by [the] [any] Assignor to [the] [any] Assignee pursuant to clauses (a) and (b) above being referred to herein collectively as, the "Assigned Interest"). Each such sale and assignment is without recourse to [the] [any] Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by [the] [any] Assignor.

1. Assignor: *See Schedule attached hereto*
2. Assignee: *See Schedule attached hereto*
3. Borrower: Kentucky Utilities Company
4. Administrative Agent: Wells Fargo Bank, National Association, as the administrative agent under the Credit Agreement
5. Credit Agreement: The \$400,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 by and among Kentucky Utilities Company, as Borrower, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent (as amended, restated, supplemented or otherwise modified)
6. Assigned Interest: *See Schedule attached hereto*
7. Trade Date: \_\_\_\_\_]<sup>17</sup>

<sup>13</sup> For bracketed language here and elsewhere in this form relating to the Assignor(s), if the assignment is from a single Assignor, choose the first bracketed language. If the assignment is from multiple Assignors, choose the second bracketed language.

<sup>14</sup> For bracketed language here and elsewhere in this form relating to the Assignee(s), if the assignment is to a single Assignee, choose the first bracketed language. If the assignment is to multiple Assignees, choose the second bracketed language.

<sup>15</sup> Select as appropriate.

<sup>16</sup> Include bracketed language if there are either multiple Assignors or multiple Assignees.

<sup>17</sup> To be completed if the Assignor(s) and the Assignee(s) intend that the minimum assignment amount is to be determined as of the Trade Date.

Effective Date: \_\_\_\_\_, 20\_\_

[TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR

[NAME OF ASSIGNOR]

By: \_\_\_\_\_  
Title:

ASSIGNEE

*See Schedule attached hereto*

---

[Consented to and]<sup>18</sup> Accepted:

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Administrative Agent, [Issuing Lender] and Swingline Lender

By \_\_\_\_\_  
Title:

[Consented to:]<sup>19</sup>

KENTUCKY UTILITIES COMPANY

By \_\_\_\_\_  
Title:

[Consented to]:

[Issuing Lender]<sup>20</sup>,  
as Issuing Lender

By \_\_\_\_\_  
Title:

[Consented to]:

JOINT LEAD ARRANGERS<sup>21</sup>

WELLS FARGO BANK, N.A.

By: \_\_\_\_\_  
Title:

BANK OF AMERICA, N.A.

By: \_\_\_\_\_  
Title:

\_\_\_\_\_

<sup>18</sup> To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.  
<sup>19</sup> To be added only if the consent of the Borrower is required by the terms of the Credit Agreement.  
<sup>20</sup> Add all Issuing Lender signature blocks.  
<sup>21</sup> To be added if assignment is made before Effective Date.

SCHEDULE

To Assignment and Assumption

By its execution of this Schedule, the Assignee(s) agree(s) to the terms set forth in the attached Assignment and Assumption.

**Assigned Interests:**

Aggregate Amount of Commitment/ Loans for all Lenders <sup>22</sup>	Amount of Commitment/ Loans Assigned <sup>23</sup>	Percentage Assigned of Commitment/ Loans <sup>24</sup>	CUSIP Number
\$	\$	%	

\_\_\_\_\_  
[NAME OF ASSIGNEE]<sup>25</sup>

[and is an Affiliate of [ *identify Lender* ]]<sup>26</sup>

<sup>22</sup> Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

<sup>23</sup> Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

<sup>24</sup> Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

<sup>25</sup> Add additional signature blocks, as needed.

<sup>26</sup> Select as applicable.

ANNEX 1 to Assignment and Assumption

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT DATED AS OF NOVEMBER 6, 2012  
BY AND AMONG  
KENTUCKY UTILITIES COMPANY, AS BORROWER,  
THE LENDERS PARTY THERETO  
AND WELLS FARGO BANK, NATIONAL ASSOCIATION,  
AS ADMINISTRATIVE AGENT  
STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1. Assignor. [The] [Each] Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of [the] [the relevant] Assigned Interest, (ii) [the] [such] Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. [The] [Each] Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the] [the relevant] Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, [the] [any] Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations that by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts that have accrued to but excluding the Effective Date and to the Assignee for amounts that have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by and construed in accordance with the internal laws of the State of New York.

## Forms of Opinions of Counsel for the Borrower

[Date]

To the Administrative Agent and  
each of the Lenders party to the Revolving  
Credit Agreement referred to below

Re: Kentucky Utilities Company  
\$400,000,000 Amended and Restated Revolving Credit Agreement

Ladies and Gentlemen:

We have acted as special counsel to Kentucky Utilities Company, a Kentucky and Virginia corporation (the "Company"), in connection with the negotiation, execution and delivery of the \$400,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender, and the other Lenders from time to time party thereto (such Revolving Credit Agreement as so amended, the "Agreement"). This letter is being delivered to you at the request of the Company pursuant to Section 4.01(e) of the Agreement.

In preparing this letter, we have reviewed the Agreement[, and the Notes of the Company executed and delivered by the Company on the date hereof (the "Notes"),] and the other documents executed and delivered by the Company in connection with the Agreement. We have also reviewed the Orders of the Kentucky Public Service Commission ("KPSC") dated September 30, 2010, October 11, 2011 and \_\_\_\_\_, 2012 (Case Nos. 2010-00205, 2011-0038 and 2012-\_\_\_\_\_), in connection with the Agreement (the "KPSC Orders") the Orders of the Virginia State Corporation Commission (the "VSCC") dated October 19, 2010 (No. PUE-2010-00061), and \_\_\_\_\_, and the Orders of the Tennessee Regulatory Authority ("TRA"), dated \_\_\_\_\_ (the "TRA Orders").

Subject to the assumptions, qualifications and other limitations set forth below, it is our opinion that:

1. The Agreement constitutes the valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms.
2. [The Notes constitute the valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms.]
3. The Company is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.
4. The borrowings under the Agreement and the use of proceeds thereof as contemplated by the Agreement do not violate Regulation U or X of the Board of Governors of the Federal Reserve System.

In rendering our opinions, we have (a) without independent verification, relied, with respect to factual matters, statements and conclusions, on certificates, notifications and statements, whether written or oral, of governmental officials and individuals identified to us as officers and representatives of the Company and on the representations made by the Company in the Agreement and other documents delivered to you in connection therewith and (b) reviewed originals, or copies of such agreements, documents and records as we have considered relevant and necessary as a basis for our opinions. In rendering the opinions set forth above, we note that any exercise by the Company of the option to increase the Commitments as contemplated in Section 2.19 of the Agreement may require additional authorization by the Company's Board of Managers, the KPSC, the VSCC, the TRA and/or the Federal Energy Regulatory Commission. We note that, as counsel to the Company, we do not represent it generally and there may be facts relating to the Company of which we have no knowledge.

We have assumed (a) the accuracy and completeness of all certificates, agreements, documents, records and other materials submitted to us; (b) the authenticity of original certificates, agreements, documents, records and other materials submitted to us; (c) the conformity with the originals of any copies submitted to us; (d) the genuineness of all signatures; (e) the legal capacity of all natural persons; (f) that the Agreement constitutes the valid, legally binding and enforceable agreement of the parties thereto under all applicable law (other than, in the case of the Company, the law of the State of New York); (g) that the Company (i) is duly organized, validly existing and in good standing under the law of its jurisdictions of organization, (ii) has the power to execute and deliver, and to perform its obligations under, the Agreement [and the Notes], (iii) has duly taken or caused to be taken all necessary action to authorize the execution, delivery and performance by it of the Agreement [and the Notes] and (iv) has duly executed and delivered the Agreement [and the Notes]; (h) that the execution and delivery by the Company of, and the performance by the Company of its obligations under, the Agreement and the Notes does not and will not (i) breach or violate (A) its Amended and Restated Articles of Incorporation or Bylaws, (B) any agreement or instrument to which the Company or any of its affiliates is a party or by which the Company or any of its affiliates or any of their respective properties may be bound, (C) any authorization, consent, approval or license (or the like) of, or exemption (or the like) from, or any registration or filing (or the like) with, or report or notice (or the like) to, any governmental unit, agency, commission, department or other authority granted to or otherwise applicable to the Company or any of its affiliates or any of their respective properties (each a "Governmental Approval"), (D) any order, decision, judgment or decree that may be applicable to the Company or any of its

affiliates or any of their respective properties, or (E) any law (other than the law of the State of New York and the federal law of the United States), or (ii) require any Governmental Approval (other than the KPSC Orders, the VSCC Orders and the TRA Orders, which we assume to have been duly granted and to remain in full force and effect); (h) that the Company is engaged only in the businesses described in its Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission; (i) that there are no agreements, understandings or negotiations between the parties not set forth in the Agreement that would modify the terms thereof or the rights and obligations of the parties thereunder; and (j) for purposes of our opinion in paragraph 1 as it relates to the choice-of-law provisions in the Agreement, that the choice of law of the State of New York as the governing law of the Agreement would not result in a violation of an important public policy of another state or country having greater contacts with the transactions contemplated by the agreement than the State of New York.

Our opinions are subject to and limited by the effect of (a) applicable bankruptcy, insolvency, fraudulent conveyance, fraudulent transfer, receivership, conservatorship, arrangement, moratorium and other similar laws affecting and relating to the rights of creditors generally; (b) general equitable principles; (c) requirements of reasonableness, good faith, fair dealing and materiality; (d) Article 9 of the Uniform Commercial Code regarding restrictions on assignment or transfer of rights; and (e) additionally in the case of (i) indemnities, a requirement that facts, known to the indemnitee but not the indemnitor, in existence at the time the indemnity becomes effective that would entitle the indemnitee to indemnification be disclosed to the indemnitor, and a requirement that an indemnity provision will not be read to impose obligations upon indemnitors which are neither disclosed at the time of its execution nor reasonably within the scope of its terms and overall intention of the parties at the time of its making, (ii) waivers, Sections 9-602 and 9-603 of the Uniform Commercial Code, and (iii) indemnities, waivers and exculpatory provisions, public policy.

We express no opinion with respect to the following sections of the Agreement: (i) Section 9.02 (cumulative remedies), (ii) provisions relating to rules of evidence or quantum of proof, (iii) Section 9.07 (submission to jurisdiction and waiver of inconvenient forum), insofar as such sections relate to federal courts (except as to the personal jurisdiction thereof), and (choice of venue, i.e., requiring actions to be commenced in a particular court in a particular jurisdiction), and (iv) Section 9.11 (waiver of jury trial), insofar as such section is sought to be enforced in a federal court.

We express no opinion as to the law of any jurisdiction other than the law of the State of New York and the federal law of the United States of America, and in each case, only such law that in our experience is normally applicable to transactions of the type contemplated by the Agreement and excluding (i) any law that is part of a regulatory regime applicable to specific assets or businesses of the lenders and (ii) the statutes and ordinances, the administrative decisions, and the rules and regulations of counties, towns, municipalities and special political subdivisions.

This letter speaks only as of the date hereof. We have no responsibility or obligation to update this letter or to take into account changes in law or facts or any other development of which we may later become aware.

This letter is delivered by us as special counsel for the Company solely for your benefit in connection with the transaction referred to herein and may not be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person or entity without our prior written consent.

Very truly yours,

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To the Administrative Agent  
and each of the Lenders party to  
the Credit Agreement referred to below

Re: \$400,000,000 Amended and Restated Revolving Credit Agreement  
Ladies and Gentlemen:

I am Vice President and Deputy General Counsel – Legal and Environmental Affairs of Kentucky Utilities Company (the “Borrower”), and have acted as counsel to the Borrower in connection with the \$400,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012, among the Borrower, Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender and the Lenders party thereto from time to time (the “Agreement”). Capitalized terms used but not defined herein have the meanings assigned to such terms in the Agreement.

I am familiar with the Agreement[, the Notes of the Borrower executed and delivered by the Borrower on the date hereof (the “Notes”),] and other documents executed and delivered by the Borrower in connection with the Agreement. I also have examined such other documents and satisfied myself as to such other matters as I have deemed necessary in order to render this opinion.

In rendering this opinion, I have assumed: (a) the genuineness of the signatures on all documents and instruments (other than the signatures of officers of the Borrower), the authenticity of all documents submitted as originals, the conformity to originals of all documents submitted as photostatic or certified copies, and the accuracy and completeness of all corporate records made available to me by the Borrower; (b) the due execution and delivery of the Agreement by the Lenders party thereto; and (c) that the Agreement constitutes the legal, valid and binding obligation of the Lenders party thereto.

Based on the foregoing, I am of the opinion that:

1. The Borrower is duly incorporated, validly existing and in good standing under the laws of the Commonwealth of Kentucky and the Commonwealth of Virginia, and has the corporate power to make and perform the Agreement [and the Notes].
2. The execution, delivery and performance by the Borrower of the Agreement [and the Notes] have been duly authorized by the Borrower and do not violate any provision of law or regulation, or any decree, order, writ or judgment applicable to the Borrower, or any provision of the Borrower’s certificate of incorporation, by-laws or board or shareholder resolutions, or result in the breach of or constitute a default under any indenture or other agreement or instrument known to me to which the Borrower is a party.
3. [Each of] [T][t] Agreement [and the Notes] has been duly executed and delivered by the Borrower.
4. Except as disclosed in or contemplated by the Agreement or the Borrower’s financial statements referred to in Sections 5.04(a) or 5.04(b) of the Agreement, or otherwise furnished in writing to the Administrative Agent and the Lenders, no litigation, arbitration or administrative proceeding or inquiry is pending, or to my knowledge, threatened, which would reasonably be expected to materially adversely affect the ability of the Borrower to perform any of its obligations under the Agreement [or the Notes]. To my knowledge, there is no litigation, arbitration or administrative proceeding pending or threatened that questions the validity of the Agreement [or the Notes].
5. There have not been any “reportable events,” as that term is defined in Section 4043 of the Employee Retirement Income Security Act of 1974, as amended, which would result in a material liability of the Borrower.
6. Each of the \_\_\_\_\_, 20\_\_ and the \_\_\_\_\_, 2012 Orders of the Kentucky Public Service Commission (the “KPSC”), the \_\_\_\_\_, 20\_\_ and the \_\_\_\_\_, 2012 Orders of the Virginia State Corporation Commission (the “VSCC”) and the \_\_\_\_\_, 20\_\_ Order of the Tennessee Regulatory Authority (the “TRA”), relating to the Agreement, is in full force and effect, and no further authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance of the Agreement by the Borrower or for the borrowings by the Borrower thereunder, except such authorizations, consents and approvals as have been obtained prior to the date hereof, which authorizations, consents and approvals are in full force and effect.

[In rendering the opinions set forth in paragraphs 1 through 3 and 6 above, I note that any exercise by the Borrower of the option to increase the Revolving Commitment as contemplated in Section 2.19 of the Agreement may require additional authorization by the Borrower’s Board of Directors and further approval of the KPSC, TSCC, TRA and/or FERC.]

I am licensed to practice law only in the Commonwealth of Kentucky and, accordingly, for purposes of my opinions in paragraphs 1 through 3 and 6 above (with respect to Virginia and Tennessee law), I have relied upon the opinion of \_\_\_\_\_ and the opinion of \_\_\_\_\_ (copies of which are attached)), which opinions are in form and substance satisfactory to me and I believe that you and I are justified in relying thereon.

In rendering its opinion to the addressee hereof, Pillsbury Winthrop Shaw Pittman LLP may rely as to matters of Kentucky law addressed herein upon this letter as if it were addressed directly to them. Except as aforesaid, without my prior written consent, this opinion may not be furnished or quoted to, or relied upon by, any other person or entity for any purpose.

Very truly yours,



[Form of Virginia Opinions]

1. The Company is duly incorporated, validly existing and in good standing as a corporation under the laws of the Commonwealth of Virginia and has corporate power to execute and deliver, and to carry out and perform its obligations under, the Agreement [and the Notes].
  2. The execution, delivery and performance by the Company of the Agreement [and the Notes] have been duly authorized by the Company.
  3. The Company's entrance into its obligations in connection with the Agreement has been authorized by an order duly entered by the Virginia State Corporation Commission ("VSCC"), which order is in full force and effect, and no further authorization, consent or approval of any Governmental Authority of the Commonwealth of Virginia is required for the execution, delivery and performance of the Agreement by the Borrower or for the borrowings by the Borrower thereunder, except for such authorizations, consents and approvals as have been obtained prior to the date hereof and which are in full force and effect [and except that further approval of the VSCC may/would be required in connection with any exercise by the Borrower of the option to increase the Revolving Commitment as contemplated by Section 2.19 of the Agreement].
-

[Form of Tennessee Opinion]

1. The Company is qualified to do business as a foreign corporation in the State of Tennessee.
  2. The Company's entrance into its obligations in connection with the Agreement has been authorized by [an] order[s] duly entered by the Tennessee Regulatory Authority ("TRA"), which Order(s) is/are in full force and effect, and no further authorization, consent or approval of any Governmental Authority of the State of Tennessee is required for the execution, delivery and performance of the Agreement by the Borrower or for the borrowings by the Borrower thereunder, except for such authorizations, consents and approvals as have been obtained prior to the date hereof and which are in full force and effect, [and except that further approval of the TRA may/would be required in connection with any exercise by the Borrower of the option to increase the Revolving Commitment as contemplated by Section 2.19 of the Agreement].
-

## Form of Notice of Revolving Increase

Dated as of: \_\_\_\_\_

KENTUCKY UTILITIES COMPANY (the "**Borrower**"), in connection with the \$400,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 among the Borrower, Wells Fargo Bank, National Association, as Administrative Agent, and the Lenders party thereto from time to time (the "**Credit Agreement**"), hereby certifies that:

1. The Borrower has obtained an agreement from certain financial institutions to increase their Revolving Commitments in the aggregate amount of \_\_\_\_\_ (\$ \_\_\_\_\_) <sup>27</sup> (the "**Commitment Increase**").
2. All of the representations and warranties of the Borrower made under the Credit Agreement (including, without limitation, all representations and warranties with respect to the Borrower's Subsidiaries) and the other Loan Documents are as of the date hereof, and will be as of the effective date of the Commitment Increase, true and correct in all material respects except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date.
3. There does not exist, as of this date, and there will not exist after giving effect to the Commitment Increase, any Default or Event of Default under the Credit Agreement.
4. All necessary governmental, regulatory and third party approvals, if required, have been obtained or made, are in full force and effect and are not subject to any pending or, to the knowledge of the Borrower, threatened reversal or cancellation.
5. Attached hereto as Annex A are resolutions adopted by the Borrower authorizing such Commitment Increase, and such resolutions are true and correct and have not been altered, amended or repealed and are in full force and effect.

Capitalized terms used in this Notice of Revolving Increase and not otherwise defined herein are used as defined in the Credit Agreement.

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<sup>27</sup> Each Optional Commitment Increase shall be in a minimum amount of \$50,000,000.

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IN WITNESS WHEREOF, the Borrower, acting through an authorized signatory, has signed this Notice of Revolving Increase as of the day and year first above written.

KENTUCKY UTILITIES COMPANY

By: \_\_\_\_\_  
Name:  
Title:

---

Annex A to Exhibit E

\$500,000,000

**AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT**

dated as of November 6, 2012

among

**LOUISVILLE GAS AND ELECTRIC COMPANY,  
THE LENDERS FROM TIME TO TIME PARTY HERETO**

and

**WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Administrative Agent, Issuing Lender and Swingline Lender**

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**WELLS FARGO SECURITIES, LLC,  
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED, RBS SECURITIES INC.,  
BARCLAYS BANK PLC,  
THE BANK OF NOVA SCOTIA**

and

**MITSUBISHI UFJ FINANCIAL GROUP, INC.,  
Joint Lead Arrangers and Joint Bookrunners**

**BANK OF AMERICA, N.A.  
and  
THE ROYAL BANK OF SCOTLAND PLC,  
Syndication Agents**

**BARCLAYS BANK PLC,  
THE BANK OF NOVA SCOTIA  
and  
MITSUBISHI UFJ FINANCIAL GROUP, INC.,  
Documentation Agents**

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**Appendices:**

Commitment Appendix  
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**Exhibits:**

- Exhibit A-1 - Form of Notice of Borrowing
  - Exhibit A-2 - Form of Notice of Conversion/Continuation
  - Exhibit A-3 - Form of Letter of Credit Request
  - Exhibit B - Form of Note
  - Exhibit C - Form of Assignment and Assumption Agreement
  - Exhibit D - Forms of Opinion of Counsel for the Borrower
-

**AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT** (this "Agreement") dated as of November 6, 2012 is entered into among LOUISVILLE GAS AND ELECTRIC COMPANY, a Kentucky corporation (the "Borrower"), the LENDERS party hereto from time to time and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent. The parties hereto agree as follows:

**RECITALS**

WHEREAS, the Borrower is party to that certain \$400,000,000 Revolving Credit Agreement dated as of November 1, 2010, among the Borrower, the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent, as amended, modified, restated and supplemented from time to time (the "Existing Credit Agreement"); and

WHEREAS, the Borrower has requested that the Administrative Agent and the Lenders amend and restate the Existing Credit Agreement to, among other things, increase the aggregate principal amount of the commitments, decrease the fronting sublimit for letters of credit issued hereunder and extend the maturity date, and the Administrative Agent and the Lenders have agreed to such amendment and restatement on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree that the Existing Credit Agreement is hereby amended and restated in its entirety, and do further agree as follows:

**ARTICLE I  
DEFINITIONS**

Section 1.01. Definitions. All capitalized terms used in this Agreement or in any Appendix, Schedule or Exhibit hereto which are not otherwise defined herein or therein shall have the respective meanings set forth below.

"Adjusted London Interbank Offered Rate" means, for any Interest Period, a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the nearest 1/100th of 1%) by dividing (i) the London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

"Administrative Agent" means Wells Fargo Bank, in its capacity as administrative agent for the Lenders hereunder and under the other Loan Documents, and its successor or successors in such capacity.

"Administrative Questionnaire" means, with respect to each Lender, an administrative questionnaire in the form provided by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Lender.

"Affiliate" means, with respect to any Person, any other Person who is directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise.

"Agent" means the Administrative Agent, the Syndication Agents, the Joint Lead Arrangers, the Documentation Agents or each Person that shall become a joint lead arranger pursuant to the terms of the Commitment Letters and "Agents" means all of the foregoing.

"Agreement" has the meaning set forth in the introductory paragraph hereto, as this Agreement may be amended, restated, supplemented or modified from time to time.

"Amendment Fee" has the meaning set forth in Section 4.01(i).

"Applicable Lending Office" means, with respect to any Lender, (i) in the case of its Base Rate Loans, its Base Rate Lending Office and (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office.

"Applicable Percentage" means, for purposes of calculating (i) the applicable interest rate for any day for any Base Rate Loans or Euro-Dollar Loans, (ii) the applicable rate for the Commitment Fee for any day for purposes of Section 2.07(a) or (iii) the applicable rate for the Letter of Credit Fee for any day for purposes of Section 2.07(b), the appropriate applicable percentage set forth below corresponding to one rating level below the then current highest Borrower's Ratings; provided, that, in the event that the Borrower's Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

	Borrower's Ratings (S&P / Moody's)	Applicable Percentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
Category A	≥ A from S&P / A2 from Moody's	0.100%	0.000%	1.000%
Category B	≥ A- from S&P / A3 from Moody's	0.125%	0.125%	1.125%
Category C	BBB+ from S&P / Baa1 from Moody's	0.175%	0.250%	1.250%
Category D	BBB from S&P / Baa2 from	0.200%	0.500%	1.500%

	Moody's			
Category E	BBB- from S&P / Baa3 from Moody's	0.250%	0.625%	1.625%
Category F	≤BB+ from S&P / Ba1 from Moody's	0.350%	0.875%	1.875%

"Asset Sale" shall mean any sale of any assets, including by way of the sale by the Borrower or any of its Subsidiaries of equity interests in such Subsidiaries.

"Assignee" has the meaning set forth in Section 9.06(c).

"Assignment and Assumption Agreement" means an Assignment and Assumption Agreement, substantially in the form of attached Exhibit C, under which an interest of a Lender hereunder is transferred to an Eligible Assignee pursuant to Section 9.06(c).

"Availability Period" means the period from and including the Effective Date to but excluding the Termination Date.

"Bankruptcy Code" means the Bankruptcy Reform Act of 1978, as amended, or any successor statute.

"Base Rate" means for any day a rate per annum equal to the highest of (i) the Prime Rate for such day, (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day and (iii) except during any period of time during which a notice delivered to the Borrower under Section 2.14 or Section 2.15 shall remain in effect, the London Interbank Offered Rate plus 1%.

"Base Rate Borrowing" means a Borrowing comprised of Base Rate Loans.

"Base Rate Lending Office" means, as to each Lender, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Base Rate Lending Office) or such other office as such Lender may hereafter designate as its Base Rate Lending Office by notice to the Borrower and the Administrative Agent.

"Base Rate Loan" means (a) a Loan (other than a Swingline Loan) in respect of which interest is computed on the basis of the Base Rate and (b) a Swingline Loan in respect of which interest is computed on the basis of the LIBOR Market Index Rate.

"Borrower" has the meaning set forth in the introductory paragraph hereto.

"Borrower's Rating" means the senior secured long-term debt rating of the Borrower from S&P or Moody's.

"Borrowing" means a group of Loans of a single Type made by the Lenders on a single date and, in the case of a Euro-Dollar Borrowing, having a single Interest Period.

"Business Day" means any day except a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or New York, New York are authorized by law to close; provided, that, when used in Article III with respect to any action taken by or with respect to any Issuing Lender, the term "Business Day" shall not include any day on which commercial banks are authorized by law to close in the jurisdiction where the office at which such Issuing Lender books any Letter of Credit is located; and provided, further, that when used with respect to any borrowing of, payment or prepayment of principal of or interest on, or the Interest Period for, a Euro-Dollar Loan, or a notice by the Borrower with respect to any such borrowing payment, prepayment or Interest Period, the term "Business Day" shall also mean that such day is a London Business Day.

"Capital Lease" means any lease of property which, in accordance with GAAP, should be capitalized on the lessee's balance sheet.

"Capital Lease Obligations" means, with respect to any Person, all obligations of such Person as lessee under Capital Leases, in each case taken at the amount thereof accounted for as liabilities in accordance with GAAP.

"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 Borrower.

"Commitment" means, with respect to any Lender, the commitment of such Lender to (i) make Loans under this Agreement, (ii) refund or purchase participations in Swingline Loans pursuant to Section 2.02 and (iii) purchase participations in Letters of Credit pursuant to Article III hereof, as set forth in the Commitment Appendix and as such Commitment may be reduced from time to time pursuant to Section 2.08 or Section 9.06(c) or increased from time to time pursuant to Section 9.06(c).

"Commitment Appendix" means the Appendix attached under this Agreement identified as such.

"Commitment Fee" has the meaning set forth in Section 2.07(a).

"Commitment Letters" means (i) that certain commitment letter dated as of September 24, 2012 among Wells Fargo Securities, LLC, Wells Fargo Bank, National Association, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc. and The Royal Bank of Scotland plc and (ii) that certain commitment letter dated as of October 2, 2012 among Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank, N.A., each commitment letter addressed to and

acknowledged and agreed to by the Borrower.

“Commitment Ratio” shall mean, with respect to any Lender, the percentage equivalent of the ratio which such Lender’s Commitment bears to the aggregate amount of all Commitments.

“Consolidated Capitalization” shall mean the sum of, without duplication, (A) the Consolidated Debt (without giving effect to clause (b) of the definition of “Consolidated Debt”) and (B) the consolidated shareowners’ equity (determined in accordance with GAAP) of the common, preference and preferred shareowners of the Borrower and minority interests recorded on the Borrower’s consolidated financial statements (excluding from shareowner’s equity (i) the effect of all unrealized gains and losses reported under Financial Accounting Standards Board Accounting Standards Codification Topic 815 in connection with (x) forward contracts, futures contracts, options contracts or other derivatives or hedging agreements for the future delivery of electricity, capacity, fuel or other commodities and (y) Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (ii) the balance of accumulated other comprehensive income/loss of the Borrower on any date of determination solely with respect to the effect of any pension and other post-retirement benefit liability adjustment recorded in accordance with GAAP), except that for purposes of calculating Consolidated Capitalization of the Borrower, Consolidated Debt of the Borrower shall exclude Non-Recourse Debt and Consolidated Capitalization of the Borrower shall exclude that portion of shareowners’ equity attributable to assets securing Non-Recourse Debt.

“Consolidated Debt” means the consolidated Debt of the Borrower and its Consolidated Subsidiaries (determined in accordance with GAAP), except that for purposes of this definition (a) Consolidated Debt shall exclude Non-Recourse Debt of the Borrower and its Consolidated Subsidiaries, and (b) Consolidated Debt shall exclude (i) Hybrid Securities of the Borrower and its Consolidated Subsidiaries in an aggregate amount as shall not exceed 15% of Consolidated Capitalization and (ii) Equity-Linked Securities in an aggregate amount as shall not exceed 15% of Consolidated Capitalization.

“Consolidated Subsidiary” means with respect to any Person at any date any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date in accordance with GAAP.

“Continuing Lender” means with respect to any event described in Section 2.08(b), a Lender which is not a Retiring Lender, and “Continuing Lenders” means any two or more of such Continuing Lenders.

“Corporation” means a corporation, association, company, joint stock company, limited liability company, partnership or business trust.

“Credit Event” means a Borrowing or the issuance, renewal or extension of a Letter of Credit.

“Debt” of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all Guarantees by such Person of Debt of others, (iv) all Capital Lease Obligations and Synthetic Leases of such Person, (v) all obligations of such Person in respect of Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the net amount that would be payable upon the acceleration, termination or liquidation thereof), but only to the extent that such net obligations exceed \$75,000,000 in the aggregate and (vi) all obligations of such Person as an account party in respect of letters of credit and bankers’ acceptances; provided, however, that “Debt” of such Person does not include (a) obligations of such Person under any installment sale, conditional sale or title retention agreement or any other agreement relating to obligations for the deferred purchase price of property or services, (b) obligations under agreements relating to the purchase and sale of any commodity, including any power sale or purchase agreements, any commodity hedge or derivative (regardless of whether any such transaction is a “financial” or physical transaction), (c) any trade obligations or other obligations of such Person incurred in the ordinary course of business or (d) obligations of such Person under any lease agreement (including any lease intended as security) that is not a Capital Lease or a Synthetic Lease.

“Default” means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“Defaulting Lender” means at any time any Lender with respect to which a Lender Default is in effect at such time.

“Documentation Agents” means Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Union Bank N.A., each in its capacity as a documentation agent in respect of this Agreement.

“Dollars” and the sign “\$” means lawful money of the United States of America.

“Effective Date” means the date on which the Administrative Agent determines that the conditions specified in or pursuant to Section 4.01 have been satisfied.

“Eligible Assignee” means (i) a Lender; (ii) a commercial bank organized under the laws of the United States and having a combined capital and surplus of at least \$100,000,000; (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country, and having a combined capital and surplus of at least \$100,000,000; provided, that such bank is acting through a branch or agency located and licensed in the United States; or (iv) an Affiliate of a Lender that is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended); provided, that, in each case (a) upon and following the occurrence of an Event of Default, an Eligible Assignee shall mean any Person other than the Borrower or any of its Affiliates and (b) notwithstanding the foregoing, “Eligible Assignee” shall not include the Borrower or any of its Affiliates.

“Environmental Laws” means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses or other written governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes into the environment

including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes.

“Environmental Liabilities” means all liabilities (including anticipated compliance costs) in connection with or relating to the business, assets, presently or previously owned, leased or operated property, activities (including, without limitation, off-site disposal) or operations of the Borrower or any of its Subsidiaries which arise under Environmental Laws.

“Equity-Linked Securities” means any securities of the Borrower or any of its Subsidiaries which are convertible into, or exchangeable for, equity securities of the Borrower, such Subsidiary or PPL Corporation, including any securities issued by any of such Persons which are pledged to secure any obligation of any holder to purchase equity securities of the Borrower, any of its Subsidiaries or PPL Corporation.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

“ERISA Group” means the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code.

“Euro-Dollar Borrowing” means a Borrowing comprised of Euro-Dollar Loans.

“Euro-Dollar Lending Office” means, as to each Lender, its office, branch or Affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Dollar Lending Office) or such other office, branch or Affiliate of such Lender as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrower and the Administrative Agent.

“Euro-Dollar Loan” means a Loan in respect of which interest is computed on the basis of the Adjusted London Interbank Offered Rate pursuant to the applicable Notice of Borrowing or Notice of Conversion/Continuation.

“Euro-Dollar Reserve Percentage” of any Lender for the Interest Period of any LIBOR Rate Loan means the reserve percentage applicable to such Lender during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) then applicable to such Lender with respect to liabilities or assets consisting of or including “Eurocurrency Liabilities” (as defined in Regulation D). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

“Event of Default” has the meaning set forth in Section 7.01.

“Existing Credit Agreement” has the meaning set forth in the recitals hereto.

“Extending Lenders” has the meaning set forth in Section 9.15 hereto.

“FATCA” means Sections 1471 through 1474 of the Internal Revenue Code and any regulations (whether final, temporary or proposed) that are issued thereunder or official government interpretations thereof and any agreements entered into pursuant to Section 1471(b) of the Code.

“Federal Funds Rate” means for any day the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average of quotations for such day on such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by the Administrative Agent.

“Fee Letter” means the fee letter dated as of September 24, 2012 among the Borrower, Wells Fargo Securities, LLC, Wells Fargo Bank, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America, N.A., RBS Securities Inc., and The Royal Bank of Scotland plc, as amended, modified or supplemented from time to time.

“FERC” means the Federal Energy Regulatory Commission.

“Fronting Fee” has the meaning set forth in Section 2.07(b).

“Fronting Sublimit” means, (a) for each JLA Issuing Bank, the amount of such JLA Issuing Bank’s commitment to issue and honor payment obligations under Letters of Credit, as set forth on the JLA L/C Fronting Sublimits Appendix hereto and (b) with respect to any other Issuing Lender, an amount as agreed between the Borrower and such Issuing Lender.

“GAAP” means United States generally accepted accounting principles applied on a consistent basis.

“Governmental Authority” means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity, and any arbitrator with authority to bind a party at law.

**“Group of Loans”** means at any time a group of Revolving Loans consisting of (i) all Revolving Loans which are Base Rate Loans at such time or (ii) all Revolving Loans which are Euro-Dollar Loans of the same Type having the same Interest Period at such time; provided, that, if a Loan of any particular Lender is converted to or made as a Base Rate Loan pursuant to Sections 2.15 or 2.18, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been in if it had not been so converted or made.

**“Guarantee”** of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for payment of such Debt, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt; provided, however, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

**“Hazardous Substances”** means any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

**“Hybrid Securities”** means any trust preferred securities, or deferrable interest subordinated debt with a maturity of at least 20 years issued by the Borrower, or any business trusts, limited liability companies, limited partnerships (or similar entities) (i) all of the common equity, general partner or similar interests of which are owned (either directly or indirectly through one or more Wholly Owned Subsidiaries) at all times by the Borrower or any of its Subsidiaries, (ii) that have been formed for the purpose of issuing hybrid preferred securities and (iii) substantially all the assets of which consist of (A) subordinated debt of the Borrower or a Subsidiary of the Borrower, as the case may be, and (B) payments made from time to time on the subordinated debt.

**“Indemnitor”** has the meaning set forth in Section 9.03(b).

**“Interest Period”** means with respect to each Euro-Dollar Loan, a period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of Conversion/Continuation and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable notice; provided, that:

(i) any Interest Period which would otherwise end on a day which is not a Business Day shall, subject to clauses (iii) and (iv) below, be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Business Day of a calendar month; and

(iii) no Interest Period shall end after the Termination Date.

**“Interest Rate Protection Agreements”** means any agreement providing for an interest rate swap, cap or collar, or any other financial agreement designed to protect against fluctuations in interest rates.

**“Internal Revenue Code”** means the Internal Revenue Code of 1986, as amended, or any successor statute.

**“Issuing Lender”** means (i) each JLA Issuing Bank, each in its capacity as an issuer of Letters of Credit under Section 3.02, and each of their respective successor or successors in such capacity and (ii) any other Lender approved as an “Issuing Lender” pursuant to Section 3.01, subject in each case to the Fronting Sublimit.

**“Joint Lead Arrangers”** means Wells Fargo Securities, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Barclays Bank PLC, The Bank of Nova Scotia and Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo Mitsubishi UFJ, Ltd. and Union Bank, N.A., each in their capacity as joint lead arranger and joint bookrunner in respect of this Agreement.

**“JLA Issuing Bank”** means Wells Fargo Bank, Bank of America, N.A., The Royal Bank of Scotland plc, Barclays Bank PLC, The Bank of Nova Scotia, Mitsubishi UFJ Financial Group, Inc., acting through The Bank of Tokyo-Mitsubishi UFJ, Ltd. and each other Lender (or Affiliate of a Lender) that shall become (or whose Affiliate shall become) a joint lead arranger pursuant to the terms of the Commitment Letters.

**“KPSC”** means the Kentucky Public Service Commission.

**“Lender”** means each bank or other lending institution listed in the Commitment Appendix as having a Commitment, each Eligible Assignee that becomes a Lender pursuant to Section 9.06(c) and their respective successors and shall include, as the context may require, each Issuing Lender and the Swingline Lender in such capacity.

**“Lender Default”** means (i) the failure (which has not been cured) of any Lender to make available any Loan or any reimbursement for a drawing under a Letter of Credit or refunding of a Swingline Loan, in each case, within one Business Day from the date it is obligated to make such amount available under the terms and conditions of this Agreement or (ii) a Lender having notified, in writing, the Administrative Agent and the Borrower that such Lender does not intend to comply with its obligations under Article II following the appointment of a receiver or conservator with respect to such Lender at the direction or request of any regulatory agency or authority.



“Letter of Credit” means each letter of credit issued pursuant to Section 3.02 by an Issuing Lender.

“Letter of Credit Fee” has the meaning set forth in Section 2.07(b).

“Letter of Credit Liabilities” means, for any Lender at any time, the product derived by multiplying (i) the sum, without duplication, of (A) the aggregate amount that is (or may thereafter become) available for drawing under all Letters of Credit outstanding at such time plus (B) the aggregate unpaid amount of all Reimbursement Obligations outstanding at such time by (ii) such Lender’s Commitment Ratio.

“Letter of Credit Request” has the meaning set forth in Section 3.03.

“LIBOR Market Index Rate” means, for any day, the rate for 1 month U.S. dollar deposits as reported on Reuters Screen LIBOR01 as of 11:00 a.m., London time, for such day, provided, if such day is not a London Business Day, the immediately preceding London Business Day (or if not so reported, then as determined by the Swingline Lender from another recognized source or interbank quotation).

“Lien” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance intended to confer or having the effect of conferring upon a creditor a preferential interest.

“Loan” means a Base Rate Loan, whether such loan is a Revolving Loan or Swingline Loan, or a Euro-Dollar Loan and “Loans” means any combination of the foregoing.

“Loan Documents” means this Agreement and the Notes.

“London Business Day” means a day on which commercial banks are open for international business (including dealings in Dollar deposits) in London.

“London Interbank Offered Rate” means:

(a) for any Euro-Dollar Loan for any Interest Period, the interest rate for deposits in Dollars for a period of time comparable to such Interest Period which appears on Reuters Screen LIBOR01 at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period; provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01, the term “London Interbank Offered Rate” means for any Interest Period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Euro-Dollar Loan of Wells Fargo Bank to which such Interest Period is to apply and for a period of time comparable to such Interest Period.

(b) for any interest rate calculation with respect to a Base Rate Loan, the interest rate for deposits in Dollars for a period equal to one month (commencing on the date of determination of such interest rate) which appears on Reuters Screen LIBOR01 at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted); provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01, the term “London Interbank Offered Rate” means for any applicable one-month interest period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted) in an amount approximately equal to the principal amount of the Base Rate Loan of Wells Fargo Bank.

“Mandatory Letter of Credit Borrowing” has the meaning set forth in Section 3.09.

“Margin Stock” means “margin stock” as such term is defined in Regulation U.

“Material Adverse Effect” means (i) any material adverse effect upon the business, assets, financial condition or operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole; (ii) a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement, the Notes or the other Loan Documents or (iii) a material adverse effect on the validity or enforceability of this Agreement, the Notes or any of the other Loan Documents.

“Material Debt” means Debt (other than the Notes) of the Borrower in a principal or face amount exceeding \$50,000,000.

“Material Plan” means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000. For the avoidance of doubt, where any two or more Plans, which individually do not have Unfunded Liabilities in excess of \$50,000,000, but collectively have aggregate Unfunded Liabilities in excess of \$50,000,000, all references to Material Plan shall be deemed to apply to such Plans as a group.

“Moody’s” means Moody’s Investors Service, Inc., a Delaware corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Multiemployer Plan” means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

“New Lender” means with respect to any event described in Section 2.08(b), an Eligible Assignee which becomes a Lender hereunder as a result of such event, and “New Lenders” means any two or more of such New Lenders.

“Non-Defaulting Lender” means each Lender other than a Defaulting Lender, and “Non-Defaulting Lenders” means any two or more of such Lenders.

“Non-Recourse Debt” shall mean Debt that is nonrecourse to the Borrower or any asset of the Borrower.

“Non-U.S. Lender” has the meaning set forth in Section 2.17(e).

“Note” shall mean a promissory note, substantially in the form of Exhibit B hereto, issued at the request of a Lender evidencing the obligation of the Borrower to repay outstanding Revolving Loans or Swingline Loans, as applicable.

“Notice of Borrowing” has the meaning set forth in Section 2.03.

“Notice of Conversion/Continuation” has the meaning set forth in Section 2.06(d)(ii).

“Obligations” means:

(i) all principal of and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on any Loan, fees payable or Reimbursement Obligation under, or any Note issued pursuant to, this Agreement or any other Loan Document;

(ii) all other amounts now or hereafter payable by the Borrower and all other obligations or liabilities now existing or hereafter arising or incurred (including, without limitation, any amounts which accrue after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on the part of the Borrower pursuant to this Agreement or any other Loan Document;

(iii) all expenses of the Agents as to which such Agents have a right to reimbursement under Section 9.03(a) hereof or under any other similar provision of any other Loan Document; and

(iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 9.03 hereof or under any other similar provision of any other Loan Document;

together in each case with all renewals, modifications, consolidations or extensions thereof.

“OFAC” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“Other Taxes” has the meaning set forth in Section 2.17(b).

“Participant” has the meaning set forth in Section 9.06(b).

“Participant Register” has the meaning set forth in Section 9.06(e).

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Permitted Business” with respect to any Person means a business that is the same or similar to the business of the Borrower or any Subsidiary as of the Effective Date, or any business reasonably related thereto.

“Person” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or an unincorporated association or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Plan” means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

“Prime Rate” means the rate of interest publicly announced by Wells Fargo Bank from time to time as its Prime Rate.

“Public Reporting Company” means a company subject to the periodic reporting requirements of the Securities and Exchange Act of 1934.

“Quarterly Date” means the last Business Day of each of March, June, September and December.

“Rating Agency” means S&P or Moody’s, and “Rating Agencies” means both of them.

“Register” has the meaning set forth in Section 9.06(e).

**“Regulation U”** means Regulation U of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

**“Regulation X”** means Regulation X of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

**“Reimbursement Obligations”** means at any time all obligations of the Borrower to reimburse the Issuing Lenders pursuant to Section 3.07 for amounts paid by the Issuing Lenders in respect of drawings under Letters of Credit, including any portion of any such obligation to which a Lender has become subrogated pursuant to Section 3.09.

**“Replacement Date”** has the meaning set forth in Section 2.08(b).

**“Replacement Lender”** has the meaning set forth in Section 2.08(b).

**“Required Lenders”** means at any time Non-Defaulting Lenders having at least 51% of the aggregate amount of the Commitments of all Non-Defaulting Lenders or, if the Commitments shall have been terminated, having at least 51% of the aggregate amount of the Revolving Outstandings of the Non-Defaulting Lenders at such time.

**“Responsible Officer”** means, as to any Person, the chief executive officer, president, chief financial officer, controller, treasurer or assistant treasurer of such Person or any other officer of such Person reasonably acceptable to the Administrative Agent. Any document delivered hereunder that is signed by a Responsible Officer of a Person shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Person and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Person.

**“Retiring Lender”** means a Lender that ceases to be a Lender hereunder pursuant to the operation of Section 2.08(b).

**“Revolving”** means, when used with respect to (i) a Borrowing, a Borrowing made by the Borrower under Section 2.01, as identified in the Notice of Borrowing with respect thereto, a Borrowing of Revolving Loans to refund outstanding Swingline Loans pursuant to Section 2.02(b)(i), or a Mandatory Letter of Credit Borrowing and (ii) a Loan, a Loan made under Section 2.01; provided, that, if any such loan or loans (or portions thereof) are combined or subdivided pursuant to a Notice of Conversion/Continuation, the term “Revolving Loan” shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

**“Revolving Outstandings”** means at any time, with respect to any Lender, the sum of (i) the aggregate principal amount of such Lender’s outstanding Revolving Loans plus (ii) the aggregate amount of such Lender’s Swingline Exposure plus (iii) aggregate amount of such Lender’s Letter of Credit Liabilities.

**“Revolving Outstandings Excess”** has the meaning set forth in Section 2.09.

**“Sanctioned Entity”** shall mean (i) an agency of the government of, (ii) an organization directly or indirectly controlled by, or (iii) a Person resident in, a country that is subject to a sanctions program identified on the list maintained by OFAC and available at <http://www.treas.gov/offices/enforcement/ofac/sanctions/index.html>, or as otherwise published from time to time as such program may be applicable to such agency, organization or Person.

**“Sanctioned Person”** shall mean a Person named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at <http://www.treas.gov/offices/enforcement/ofac/sdn/index.html>, or as otherwise published from time to time.

**“SEC”** means the Securities and Exchange Commission.

**“S&P”** means Standard & Poor’s Ratings Group, a division of McGraw Hill, Inc., a New York corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

**“Subsidiary”** means any Corporation, a majority of the outstanding Voting Stock of which is owned, directly or indirectly, by the Borrower or one or more other Subsidiaries of the Borrower.

**“Swingline Borrowing”** means a Borrowing made by the Borrower under Section 2.02, as identified in the Notice of Borrowing with respect thereto.

**“Swingline Exposure”** means, for any Lender at any time, the product derived by multiplying (i) the aggregate principal amount of all outstanding Swingline Loans at such time by (ii) such Lender’s Commitment Ratio.

**“Swingline Lender”** means Wells Fargo Bank, in its capacity as Swingline Lender.

**“Swingline Loan”** means any swingline loan made by the Swingline Lender to the Borrower pursuant to Section 2.02.

**“Swingline Sublimit”** means the lesser of (a) \$20,000,000 and (b) the aggregate Commitments of all Lenders.

**“Swingline Termination Date”** means the first to occur of (a) the resignation of Wells Fargo Bank as Administrative Agent in accordance with Section 8.09 and (b) the Termination Date.

**“Syndication Agents”** means Bank of America, N.A. and The Royal Bank of Scotland plc, each in its capacity as a syndication agent in respect of this Agreement.

“Synthetic Lease” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

“Taxes” has the meaning set forth in Section 2.17(a).

“Termination Date” means the earliest to occur of (a) November 6, 2017 and (b) such earlier date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.

“Type”, when used in respect of any Loan or Borrowing, shall refer to the rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined.

“Unfunded Liabilities” means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

“United States” means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

“Voting Stock” means stock (or other interests) of a Corporation having ordinary voting power for the election of directors, managers or trustees thereof, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

“Wells Fargo Bank” means Wells Fargo Bank, National Association, and its successors.

“Wells Fargo Securities” means Wells Fargo Securities, LLC, and its successors and assigns.

“Wholly Owned Subsidiary” means, with respect to any Person at any date, any Subsidiary of such Person all of the Voting Stock of which (except directors’ qualifying shares) is at the time directly or indirectly owned by such Person.

## ARTICLE II THE CREDITS

Section 2.01. Commitments to Lend. Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make Revolving Loans to the Borrower pursuant to this Section 2.01 from time to time during the Availability Period in amounts such that its Revolving Outstandings shall not exceed its Commitment; provided, that, immediately after giving effect to each such Revolving Loan, the aggregate principal amount of all outstanding Revolving Loans (after giving effect to any amount requested) shall not exceed the aggregate Commitments less the sum of all outstanding Swingline Loans and Letter of Credit Liabilities. Each Revolving Borrowing (other than Mandatory Letter of Credit Borrowings) shall be in an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000 (except that any such Borrowing may be in the aggregate amount of the unused Commitments) and shall be made from the several Lenders ratably in proportion to their respective Commitments. Within the foregoing limits, the Borrower may borrow under this Section 2.01, repay, or, to the extent permitted by Section 2.10, prepay, Revolving Loans and reborrow under this Section 2.01.

### Section 2.02. Swingline Loans.

(a) Availability. Subject to the terms and conditions of this Agreement, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time from the Effective Date through, but not including, the Swingline Termination Date; provided, that the aggregate principal amount of all outstanding Swingline Loans (after giving effect to any amount requested), shall not exceed the lesser of (i) the aggregate Commitments less the sum of the aggregate principal amount of all outstanding Revolving Loans and all outstanding Letter of Credit Liabilities and (ii) the Swingline Sublimit; and provided further, that the Borrower shall not use the proceeds of any Swingline Loan to refinance any outstanding Swingline Loan. Each Swingline Loan shall be in an aggregate principal amount of \$2,000,000 or any larger integral multiple of \$500,000 (except that any such Borrowing may be in the aggregate amount of the unused Swingline Sublimit). Within the foregoing limits, the Borrower may borrow, repay and reborrow Swingline Loans, in each case under this Section 2.02. Each Swingline Loan shall be a Base Rate Loan.

### (b) Refunding.

(i) Swingline Loans shall be refunded by the Lenders on demand by the Swingline Lender. Such refundings shall be made by the Lenders in accordance with their respective Commitment Ratios and shall thereafter be reflected as Revolving Loans of the Lenders on the books and records of the Administrative Agent. Each Lender shall fund its respective Commitment Ratio of Revolving Loans as required to repay Swingline Loans outstanding to the Swingline Lender upon demand by the Swingline Lender but in no event later than 1:00 P.M. (Charlotte, North Carolina time) on the next succeeding Business Day after such demand is made. No Lender’s obligation to fund its respective Commitment Ratio of a Swingline Loan shall be affected by any other Lender’s failure to fund its Commitment Ratio of a Swingline Loan, nor shall any Lender’s Commitment Ratio be increased as a result of any such failure of any other Lender to fund its Commitment Ratio of a Swingline Loan.

(ii) The Borrower shall pay to the Swingline Lender on demand, and in no case more than fourteen (14) days after the date that such Swingline Loan is made, the amount of such Swingline Loan to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. In addition, the Borrower hereby authorizes the Administrative Agent to charge any account maintained by the Borrower with the Swingline Lender (up to the amount available therein) in order to immediately pay

the Swingline Lender the amount of such Swingline Loans to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. If any portion of any such amount paid to the Swingline Lender shall be recovered by or on behalf of the Borrower from the Swingline Lender in bankruptcy or otherwise, the loss of the amount so recovered shall be ratably shared among all the Lenders in accordance with their respective Commitment Ratios (unless the amounts so recovered by or on behalf of the Borrower pertain to a Swingline Loan extended after the occurrence and during the continuance of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable).

(iii) Each Lender acknowledges and agrees that its obligation to refund Swingline Loans (other than Swingline Loans extended after the occurrence and during the continuation of an Event of Default of which the Administrative Agent has received notice in the manner required pursuant to Section 8.05 and which such Event of Default has not been waived by the Required Lenders or the Lenders, as applicable) in accordance with the terms of this Section is absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, non-satisfaction of the conditions set forth in Article IV. Further, each Lender agrees and acknowledges that if prior to the refunding of any outstanding Swingline Loans pursuant to this Section, one of the events described in Section 7.01(h) or (i) shall have occurred, each Lender will, on the date the applicable Revolving Loan would have been made, purchase an undivided participating interest in the Swingline Loan to be refunded in an amount equal to its Commitment Ratio of the aggregate amount of such Swingline Loan. Each Lender will immediately transfer to the Swingline Lender, in immediately available funds, the amount of its participation and upon receipt thereof the Swingline Lender will deliver to such Lender a certificate evidencing such participation dated the date of receipt of such funds and for such amount. Whenever, at any time after the Swingline Lender has received from any Lender such Lender's participating interest in a Swingline Loan, the Swingline Lender receives any payment on account thereof, the Swingline Lender will distribute to such Lender its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded).

Section 2.03. Notice of Borrowings. The Borrower shall give the Administrative Agent notice substantially in the form of Exhibit A-1 hereto (a "Notice of Borrowing") not later than (a) 11:30 A.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the third Business Day before each Euro-Dollar Borrowing, specifying:

- (i) the date of such Borrowing, which shall be a Business Day;
- (ii) the aggregate amount of such Borrowing;
- (iii) whether such Borrowing is comprised of Revolving Loans or a Swingline Loan;
- (iv) in the case of a Revolving Borrowing, the initial Type of the Loans comprising such Borrowing; and
- (v) in the case of a Euro-Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

Notwithstanding the foregoing, no more than six (6) Groups of Euro-Dollar Loans shall be outstanding at any one time, and any Loans which would exceed such limitation shall be made as Base Rate Loans.

Section 2.04. Notice to Lenders: Funding of Revolving Loans and Swingline Loans.

(a) Notice to Lenders. Upon receipt of a Notice of Borrowing (other than in respect of a Borrowing of a Swingline Loan), the Administrative Agent shall promptly notify each Lender of such Lender's ratable share (if any) of the Borrowing referred to in the Notice of Borrowing, and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) Funding of Loans. Not later than (a) 1:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing, each Lender shall make available its ratable share of such Borrowing, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. Unless the Administrative Agent determines that any applicable condition specified in Article IV has not been satisfied, the Administrative Agent shall apply any funds so received in respect of a Borrowing available to the Borrower at the Administrative Agent's address not later than (a) 3:00 P.M. (Charlotte, North Carolina time) on the date of each Base Rate Borrowing and (b) 2:00 P.M. (Charlotte, North Carolina time) on the date of each Euro-Dollar Borrowing. Revolving Loans to be made for the purpose of refunding Swingline Loans shall be made by the Lenders as provided in Section 2.02(b).

(c) Funding By the Administrative Agent in Anticipation of Amounts Due from the Lenders. Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing (except in the case of a Base Rate Borrowing, in which case prior to the time of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsection (b) of this Section, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such share available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount, together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.06, in the case of the Borrower, and (ii) the Federal Funds Rate, in the case of such Lender. Any payment by the Borrower hereunder shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make its share of a Borrowing available to the Administrative Agent. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Loan included in such Borrowing for purposes of this Agreement.

(d) Obligations of Lenders Several. The failure of any Lender to make a Loan required to be made by it as part of any Borrowing

hereunder shall not relieve any other Lender of its obligation, if any, hereunder to make any Loan on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on such date of Borrowing.

#### Section 2.05. Noteless Agreement; Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (a) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (b) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (c) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to paragraphs (a) and (b) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Administrative Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) Any Lender may request that its Loans be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to the order of such Lender. Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 9.06(c)) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 9.06(c), except to the extent that any such Lender or assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in paragraphs (a) and (b) above.

#### Section 2.06. Interest Rates.

(a) Interest Rate Options. The Loans shall, at the option of the Borrower and except as otherwise provided herein, be incurred and maintained as, or converted into, one or more Base Rate Loans or Euro-Dollar Loans.

(b) Base Rate Loans. Each Loan which is made as, or converted into, a Base Rate Loan (other than a Swingline Loan) shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made as, or converted into, a Base Rate Loan until it becomes due or is converted into a Loan of any other Type, at a rate per annum equal to the sum of the Base Rate for such day plus the Applicable Percentage for Base Rate Loans for such day. Each Loan which is made as a Swingline Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due at a rate per annum equal to the LIBOR Market Index Rate for such day plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall, in each case, be payable quarterly in arrears on each Quarterly Date (or, with respect to Base Rate Loans that are Swingline Loans, as the Swingline Lender and the Borrower may otherwise agree in writing) and, with respect to the principal amount of any Base Rate Loan (other than a Swingline Loan) converted to a Euro-Dollar Loan, on the date such Base Rate Loan is so converted. Any overdue principal of or interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for such day.

(c) Euro-Dollar Loans. Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the sum of the Adjusted London Interbank Offered Rate for such Interest Period plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof. Any overdue principal of or interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the sum of (A) the Adjusted London Interbank Offered Rate applicable to such Loan at the date such payment was due plus (B) the Applicable Percentage for Euro-Dollar Loans for such day (or, if the circumstance described in Section 2.14 shall exist, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day).

#### (d) Method of Electing Interest Rates.

(i) Subject to Section 2.06(a), the Loans included in each Revolving Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Borrowing. Thereafter, with respect to each Group of Loans, the Borrower shall have the option (A) to convert all or any part of (y) so long as no Default is in existence on the date of conversion, outstanding Base Rate Loans to Euro-Dollar Loans and (z) outstanding Euro-Dollar Loans to Base Rate Loans; provided, in each case, that the amount so converted shall be equal to \$10,000,000 or any larger integral multiple of \$1,000,000, or (B) upon the expiration of any Interest Period applicable to outstanding Euro-Dollar Loans, so long as no Default is in existence on the date of continuation, to continue all or any portion of such Loans, equal to \$10,000,000 and any larger integral multiple of \$1,000,000 in excess of that amount as Euro-Dollar Loans. The Interest Period of any Base Rate Loan converted to a Euro-Dollar Loan pursuant to clause(A) above shall commence on the date of such conversion. The succeeding Interest Period of any Euro-Dollar Loan continued pursuant to clause (B) above shall commence on the last day of the Interest Period of the Loan so continued. Euro-Dollar Loans may only be converted on the last day of the then current Interest Period applicable thereto or on the date required pursuant to Section 2.18.

(ii) The Borrower shall deliver a written notice of each such conversion or continuation (a "Notice of Conversion/Continuation") to the Administrative Agent no later than (A) 12:00 Noon (Charlotte, North Carolina time) at least three (3) Business Days before the effective date of the proposed conversion to, or continuation of, a Euro Dollar Loan and (B) 11:30 A.M. (Charlotte, North Carolina time) on the day of a conversion to a Base Rate Loan. A written Notice of Conversion/Continuation shall be substantially in the form of Exhibit A-2 attached hereto and shall specify: (A) the Group of Loans (or portion thereof) to which such notice applies, (B) the proposed conversion/continuation date (which shall be a Business Day), (C) the aggregate amount of the Loans being converted/continued, (D) an election between the Base Rate and the Adjusted London Interbank Offered Rate and (E) in the case of a conversion to, or a continuation of, Euro-Dollar Loans, the requested Interest Period. Upon receipt of a Notice of Conversion/Continuation, the Administrative Agent shall give each Lender prompt notice of the contents thereof

and such Lender's pro rata share of all conversions and continuations requested therein. If no timely Notice of Conversion/Continuation is delivered by the Borrower as to any Euro-Dollar Loan, and such Loan is not repaid by the Borrower at the end of the applicable Interest Period, such Loan shall be converted automatically to a Base Rate Loan on the last day of the then applicable Interest Period.

(e) Determination and Notice of Interest Rates. The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Lenders of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error. Any notice with respect to Euro-Dollar Loans shall, without the necessity of the Administrative Agent so stating in such notice, be subject to adjustments in the Applicable Percentage applicable to such Loans after the beginning of the Interest Period applicable thereto. When during an Interest Period any event occurs that causes an adjustment in the Applicable Percentage applicable to Loans to which such Interest Period is applicable, the Administrative Agent shall give prompt notice to the Borrower and the Lenders of such event and the adjusted rate of interest so determined for such Loans, and its determination thereof shall be conclusive in the absence of manifest error.

#### Section 2.07. Fees.

(a) Commitment Fees. The Borrower shall pay to the Administrative Agent for the account of each Lender a fee (the "Commitment Fee") for each day at a rate per annum equal to the Applicable Percentage for the Commitment Fee for such day. The Commitment Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the amount by which such Lender's Commitment exceeds the sum of its Revolving Outstandings (solely for this purpose, exclusive of Swingline Exposure) on such day. The Commitment Fee shall be payable on the last day of each of March, June, September and December and on the Termination Date.

(b) Letter of Credit Fees. The Borrower shall pay to the Administrative Agent a fee (the "Letter of Credit Fee") for each day at a rate per annum equal to the Applicable Percentage for the Letter of Credit Fee for such day. The Letter of Credit Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the aggregate amount available for drawing under any Letters of Credit outstanding on such day and shall be payable for the account of the Lenders ratably in proportion to their participations in such Letter(s) of Credit. In addition, the Borrower shall pay to each Issuing Lender a fee (the "Fronting Fee") in respect of each Letter of Credit issued by such Issuing Lender computed at the rate of 0.20% per annum on the average amount available for drawing under such Letter(s) of Credit. Fronting Fees shall be due and payable quarterly in arrears on each Quarterly Date and on the Termination Date (or such earlier date as all Letters of Credit shall be canceled or expire). In addition, the Borrower agrees to pay to each Issuing Lender, upon each issuance of, payment under, and/or amendment of, a Letter of Credit, such amount as shall at the time of such issuance, payment or amendment be the administrative charges and expenses which such Issuing Lender is customarily charging for issuances of, payments under, or amendments to letters of credit issued by it.

(c) Payments. Except as otherwise provided in this Section 2.07, accrued fees under this Section 2.07 in respect of Loans and Letter of Credit Liabilities shall be payable quarterly in arrears on each Quarterly Date, on the last day of the Availability Period and, if later, on the date the Loans and Letter of Credit Liabilities shall be repaid in their entirety. Fees paid hereunder shall not be refundable under any circumstances.

#### Section 2.08. Adjustments of Commitments.

(a) Optional Termination or Reductions of Commitments (Pro-Rata). The Borrower may, upon at least three Business Days' prior written notice to the Administrative Agent, permanently (i) terminate the Commitments, if there are no Revolving Outstandings at such time or (ii) ratably reduce from time to time by a minimum amount of \$10,000,000 or any larger integral multiple of \$5,000,000, the aggregate amount of the Commitments in excess of the aggregate Revolving Outstandings. Upon receipt of any such notice, the Administrative Agent shall promptly notify the Lenders. If the Commitments are terminated in their entirety, all accrued fees shall be payable on the effective date of such termination.

(b) Optional Termination of Commitments (Non-Pro-Rata). If (i) any Lender has demanded compensation or indemnification pursuant to Sections 2.14, 2.15, 2.16 or 2.17, (ii) the obligation of any Lender to make Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (iii) any Lender is a Defaulting Lender (each such Lender described in clauses (i), (ii) or (iii) being a "Retiring Lender"), the Borrower shall have the right, if no Default then exists, to replace such Lender with one or more Eligible Assignees (which may be one or more of the Continuing Lenders) (each a "Replacement Lender" and, collectively, the "Replacement Lenders") reasonably acceptable to the Administrative Agent. The replacement of a Retiring Lender pursuant to this Section 2.08(b) shall be effective on the tenth Business Day (the "Replacement Date") following the date of notice given by the Borrower of such replacement to the Retiring Lender and each Continuing Lender through the Administrative Agent, subject to the satisfaction of the following conditions:

(i) the Replacement Lender shall have satisfied the conditions to assignment and assumption set forth in Section 9.06(c) (with all fees payable pursuant to Section 9.06(c) to be paid by the Borrower) and, in connection therewith, the Replacement Lender(s) shall pay:

(A) to the Retiring Lender an amount equal in the aggregate to the sum of (x) the principal of, and all accrued but unpaid interest on, all outstanding Loans of the Retiring Lender, (y) all unpaid drawings that have been funded by (and not reimbursed to) the Retiring Lender under Section 3.10, together with all accrued but unpaid interest with respect thereto and (z) all accrued but unpaid fees owing to the Retiring Lender pursuant to Section 2.07; and

(B) to the Swingline Lender an amount equal to the aggregate amount owing by the Retiring Lender to the Swingline Lender in respect of all unpaid refundings of Swingline Loans requested by the Swingline Lender pursuant to Section 2.02(b)(i), to the extent such amount was not theretofore funded by such Retiring Lender; and

(C) to the Issuing Lenders an amount equal to the aggregate amount owing by the

Retiring Lender to the Issuing Lenders as reimbursement pursuant to Section 3.09, to the extent such amount was not theretofore funded by such Retiring Lender; and

(ii) the Borrower shall have paid to the Administrative Agent for the account of the Retiring Lender an amount equal to all obligations owing to the Retiring Lender by the Borrower pursuant to this Agreement and the other Loan Documents (other than those obligations of the Borrower referred to in clause (i)(A) above).

On the Replacement Date, each Replacement Lender that is a New Lender shall become a Lender hereunder and shall succeed to the obligations of the Retiring Lender with respect to outstanding Swingline Loans and Letters of Credit to the extent of the Commitment of the Retiring Lender assumed by such Replacement Lender, and the Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall continue to inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

In lieu of the foregoing, subject to Section 2.08(e), upon express written consent of Continuing Lenders holding more than 50% of the aggregate amount of the Commitments of the Continuing Lenders, the Borrower shall have the right to permanently terminate the Commitment of a Retiring Lender in full. Upon payment by the Borrower to the Administrative Agent for the account of the Retiring Lender of an amount equal to the sum of (i) the aggregate principal amount of all Loans and Reimbursement Obligations owed to the Retiring Lender and (ii) all accrued interest, fees and other amounts owing to the Retiring Lender hereunder, including, without limitation, all amounts payable by the Borrower to the Retiring Lender under Sections 2.12, 2.16, 2.17 or 9.03, such Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a Retiring Lender with respect to any Loans made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

(c) Optional Termination of Defaulting Lender Commitment (Non-Pro-Rata). At any time a Lender is a Defaulting Lender, subject to Section 2.08(e), the Borrower may terminate in full the Commitment of such Defaulting Lender by giving notice to such Defaulting Lender and the Administrative Agent, provided, that, (i) at the time of such termination, (A) no Default has occurred and is continuing (or alternatively, the Required Lenders shall consent to such termination) and (B) either (x) no Revolving Loans or Swingline Loans are outstanding or (y) the aggregate Revolving Outstandings of such Defaulting Lender in respect of Revolving Loans is zero; (ii) concurrently with such termination, the aggregate Commitments shall be reduced by the Commitment of the Defaulting Lender; and (iii) concurrently with any subsequent payment of interest or fees to the Lenders with respect to any period before the termination of a Defaulting Lender's Commitment, the Borrower shall pay to such Defaulting Lender its ratable share (based on its Commitment Ratio before giving effect to such termination) of such interest or fees, as applicable. The termination of a Defaulting Lender's Commitment pursuant to this Section 2.08(c) shall not be deemed to be a waiver of any right that the Borrower, Administrative Agent, any Issuing Lender or any other Lender may have against such Defaulting Lender.

(d) Termination Date. The Commitments shall terminate on the Termination Date.

(e) Redetermination of Commitment Ratios. On the date of termination of the Commitment of a Retiring Lender or Defaulting Lender pursuant to Section 2.08(b) or (c), the Commitment Ratios of the Continuing Lenders shall be redetermined after giving effect thereto, and the participations of the Continuing Lenders in and obligations of the Continuing Lenders in respect of any then outstanding Swingline Loans and Letters of Credit shall thereafter be based upon such redetermined Commitment Ratios (to the extent not previously adjusted pursuant to Section 2.20). The right of the Borrower to effect such a termination is conditioned on there being sufficient unused availability in the Commitments of the Continuing Lenders such that the aggregate Revolving Outstandings will not exceed the aggregate Commitments after giving effect to such termination and redetermination.

#### Section 2.09. Maturity of Loans; Mandatory Prepayments.

##### (a) Scheduled Repayments and Prepayments of Loans; Overline Repayments.

(i) The Revolving Loans shall mature on the Termination Date, and any Revolving Loans, Swingline Loans and Letter of Credit Liabilities then outstanding (together with accrued interest thereon and fees in respect thereof) shall be due and payable or, in the case of Letters of Credit, cash collateralized pursuant to Section 2.09(a)(ii), on such date.

(ii) If on any date the aggregate Revolving Outstandings exceed the aggregate amount of the Commitments (such excess, a "Revolving Outstandings Excess"), the Borrower shall prepay, and there shall become due and payable (together with accrued interest thereon) on such date, an aggregate principal amount of Revolving Loans and/or Swingline Loans equal to such Revolving Outstandings Excess. If, at a time when a Revolving Outstandings Excess exists and (x) no Revolving Loans or Swingline Loans are outstanding or (y) the Commitment has been terminated pursuant to this Agreement and, in either case, any Letter of Credit Liabilities remain outstanding, then, in either case, the Borrower shall cash collateralize any Letter of Credit Liabilities by depositing into a cash collateral account established and maintained (including the investments made pursuant thereto) by the Administrative Agent pursuant to a cash collateral agreement in form and substance satisfactory to the Administrative Agent an amount in cash equal to the then outstanding Letter of Credit Liabilities. In determining Revolving Outstandings for purposes of this clause (ii), Letter of Credit Liabilities shall be reduced to the extent that they are cash collateralized as contemplated by this Section 2.09(a)(ii).

##### (b) Applications of Prepayments and Reductions.

(i) Each payment or prepayment of Loans pursuant to this Section 2.09 shall be applied ratably to the respective Loans of all of the Lenders.

(ii) Each payment of principal of the Loans shall be made together with interest accrued on the amount repaid to the date of payment.



(iii) Each payment of the Loans shall be applied to such Groups of Loans as the Borrower may designate (or, failing such designation, as determined by the Administrative Agent).

#### Section 2.10. Optional Prepayments and Repayments.

(a) Prepayments of Loans. Other than in respect of Swingline Loans, the repayment of which is governed pursuant to Section 2.02(b), subject to Section 2.12, the Borrower may (i) upon at least one (1) Business Day's notice to the Administrative Agent, prepay any Base Rate Borrowing or (ii) upon at least three (3) Business Days' notice to the Administrative Agent, prepay any Euro-Dollar Borrowing, in each case in whole at any time, or from time to time in part in amounts aggregating \$10,000,000 or any larger integral multiple of \$1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Lenders included in such Borrowing.

(b) Notice to Lenders. Upon receipt of a notice of prepayment pursuant to Section 2.10(a), the Administrative Agent shall promptly notify each Lender of the contents thereof and of such Lender's ratable share (if any) of such prepayment, and such notice shall not thereafter be revocable by the Borrower.

#### Section 2.11. General Provisions as to Payments.

(a) Payments by the Borrower. The Borrower shall make each payment of principal of and interest on the Loans and Letter of Credit Liabilities and fees hereunder (other than fees payable directly to the Issuing Lenders) not later than 12:00 Noon (Charlotte, North Carolina time) on the date when due, without set-off, counterclaim or other deduction, in Federal or other funds immediately available in Charlotte, North Carolina, to the Administrative Agent at its address referred to in Section 9.01. The Administrative Agent will promptly distribute to each Lender its ratable share of each such payment received by the Administrative Agent for the account of the Lenders. Whenever any payment of principal of or interest on the Base Rate Loans or Letter of Credit Liabilities or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. Whenever any payment of principal of or interest on the Euro-Dollar Loans shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Distributions by the Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date, and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.12. Funding Losses. If the Borrower makes any payment of principal with respect to any Euro-Dollar Loan pursuant to the terms and provisions of this Agreement (any conversion of a Euro-Dollar Loan to a Base Rate Loan pursuant to Section 2.18 being treated as a payment of such Euro-Dollar Loan on the date of conversion for purposes of this Section 2.12) on any day other than the last day of the Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.06(c), or if the Borrower fails to borrow, convert or prepay any Euro-Dollar Loan after notice has been given in accordance with the provisions of this Agreement, or in the event of payment in respect of any Euro-Dollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.08(b), the Borrower shall reimburse each Lender within fifteen (15) days after demand for any resulting loss or expense incurred by it (and by an existing Participant in the related Loan), including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or failure to borrow or prepay; provided, that such Lender shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.13. Computation of Interest and Fees. Interest on Loans based on the Prime Rate hereunder and Letter of Credit Fees shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed. All other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.14. Basis for Determining Interest Rate Inadequate, Unfair or Unavailable. If on or prior to the first day of any Interest Period for any Euro-Dollar Loan: (a) Lenders having 50% or more of the aggregate amount of the Commitments advise the Administrative Agent that the Adjusted London Interbank Offered Rate as determined by the Administrative Agent, will not adequately and fairly reflect the cost to such Lenders of funding their Euro-Dollar Loans for such Interest Period; or (b) the Administrative Agent shall determine that no reasonable means exists for determining the Adjusted London Interbank Offered Rate, the Administrative Agent shall forthwith give notice thereof to the Borrower and the Lenders, whereupon, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Lenders to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans shall be suspended; and (ii) each outstanding Euro-Dollar Loan shall be converted into a Base Rate Loan on the last day of the current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at least two (2) Domestic Business Days before the date of (or, if at the time the Borrower receives such notice the day is the date of, or the date immediately preceding, the date of such Euro-Dollar Borrowing, by 10:00 A.M. on the date of) any Euro-Dollar Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 2.15. Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Lender (or its

Euro-Dollar Lending Office) to make, maintain or fund its Euro-Dollar Loans and such Lender shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Borrower, whereupon until such Lender notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans, shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Lender shall designate a different Euro-Dollar Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. If such notice is given, each Euro-Dollar Loan of such Lender then outstanding shall be converted to a Base Rate Loan either (i) on the last day of the then current Interest Period applicable to such Euro-Dollar Loan if such Lender may lawfully continue to maintain and fund such Loan to such day or (ii) immediately if such Lender shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

#### Section 2.16. Increased Cost and Reduced Return.

(a) Increased Costs. If after the Effective Date, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance assessment or similar requirement against Letters of Credit issued or participated in by, assets of, deposits with or for the account of or credit extended by, any Lender (or its Applicable Lending Office) or shall impose on any Lender (or its Applicable Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Euro-Dollar Loans, Notes, obligation to make Euro-Dollar Loans or obligations hereunder in respect of Letters of Credit, and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making or maintaining any Euro-Dollar Loan, or of issuing or participating in any Letter of Credit, or to reduce the amount of any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement or under its Notes with respect thereto, then, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts, as determined by such Lender in good faith, as will compensate such Lender for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(b) Capital Adequacy. If any Lender shall have determined that, after the Effective Date, the adoption of any applicable law, rule or regulation regarding capital adequacy or liquidity, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Lender (or any Person controlling such Lender) as a consequence of such Lender's obligations hereunder to a level below that which such Lender (or any Person controlling such Lender) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy), then from time to time, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender (or any Person controlling such Lender) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(c) Notices. Each Lender will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the Effective Date, that will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

(d) Notwithstanding anything to the contrary herein, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "change in law" under this Article II regardless of the date enacted, adopted or issued.

#### Section 2.17. Taxes.

(a) Payments Net of Certain Taxes. Any and all payments by the Borrower to or for the account of any Lender or any Agent hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income (including branch profits or similar taxes) of, and gross receipts, franchise or similar taxes imposed on, any Agent or any Lender by the jurisdiction (or subdivision thereof) under the laws of which such Lender or Agent is organized or in which its principal executive office is located or, in the case of each Lender, in which its Applicable Lending Office is located, (ii) in the case of each Lender, any United States withholding tax imposed on such payments, but only to the extent that such Lender is subject to United States withholding tax at the time such Lender first becomes a party to this Agreement or changes its Applicable Lending Office, (iii) any backup withholding tax imposed by the United States (or any state or locality thereof) on a Lender or Administrative Agent that is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code, and (iv) any taxes imposed by FATCA (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender or any Agent, (i) the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this Section 2.17(a)) such Lender or Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower shall furnish to the Administrative Agent, for delivery to such Lender, the original or a certified copy of a receipt

evidencing payment thereof.

(b) Other Taxes. In addition, the Borrower agrees to pay any and all present or future stamp or court or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement, any Note or any other Loan Document or from the execution, delivery, performance, registration or enforcement of, or otherwise with respect to, this Agreement, any Note or any other Loan Document (collectively, "Other Taxes").

(c) Indemnification. The Borrower agrees to indemnify each Lender and each Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 2.17(c)), whether or not correctly or legally asserted, paid by such Lender or Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Borrower by each Lender or Agent seeking indemnification pursuant to this Section 2.17(c). This indemnification shall be paid within 15 days after such Lender or Agent (as the case may be) makes demand therefor.

(d) Refunds or Credits. If a Lender or Agent receives a refund, credit or other reduction from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.17, it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund, credit or other reduction to the Borrower (but only to the extent of indemnity payments made or additional amounts paid by the Borrower under this Section 2.17 with respect to the Taxes or Other Taxes giving rise to such refund, credit or other reduction), net of all reasonable out-of-pocket expenses of such Lender or Agent (as the case may be) and without interest (other than interest paid by the relevant taxation authority with respect to such refund, credit or other reduction); provided, however, that the Borrower agrees to repay, upon the request of such Lender or Agent (as the case may be), the amount paid over to the Borrower (plus penalties, interest or other charges) to such Lender or Agent in the event such Lender or Agent is required to repay such refund or credit to such taxation authority.

(e) Tax Forms and Certificates. On or before the date it becomes a party to this Agreement, from time to time thereafter if reasonably requested by the Borrower or the Administrative Agent, and at any time it changes its Applicable Lending Office: (i) each Lender that is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Administrative Agent two (2) properly completed and duly executed copies of Internal Revenue Service Form W-9, or any successor form prescribed by the Internal Revenue Service, or such other documentation or information prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, as the case may be, certifying that such Lender is a United States person and is entitled to an exemption from United States backup withholding tax or information reporting requirements; and (ii) each Lender that is not a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code (a "Non-U.S. Lender") shall deliver to the Borrower and the Administrative Agent: (A) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, certifying that such Non-U.S. Lender is entitled to the benefits under an income tax treaty to which the United States is a party which exempts the Non-U.S. Lender from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Non-U.S. Lender; (B) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 ECI, or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable pursuant to this Agreement and the other Loan Documents is effectively connected with the conduct of a trade or business in the United States; or (C) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, together with a certificate to the effect that (x) such Non-U.S. Lender is not (1) a "bank" within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (2) a "10-percent shareholder" of the Borrower within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or (3) a "controlled foreign corporation" that is described in Section 881(c)(3)(C) of the Internal Revenue Code and is related to the Borrower within the meaning of Section 864(d)(4) of the Internal Revenue Code and (y) the interest payments in question are not effectively connected with a U.S. trade or business conducted by such Non-U.S. Lender or are effectively connected but are not includible in the Non-U.S. Lender's gross income for United States federal income tax purposes under an income tax treaty to which the United States is a party; or (D) to the extent the Non-U.S. Lender is not the beneficial owner, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 IMY, or any successor form prescribed by the Internal Revenue Service, accompanied by an Internal Revenue Service Form W-8 ECI, W-8 BEN, W-9, and/or other certification documents from each beneficial owner, as applicable. If a payment made to a Lender under any Loan Document would be subject to U.S. Federal withholding tax imposed by FATCA if such Lender fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (e), "FATCA" shall include any amendments made to FATCA after the date of this Agreement. In addition, each Lender agrees that from time to time after the Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to the Borrower and the Administrative Agent two new accurate and complete signed originals of Internal Revenue Service Form W-9, W-8 BEN, W-8 ECI or W-8 IMY or FATCA-related documentation described above, or successor forms, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any other Loan Document, or it shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such Form or certificate.

(f) Exclusions. The Borrower shall not be required to indemnify any Non-U.S. Lender, or to pay any additional amount to any Non-U.S. Lender, pursuant to Section 2.17(a), (b) or (c) in respect of Taxes or Other Taxes to the extent that the obligation to indemnify or pay such additional amounts would not have arisen but for the failure of such Non-U.S. Lender to comply with the provisions of subsection (e) above.

(g) Mitigation. If the Borrower is required to pay additional amounts to or for the account of any Lender pursuant to this Section 2.17, then such Lender will use reasonable efforts (which shall include efforts to rebook the Revolving Loans held by such Lender to a new Applicable Lending Office, or through another branch or affiliate of such Lender) to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of such Lender, such efforts (i) will eliminate or, if it is not possible to eliminate, reduce to the greatest extent possible any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous, in the sole determination of such Lender, to such Lender. Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section shall use reasonable efforts (consistent with legal and regulatory restrictions) to deliver to

Borrower any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole determination of such Lender, be otherwise disadvantageous to such Lender.

(h) Confidentiality. Nothing contained in this Section shall require any Lender or any Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

Section 2.18. Base Rate Loans Substituted for Affected Euro-Dollar Loans. If (a) the obligation of any Lender to make or maintain, or to convert outstanding Loans to, Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (b) any Lender has demanded compensation under Section 2.16(a) with respect to its Euro-Dollar Loans and, in any such case, the Borrower shall, by at least four Business Days' prior notice to such Lender through the Administrative Agent, have elected that the provisions of this Section shall apply to such Lender, then, unless and until such Lender notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(i) all Loans which would otherwise be made by such Lender as (or continued as or converted into) Euro-Dollar Loans shall instead be Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Lenders); and

(ii) after each of its Euro-Dollar Loans has been repaid, all payments of principal that would otherwise be applied to repay such Loans shall instead be applied to repay its Base Rate Loans.

If such Lender notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Base Rate Loan shall be converted into a Euro-Dollar Loan on the first day of the next succeeding Interest Period applicable to the related Euro-Dollar Loans of the other Lenders.

Section 2.19. [Reserved.]

Section 2.20. Defaulting Lenders.

(a) Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(i) fees shall cease to accrue on the unfunded portion of the Commitment of such Defaulting Lender pursuant to Section 2.07(a);

(ii) with respect to any Letter of Credit Liabilities or Swingline Exposure of such Defaulting Lender that exists at the time a Lender becomes a Defaulting Lender or thereafter:

(A) all or any part of such Defaulting Lender's Letter of Credit Liabilities and its Swingline Exposure shall be reallocated among the Non-Defaulting Lenders in accordance with their respective Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment) but only to the extent that (x) the conditions set forth in Section 4.02 are satisfied at such time and (y) such reallocation does not cause the Revolving Outstandings of any Non-Defaulting Lender to exceed such Non-Defaulting Lender's Commitment;

(B) if the reallocation described in clause (ii)(A) above cannot, or can only partially, be effected, each Issuing Lender and the Swingline Lender, in its discretion may require the Borrower to (i) reimburse all amounts paid by an Issuing Lender upon any drawing under a Letter of Credit, (ii) repay an outstanding Swingline Loan, and/or (iii) cash collateralize (in accordance with Section 2.09(a)(ii)) all obligations of such Defaulting Lender in respect of outstanding Letters of Credit and Swingline Loans, in each case, in an amount at least equal to the aggregate amount of the obligations (contingent or otherwise) of such Defaulting Lender in respect of such Letters of Credit or Swingline Loans (after giving effect to any partial reallocation pursuant to Section 2.20(a)(ii)(A) above);

(iii) if the Borrower cash collateralizes any portion of such Defaulting Lender's pursuant to Section 2.20(a)(ii)(B) then the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities during the period such Defaulting Lender's Letter of Credit Liabilities are cash collateralized;

(iv) if the Letter of Credit Liabilities and/or Swingline Exposure of the Non-Defaulting Lenders is reallocated pursuant to Section 2.20(a)(ii)(A) above, then the fees payable to the Lenders pursuant to Section 2.07(a) and Section 2.07(b) shall be adjusted in accordance with such Non-Defaulting Lenders' Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment); and

(v) if any Defaulting Lender's Letter of Credit Liabilities and/or Swingline Exposure is neither reimbursed, repaid, cash collateralized nor reallocated pursuant to this Section 2.20(a)(ii), then, without prejudice to any rights or remedies of the Issuing Lenders, the Swingline Lender or any other Lender hereunder, all fees that otherwise would have been payable to such Defaulting Lender (solely with respect to the portion of such Defaulting Lender's Commitment that was utilized by such Letter of Credit Liabilities and/or Swingline Exposure) and letter of credit fees payable under Section 2.07(b) with respect to such Defaulting Lender's Letter of Credit Liabilities shall be payable to the Issuing Lenders and the Swingline Lender, pro rata, until such Letter of Credit Liabilities and/or Swingline Exposure is cash collateralized, reallocated and/or repaid in full.

(b) So long as any Lender is a Defaulting Lender, (i) no Issuing Lender shall be required to issue, amend or increase any Letter of Credit, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders and/or cash collateral will be provided by the Borrower in accordance with Section 2.20(a), and participating interests in any such newly issued or increased Letter of Credit shall be allocated among

Non-Defaulting Lenders in a manner consistent with Section 3.05 (and Defaulting Lenders shall not participate therein) and (ii) the Swingline Lender shall not be required to advance any Swingline Loan, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders.

### ARTICLE III LETTERS OF CREDIT

Section 3.01. Issuing Lenders. Subject to the terms and conditions hereof, the Borrower may from time to time identify and arrange for one or more of the Lenders (in addition to the JLA Issuing Banks) to act as Issuing Lenders hereunder. Any such designation by the Borrower shall be notified to the Administrative Agent at least four Business Days prior to the first date upon which the Borrower proposes that such Issuing Lender issue its first Letter of Credit, so as to provide adequate time for such proposed Issuing Lender to be approved by the Administrative Agent hereunder (such approval not to be unreasonably withheld). Within two Business Days following the receipt of any such designation of a proposed Issuing Lender, the Administrative Agent shall notify the Borrower as to whether such designee is acceptable to the Administrative Agent. Nothing contained herein shall be deemed to require any Lender (other than a JLA Issuing Bank) to agree to act as an Issuing Lender, if it does not so desire.

#### Section 3.02. Letters of Credit.

(a) Letters of Credit. Each Issuing Lender agrees, on the terms and conditions set forth in this Agreement, to issue Letters of Credit from time to time before the fifth day prior to the Termination Date, for the account, and upon the request, of the Borrower and in support of such obligations of the Borrower or any of its Subsidiaries that are reasonably acceptable to such Issuing Lender; provided, that immediately after each Letter of Credit is issued, (A) the aggregate outstanding amount of Letter of Credit Liabilities shall not exceed \$250,000,000, (B) the aggregate Revolving Outstandings shall not exceed the aggregate amount of the Commitments and (C) the aggregate fronting exposure of any Issuing Lender shall not exceed its Fronting Sublimit.

Section 3.03. Method of Issuance of Letters of Credit. The Borrower shall give an Issuing Lender notice substantially in the form of Exhibit A-3 to this Agreement (a "Letter of Credit Request") of the requested issuance or extension of a Letter of Credit prior to 1:00 P.M. (Charlotte, North Carolina time) on the proposed date of the issuance or extension of Letters of Credit (which shall be a Business Day) (or such shorter period as may be agreed by such Issuing Lender in any particular instance), specifying the date such Letter of Credit is to be issued or extended and describing the terms of such Letter of Credit and the nature of the transactions to be supported thereby. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit, and if any Letter of Credit contains a provision pursuant to which it is deemed to be extended unless notice of termination is given by an Issuing Lender, such Issuing Lender shall timely give such notice of termination unless it has theretofore timely received a Letter of Credit Request and the other conditions to issuance of a Letter of Credit have theretofore been met with respect to such extension. No Letter of Credit shall have a term of more than one year, provided, that no Letter of Credit shall have a term extending or be so extendible beyond the fifth Business Day before the Termination Date.

Section 3.04. Conditions to Issuance of Letters of Credit. The issuance by an Issuing Lender of each Letter of Credit shall, in addition to the conditions precedent set forth in Article IV, be subject to the conditions precedent that (i) such Letter of Credit shall be satisfactory in form and substance to such Issuing Lender, (ii) the Borrower and, if applicable, any such Affiliate of the Borrower, shall have executed and delivered such other instruments and agreements relating to such Letter of Credit as such Issuing Lender shall have reasonably requested and (iii) such Issuing Lender shall have confirmed on the date of (and after giving effect to) such issuance that (A) the aggregate outstanding amount of Letter of Credit Liabilities shall not exceed \$250,000,000, (B) the aggregate Revolving Outstandings will not exceed the aggregate amount of the Commitments and (C) the aggregate fronting exposure of any Issuing Lender shall not exceed the Fronting Sublimit. Notwithstanding any other provision of this Section 3.04, no Issuing Lender shall be under any obligation to issue any Letter of Credit if: any order, judgment or decree of any governmental authority shall by its terms purport to enjoin or restrain such Issuing Lender from issuing such Letter of Credit, or any requirement of law applicable to such Issuing Lender or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over such Issuing Lender shall prohibit, or request that such Issuing Lender refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such Issuing Lender with respect to such Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Lender is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon such Issuing Lender any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which such Issuing Lender in good faith deems material to it.

Section 3.05. Purchase and Sale of Letter of Credit Participations. Upon the issuance by an Issuing Lender of a Letter of Credit, such Issuing Lender shall be deemed, without further action by any party hereto, to have sold to each Lender, and each Lender shall be deemed, without further action by any party hereto, to have purchased from such Issuing Lender, without recourse or warranty, an undivided participation interest in such Letter of Credit and the related Letter of Credit Liabilities in accordance with its respective Commitment Ratio (although the Fronting Fee payable under Section 2.07(b) shall be payable directly to the Administrative Agent for the account of the applicable Issuing Lender, and the Lenders (other than such Issuing Lender) shall have no right to receive any portion of any such Fronting Fee) and any security therefor or guaranty pertaining thereto.

Section 3.06. Drawings under Letters of Credit. Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the applicable Issuing Lender shall determine in accordance with the terms of such Letter of Credit whether such drawing should be honored. If such Issuing Lender determines that any such drawing shall be honored, such Issuing Lender shall make available to such beneficiary in accordance with the terms of such Letter of Credit the amount of the drawing and shall notify the Borrower as to the amount to be paid as a result of such drawing and the payment date.

Section 3.07. Reimbursement Obligations. The Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse the applicable Issuing Lender for any amounts paid by such Issuing Lender upon any drawing under any Letter of Credit, together with any and all reasonable charges and expenses which such Issuing Lender may pay or incur relative to such drawing and interest on the amount drawn at the rate applicable to Base Rate Loans for each day from and including the date such amount is drawn to but excluding the date such reimbursement payment is due and payable. Such reimbursement payment shall be due and payable (i) at or before 1:00 P.M. (Charlotte, North Carolina time) on the date the applicable Issuing Lender notifies the Borrower of such drawing, if such notice is given at or before 10:00 A.M. (Charlotte, North Carolina time) on such date or (ii) at or before 10:00 A.M. (Charlotte, North Carolina time) on the next succeeding Business Day; provided, that no payment otherwise required by this sentence to be made by the Borrower at or before

1:00 P.M. (Charlotte, North Carolina time) on any day shall be overdue hereunder if arrangements for such payment satisfactory to the applicable Issuing Lender, in its reasonable discretion, shall have been made by the Borrower at or before 1:00 P.M. (Charlotte, North Carolina time) on such day and such payment is actually made at or before 3:00 P.M. (Charlotte, North Carolina time) on such day. In addition, the Borrower agrees to pay to the applicable Issuing Lender interest, payable on demand, on any and all amounts not paid by the Borrower to such Issuing Lender when due under this Section 3.07, for each day from and including the date when such amount becomes due to but excluding the date such amount is paid in full, whether before or after judgment, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day. Each payment to be made by the Borrower pursuant to this Section 3.07 shall be made to the applicable Issuing Lender in Federal or other funds immediately available to it at its address referred to Section 9.01.

**Section 3.08. Duties of Issuing Lenders to Lenders; Reliance.** In determining whether to pay under any Letter of Credit, the relevant Issuing Lender shall not have any obligation relative to the Lenders participating in such Letter of Credit or the related Letter of Credit Liabilities other than to determine that any document or documents required to be delivered under such Letter of Credit have been delivered and that they substantially comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by an Issuing Lender under or in connection with any Letter of Credit shall not create for such Issuing Lender any resulting liability if taken or omitted in the absence of gross negligence or willful misconduct. Each Issuing Lender shall be entitled (but not obligated) to rely, and shall be fully protected in relying, on the representation and warranty by the Borrower set forth in the last sentence of Section 4.02 to establish whether the conditions specified in clauses (b) and (c) of Section 4.02 are met in connection with any issuance or extension of a Letter of Credit. Each Issuing Lender shall be entitled to rely, and shall be fully protected in relying, upon advice and statements of legal counsel, independent accountants and other experts selected by such Issuing Lender and upon any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, teletypewriter, telex or teletype message, statement, order or other document believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary unless the beneficiary and the Borrower shall have notified such Issuing Lender that such documents do not comply with the terms and conditions of the Letter of Credit. Each Issuing Lender shall be fully justified in refusing to take any action requested of it under this Section in respect of any Letter of Credit unless it shall first have received such advice or concurrence of the Required Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take, or omitting or continuing to omit, any such action. Notwithstanding any other provision of this Section, each Issuing Lender shall in all cases be fully protected in acting, or in refraining from acting, under this Section in respect of any Letter of Credit in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant hereto shall be binding upon all Lenders and all future holders of participations in such Letter of Credit; provided, that this sentence shall not affect any rights the Borrower may have against any Issuing Lender or the Lenders that make such request.

**Section 3.09. Obligations of Lenders to Reimburse Issuing Lender for Unpaid Drawings.** If any Issuing Lender makes any payment under any Letter of Credit and the Borrower shall not have reimbursed such amount in full to such Issuing Lender pursuant to Section 3.07, such Issuing Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Lender (other than the relevant Issuing Lender), and each such Lender shall promptly and unconditionally pay to the Administrative Agent, for the account of such Issuing Lender, such Lender's share of such payment (determined in accordance with its respective Commitment Ratio) in Dollars in Federal or other immediately available funds, the aggregate of such payments relating to each unreimbursed amount being referred to herein as a "Mandatory Letter of Credit Borrowing"; provided, however, that no Lender shall be obligated to pay to the Administrative Agent its pro rata share of such unreimbursed amount for any wrongful payment made by the relevant Issuing Lender under a Letter of Credit as a result of acts or omissions constituting willful misconduct or gross negligence by such Issuing Lender. If the Administrative Agent so notifies a Lender prior to 11:00 A.M. (Charlotte, North Carolina time) on any Business Day, such Lender shall make available to the Administrative Agent at its address referred to in Section 9.01 and for the account of the relevant Issuing Lender such Lender's pro rata share of the amount of such payment by 3:00 P.M. (Charlotte, North Carolina time) on the Business Day following such Lender's receipt of notice from the Administrative Agent, together with interest on such amount for each day from and including the date of such drawing to but excluding the day such payment is due from such Lender at the Federal Funds Rate for such day (which funds the Administrative Agent shall promptly remit to such Issuing Lender). The failure of any Lender to make available to the Administrative Agent for the account of an Issuing Lender its pro rata share of any unreimbursed drawing under any Letter of Credit shall not relieve any other Lender of its obligation hereunder to make available to the Administrative Agent for the account of such Issuing Lender its pro rata share of any payment made under any Letter of Credit on the date required, as specified above, but no such Lender shall be responsible for the failure of any other Lender to make available to the Administrative Agent for the account of such Issuing Lender such other Lender's pro rata share of any such payment. Upon payment in full of all amounts payable by a Lender under this Section 3.09, such Lender shall be subrogated to the rights of the relevant Issuing Lender against the Borrower to the extent of such Lender's pro rata share of the related Letter of Credit Liabilities (including interest accrued thereon). If any Lender fails to pay any amount required to be paid by it pursuant to this Section 3.09 on the date on which such payment is due, interest shall accrue on such Lender's obligation to make such payment, for each day from and including the date such payment became due to but excluding the date such Lender makes such payment, whether before or after judgment, at a rate per annum equal to (i) for each day from the date such payment is due to the third succeeding Business Day, inclusive, the Federal Funds Rate for such day as determined by the relevant Issuing Lender and (ii) for each day thereafter, the sum of 2% plus the rate applicable to its Base Rate Loans for such day. Any payment made by any Lender after 3:00 P.M. (Charlotte, North Carolina time) on any Business Day shall be deemed for purposes of the preceding sentence to have been made on the next succeeding Business Day.

**Section 3.10. Funds Received from the Borrower in Respect of Drawn Letters of Credit.** Whenever an Issuing Lender receives a payment of a Reimbursement Obligation as to which the Administrative Agent has received for the account of such Issuing Lender any payments from the other Lenders pursuant to Section 3.09 above, such Issuing Lender shall pay the amount of such payment to the Administrative Agent, and the Administrative Agent shall promptly pay to each Lender which has paid its pro rata share thereof, in Dollars in Federal or other immediately available funds, an amount equal to such Lender's pro rata share of the principal amount thereof and interest thereon for each day after relevant date of payment at the Federal Funds Rate.

**Section 3.11. Obligations in Respect of Letters of Credit Unconditional.** The obligations of the Borrower under Section 3.07 above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

- (a) any lack of validity or enforceability of this Agreement or any Letter of Credit or any document related hereto or thereto;
- (b) any amendment or waiver of or any consent to departure from all or any of the provisions of this Agreement or any Letter of Credit or

any document related hereto or thereto;

(c) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);

(d) the existence of any claim, set-off, defense or other rights that the Borrower may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), any Issuing Lender or any other Person, whether in connection with this Agreement or any Letter of Credit or any document related hereto or thereto or any unrelated transaction;

(e) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(f) payment under a Letter of Credit against presentation to an Issuing Lender of a draft or certificate that does not comply with the terms of such Letter of Credit; provided, that the relevant Issuing Lender's determination that documents presented under such Letter of Credit comply with the terms thereof shall not have constituted gross negligence or willful misconduct of such Issuing Lender; or

(g) any other act or omission to act or delay of any kind by any Issuing Lender or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (g), constitute a legal or equitable discharge of the Borrower's obligations hereunder.

Nothing in this Section 3.11 is intended to limit the right of the Borrower to make a claim against any Issuing Lender for damages as contemplated by the proviso to the first sentence of Section 3.12.

Section 3.12. Indemnification in Respect of Letters of Credit. The Borrower hereby indemnifies and holds harmless each Lender (including each Issuing Lender) and the Administrative Agent from and against any and all claims, damages, losses, liabilities, costs or expenses which such Lender or the Administrative Agent may incur by reason of or in connection with the failure of any other Lender to fulfill or comply with its obligations to such Issuing Lender hereunder (but nothing herein contained shall affect any rights which the Borrower may have against such defaulting Lender), and none of the Lenders (including any Issuing Lender) nor the Administrative Agent, their respective affiliates nor any of their respective officers, directors, employees or agents shall be liable or responsible, by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit, including, without limitation, any of the circumstances enumerated in Section 3.11, as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any error in interpretation of technical terms, (iii) any loss or delay in the transmission of any document required in order to make a drawing under a Letter of Credit, (iv) any consequences arising from causes beyond the control of such indemnitee, including without limitation, any government acts, or (v) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit; provided, that the Borrower shall not be required to indemnify any Issuing Lender for any claims, damages, losses, liabilities, costs or expenses, and the Borrower shall have a claim against such Issuing Lender for direct (but not consequential) damages suffered by it, to the extent found by a court of competent jurisdiction in a final, non-appealable judgment or order to have been caused by (i) the willful misconduct or gross negligence of such Issuing Lender in determining whether a request presented under any Letter of Credit issued by it complied with the terms of such Letter of Credit or (ii) such Issuing Lender's failure to pay under any Letter of Credit issued by it after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit. Nothing in this Section 3.12 is intended to limit the obligations of the Borrower under any other provision of this Agreement.

Section 3.13. ISP98. The rules of the "International Standby Practices 1998" as published by the International Chamber of Commerce most recently at the time of issuance of any Letter of Credit shall apply to such Letter of Credit unless otherwise expressly provided in such Letter of Credit.

## ARTICLE IV CONDITIONS

Section 4.01. Conditions to Closing. The obligation of each Lender to make a Loan or issue a Letter of Credit on the occasion of the first Credit Event hereunder is subject to the satisfaction of the following conditions:

(a) This Agreement. The Administrative Agent shall have received counterparts hereof signed by each of the parties hereto or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex, facsimile or other written confirmation from such party of execution of a counterpart hereof by such party) to be held in escrow and to be delivered to the Borrower upon satisfaction of the other conditions set forth in this Section 4.01.

(b) Notes. On or prior to the Effective Date, the Administrative Agent shall have received a duly executed Note for the account of each Lender requesting delivery of a Note pursuant to Section 2.05.

(c) Officers' Certificates. The Administrative Agent shall have received a certificate dated the Effective Date signed on behalf of the Borrower by the Chairman of the Board, the President, any Vice President, the Treasurer or any Assistant Treasurer of the Borrower stating that (A) on the Effective Date and after giving effect to the Loans and Letters of Credit being made or issued on the Effective Date, no Default shall have occurred and be continuing and (B) the representations and warranties of the Borrower contained in the Loan Documents are true and correct on and as of the Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date.

(d) Proceedings. On the Effective Date, the Administrative Agent shall have received (i) a certificate of the Secretary of State of the Commonwealth of Kentucky, dated as of a recent date, as to the good standing of the Borrower and (ii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Effective Date and certifying (A) that attached thereto is a true, correct and complete copy of (x) the Borrower's articles of incorporation certified by the Secretary of State of the Commonwealth of Kentucky and (y) the bylaws of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party and each other

document delivered in connection herewith or therewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing the Loan Documents to which the Borrower is a party or any other document delivered in connection herewith or therewith.

(e) Opinions of Counsel. On the Effective Date, the Administrative Agent shall have received from counsel to the Borrower, opinions addressed to the Administrative Agent and each Lender, dated the Effective Date, substantially in the form of Exhibit D hereto.

(f) Consents. All necessary governmental (domestic or foreign), regulatory and third party approvals, including, without limitation, the order of the KPSC (the "KPSC Order") and any required approvals of the FERC, authorizing borrowings hereunder in connection with the transactions contemplated by this Agreement and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of such transactions.

(g) Payment of Fees. All costs, fees and expenses due to the Administrative Agent, the Joint Lead Arrangers and the Lenders accrued through the Effective Date (including Commitment Fees and Letter of Credit Fees) shall have been paid in full.

(h) Counsel Fees. The Administrative Agent shall have received full payment from the Borrower of the fees and expenses of Davis Polk & Wardwell LLP described in Section 9.03 which are billed through the Effective Date and which have been invoiced one Business Day prior to the Effective Date.

(i) Amendment Fee. The Borrower shall have paid to the Administrative Agent for the account of each Lender a non-refundable and fully earned fee (the "Amendment Fee") as set forth in the Fee Letter on or before the Effective Date.

Section 4.02. Conditions to All Credit Events. The obligation of any Lender to make any Loan, and the obligation of any Issuing Lender to issue (or renew or extend the term of) any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.03, or receipt by an Issuing Lender of a Letter of Credit Request as required by Section 3.03;

(b) the fact that, immediately before and after giving effect to such Credit Event, no Default shall have occurred and be continuing; and

(c) the fact that the representations and warranties of the Borrower contained in this Agreement and the other Loan Documents shall be true and correct on and as of the date of such Credit Event, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations in Section 5.04(c), Section 5.05 and Section 5.13, which shall be deemed only to relate to the matters referred to therein on and as of the Effective Date.

Each Credit Event under this Agreement shall be deemed to be a representation and warranty by the Borrower on the date of such Credit Event as to the facts specified in clauses (b) and (c) of this Section.

## ARTICLE V REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

Section 5.01. Status. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Kentucky and has the corporate authority to make and perform this Agreement and each other Loan Document to which it is a party.

Section 5.02. Authority; No Conflict. The execution, delivery and performance by the Borrower of this Agreement and each other Loan Document to which it is a party have been duly authorized by all necessary corporate action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its articles of incorporation or bylaws, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which the Borrower is a party.

Section 5.03. Legality; Etc. This Agreement and each other Loan Document (other than the Notes) to which the Borrower is a party constitute the legal, valid and binding obligations of the Borrower, and the Notes, when executed and delivered in accordance with this Agreement, will constitute legal, valid and binding obligations of the Borrower, in each case enforceable against the Borrower in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

Section 5.04. Financial Condition.

(a) Audited Financial Statements. The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 2011 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by PricewaterhouseCoopers LLP, copies of which have been delivered to each of the Administrative Agent and the Lenders, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) Interim Financial Statements. The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of June 30, 2012 and the related unaudited consolidated statements of income and cash flows for the six months then ended fairly present, in conformity with GAAP



applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such six-month period (subject to normal year-end audit adjustments).

(c) Material Adverse Change. Since December 31, 2011 there has been no change in the business, assets, financial condition or operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Borrower's ability to perform any of its obligations under this Agreement, the Notes or the other Loan Documents.

Section 5.05. Litigation. Except as disclosed in or contemplated by the financial statements referenced in Sections 5.04(a) and 5.05(b) above, or in any subsequent report of the Borrower filed with the SEC on Form 10-K, 10-Q or 8-K, or otherwise furnished in writing to the Administrative Agent and each Lender, no litigation, arbitration or administrative proceeding against the Borrower is pending or, to the Borrower's knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of the Borrower to perform any of its obligations under this Agreement, the Notes or the other Loan Documents. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of the Borrower, threatened which questions the validity of this Agreement or the other Loan Documents to which it is a party.

Section 5.06. No Violation. No part of the proceeds of the borrowings by hereunder will be used, directly or indirectly by the Borrower for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulations U or X of said Board of Governors. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock".

Section 5.07. ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 5.08. Governmental Approvals. No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Borrower of this Agreement, the Notes and the other Loan Documents to which it is a party and except such authorizations, consents and approvals, including, without limitation, the KPSC Order, as shall have been obtained prior to the Effective Date and shall be in full force and effect.

Section 5.09. Investment Company Act. The Borrower is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 5.10. Tax Returns and Payments. The Borrower has filed or caused to be filed all Federal, state, local and foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which the Borrower shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

Section 5.11. Compliance with Laws. To the knowledge of the Borrower, the Borrower is in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance would not reasonably be expected to materially and adversely affect its ability to perform any of its obligations under this Agreement, the Notes or any other Loan Document to which it is a party.

Section 5.12. No Default. No Default has occurred and is continuing.

Section 5.13. Environmental Matters.

(a) Except (i) as disclosed in or contemplated by the financial statements referenced in Sections 5.04(a) and 5.04(b) above, or in any subsequent report of the Borrower filed with the SEC on Form 10-K, 10-Q or 8-K, or otherwise furnished in writing to the Administrative Agent and each Lender, or (ii) to the extent that the liabilities of the Borrower and its Subsidiaries, taken as a whole, that relate to or could reasonably be expected to result from the matters referred to in clauses (i) through (iii) of this Section 5.13(a), inclusive, would not reasonably be expected to result in a Material Adverse Effect:

(i) no notice, notification, citation, summons, complaint or order has been received by the Borrower or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Borrower's or any of its Subsidiaries' knowledge, threatened by any governmental or other entity with respect to any (A) alleged violation by or liability of the Borrower or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Borrower or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;

(ii) to the Borrower's or any of its Subsidiaries' knowledge, no Hazardous Substance has been released (and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, on or under any property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries; and

(iii) no property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries or, to the

Borrower's or any of its Subsidiaries' knowledge, any property to which the Borrower or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Borrower's or any of its Subsidiaries' knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

(b) Except as disclosed in or contemplated by the financial statements referenced in Sections 5.04(a) and 5.04(b) above, or in any subsequent report of the Borrower filed with the SEC on Form 10-K, 10-Q or 8-K, or otherwise furnished in writing to the Administrative Agent and each Lender, to the Borrower's or any of its Subsidiaries' knowledge, there are no Environmental Liabilities that have resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) For purposes of this Section 5.13, the terms "the Borrower" and "Subsidiary" shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Borrower or any of its Subsidiaries from the time such business or business entity became a Subsidiary of PPL Corporation, a Pennsylvania corporation.

Section 5.14. OFAC. None of the Borrower, any Subsidiary of the Borrower or any Affiliate of the Borrower: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Entities, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Entities. The proceeds of any Loan will not be used and have not been used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Entity.

## ARTICLE VI COVENANTS

The Borrower agrees that so long as any Lender has any Commitment hereunder or any amount payable hereunder or under any Note or other Loan Document remains unpaid or any Letter of Credit Liability remains outstanding:

Section 6.01. Information. The Borrower will deliver or cause to be delivered to each of the Lenders (it being understood that the posting of the information required in clauses (a), (b) and (f) of this Section 6.01 on the Borrower's website or PPL Corporation's website (<http://www.pplweb.com>) or making such information available on IntraLinks, Syndtrak (or similar service) shall be deemed to be effective delivery to the Lenders):

(a) Annual Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within one hundred and five (105) days after the end of each fiscal year of the Borrower), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year and accompanied by an opinion thereon by independent public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of the date of such financial statements and the results of their operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis.

(b) Quarterly Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within sixty (60) days after the end of each quarterly fiscal period in each fiscal year of the Borrower (other than the last quarterly fiscal period of the Borrower)), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such fiscal quarter, all certified (subject to normal year-end audit adjustments) as to fairness of presentation, GAAP and consistency by any vice president, the treasurer or the controller of the Borrower.

(c) Officer's Certificate. Simultaneously with the delivery of each set of financial statements referred to in subsections (a) and (b) above, a certificate of the chief accounting officer or controller of the Borrower, (i) setting forth in reasonable detail the calculations required to establish compliance with the requirements of Section 6.09 on the date of such financial statements and (ii) stating whether there exists on the date of such certificate any Default and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(d) Default. Forthwith upon acquiring knowledge of the occurrence of any (i) Default or (ii) Event of Default, in either case a certificate of a vice president or the treasurer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(e) Change in Borrower's Ratings. Promptly, upon the chief executive officer, the president, any vice president or any senior financial officer of the Borrower obtaining knowledge of any change in a Borrower's Rating, a notice of such Borrower's Rating in effect after giving effect to such change.

(f) Securities Laws Filing. To the extent the Borrower is a Public Reporting Company, promptly, when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a copy of any Form 10-K Report to the SEC and a copy of any Form 10-Q Report to the SEC, and promptly upon the filing thereof, any other filings with the SEC.

(g) ERISA Matters. If and when any member of the ERISA Group: (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives, with respect to any Material Plan that is a Multiemployer Plan, notice of any complete or partial withdrawal liability under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than

for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Material Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code with respect to a Material Plan, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA; or (vii) fails to make any payment or contribution to any Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a copy of such notice, a certificate of the chief accounting officer or controller of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take.

(h) Other Information. From time to time such additional financial or other information regarding the financial condition, results of operations, properties, assets or business of the Borrower or any of its Subsidiaries as any Lender may reasonably request.

The Borrower hereby acknowledges that (a) the Administrative Agent will make available to the Lenders and each Issuing Lender materials and/or information provided by or on behalf of the Borrower hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks or another similar electronic system (the "Platform") and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a "Public Lender"). The Borrower hereby agrees that it will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all such Borrower Materials shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," the Borrower shall be deemed to have authorized the Administrative Agent, the Issuing Lenders and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Borrower or its securities for purposes of United States Federal and state securities laws ( provided, however, that to the extent such Borrower Materials constitute Information (as defined below), they shall be treated as set forth in Section 9.12); (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor;" and (z) the Administrative Agent shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting (subject to Section 9.12) on a portion of the Platform not designated "Public Investor." "Information" means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or any Issuing Lender on a nonconfidential basis prior to disclosure by the Borrower or any of its Subsidiaries; provided that, in the case of information received from the Borrower or any of its Subsidiaries after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

#### Section 6.02. Maintenance of Property; Insurance.

(a) Maintenance of Properties. The Borrower will keep all property useful and necessary in its businesses in good working order and condition, subject to ordinary wear and tear, unless the Borrower determines in good faith that the continued maintenance of any of such properties is no longer economically desirable and so long as the failure to so maintain such properties would not reasonably be expected to have a Material Adverse Effect.

(b) Insurance. The Borrower will maintain, or cause to be maintained, insurance with financially sound (determined in the reasonable judgment of the Borrower) and responsible companies in such amounts (and with such risk retentions) and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which the Borrower operates.

Section 6.03. Conduct of Business and Maintenance of Existence. The Borrower will (i) continue to engage in businesses of the same general type as now conducted by the Borrower and its Subsidiaries and businesses related thereto or arising out of such businesses, except to the extent that the failure to maintain any existing business would not have a Material Adverse Effect and (ii) except as otherwise permitted in Section 6.07, preserve, renew and keep in full force and effect, and will cause each of its Subsidiaries to preserve, renew and keep in full force and effect, their respective corporate (or other entity) existence and their respective rights, privileges and franchises necessary or material to the normal conduct of business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.04. Compliance with Laws, Etc. The Borrower will comply with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance could not reasonably be expected to have a Material Adverse Effect.

Section 6.05. Books and Records. The Borrower (i) will keep, and will cause each of its Subsidiaries to keep, proper books of record and account in conformity with GAAP and (ii) will permit representatives of the Administrative Agent and each of the Lenders to visit and inspect any of their respective properties, to examine and make copies from any of their respective books and records and to discuss their respective affairs, finances and accounts with their officers, any employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired; provided, that, the rights created in this Section 6.05 to "visit", "inspect", "discuss" and copy shall not extend to any matters which the Borrower deems, in good faith, to be confidential, unless the Administrative Agent and any such Lender agree in writing to keep such matters confidential.

Section 6.06. Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower to repay loans under the Existing Credit Agreement on the Effective Date and for general corporate purposes of the Borrower and its Subsidiaries, including for working capital purposes and for making investments in or loans to Subsidiaries. The Borrower will request the issuance of Letters of Credit solely for general corporate purposes of the Borrower and its Subsidiaries including to support issuances of tax-exempt pollution control bonds issued on behalf of the Borrower and/or its Subsidiaries. No such use of the proceeds for general corporate purposes will be, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock within the meaning of Regulation U.

Section 6.07. Merger or Consolidation. The Borrower will not merge with or into or consolidate with or into any other corporation or entity, unless (i)

immediately after giving effect thereto, no event shall occur and be continuing which constitutes a Default, (ii) the surviving or resulting Person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of the Borrower under this Agreement, (iii) substantially all of the consolidated assets and consolidated revenues of the surviving or resulting Person, as the case may be, are anticipated to come from the utility or energy businesses and (iv) the senior long-term debt ratings from both Rating Agencies of the surviving or resulting Person, as the case may be, immediately following the merger or consolidation is equal to or greater than the senior long-term debt ratings from both Rating Agencies of the Borrower immediately preceding the announcement of such consolidation or merger.

Section 6.08. Asset Sales. Except for the sale of assets required to be sold to conform with governmental requirements, the Borrower shall not consummate any Asset Sale, if the aggregate net book value of all such Asset Sales consummated during the four calendar quarters immediately preceding any date of determination would exceed 25% of the total assets of the Borrower and its Consolidated Subsidiaries as of the beginning of the Borrower's most recently ended full fiscal quarter; provided, however, that any such Asset Sale will be disregarded for purposes of the 25% limitation specified above: (a) if any such Asset Sale is in the ordinary course of business of the Borrower (b) if the assets subject to any such Asset Sale are worn out or are no longer useful or necessary in connection with the operation of the businesses of the Borrower; (c) if the assets subject to any such Asset Sale are being transferred to a Wholly Owned Subsidiary of the Borrower; (d) if the proceeds from any such Asset Sale (i) are, within twelve (12) months of such Asset Sale, invested or reinvested by the Borrower in a Permitted Business, (ii) are used by the Borrower to repay Debt of the Borrower, or (iii) are retained by the Borrower; or (e) if, prior to any such Asset Sale, both Rating Agencies confirm the then-current Borrower Ratings after giving effect to any such Asset Sale.

Section 6.09. Consolidated Debt to Consolidated Capitalization Ratio. The ratio of Consolidated Debt of the Borrower to Consolidated Capitalization of the Borrower shall not exceed 70%, measured as of the end of each fiscal quarter.

## ARTICLE VII DEFAULTS

Section 7.01. Events of Default. If one or more of the following events (each an "Event of Default") shall have occurred and be continuing:

- (a) the Borrower shall fail to pay when due any principal on any Loans or Reimbursement Obligations; or
- (b) the Borrower shall fail to pay when due any interest on the Loans 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 hereunder; or
- (c) the Borrower shall fail to observe or perform any covenant or agreement contained in clause (ii) of Section 6.05, or Sections 6.06, 6.07, 6.08 or 6.09; or
- (d) the Borrower shall fail to observe or perform any covenant or agreement contained in Section 6.01(d)(i) for 30 days after any such failure or in Section 6.01(d)(ii) for ten (10) days after any such failure; or
- (e) the Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement or any other Loan Document (other than those covered by clauses (a), (b), (c) or (d) 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
- (f) any representation, warranty or certification made by the Borrower in this 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
- (g) the Borrower 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
- (h) the Borrower 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
- (i) an involuntary case or other proceeding shall be commenced against the Borrower 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 Borrower under the Bankruptcy Code; or
- (j) 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

(k) the Borrower 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 Borrower that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(l) a Change of Control shall have occurred;

then, and in every such event, while such event is continuing, the Administrative Agent may (A) if requested by the Required Lenders, by notice to the Borrower terminate the Commitments, and the Commitments shall thereupon terminate, and (B) if requested by the Lenders holding more than 50% of the sum of the aggregate outstanding principal amount of the Loans and Letter of Credit Liabilities at such time, by notice to the Borrower declare the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Loans and Letter of Credit Liabilities shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind (except as set forth in clause (A) above), all of which are hereby waived by the Borrower and require the Borrower to, and the Borrower shall, cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding; provided, that, in the case of any Default or any Event of Default specified in clause 7.01(h) or 7.01(i) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or any Lender, the Commitments shall thereupon terminate and the Loans and Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, and the Borrower shall cash collateralize (in accordance with Section 2.09(a)(ii)) all Letter of Credit Liabilities then outstanding.

## ARTICLE VIII THE AGENTS

Section 8.01. Appointment and Authorization. Each Lender hereby irrevocably designates and appoints the Administrative Agent to act as specified herein and in the other Loan Documents and to take such actions on its behalf under the provisions of this Agreement and the other Loan Documents and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent agrees to act as such upon the express conditions contained in this Article VIII. Notwithstanding any provision to the contrary elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent. The provisions of this Article VIII are solely for the benefit of the Administrative Agent and Lenders, and no other Person shall have any rights as a third party beneficiary of any of the provisions hereof. For the sake of clarity, the Lenders hereby agree that no Agent other than the Administrative Agent shall have, in such capacity, any duties or powers with respect to this Agreement or the other Loan Documents.

Section 8.02. Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower and its Affiliates as though the Administrative Agent were not an Agent. With respect to the Loans made by it and all obligations owing to it, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not an Agent, and the terms "Required Lenders", "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

Section 8.03. Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents or attorneys-in-fact. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care except to the extent otherwise required by Section 8.07.

Section 8.04. Reliance by the Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy or other electronic facsimile transmission, telex, telegram, cable, teletype, electronic transmission by modem, computer disk or any other message, statement, order or other writing or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders, or all of the Lenders, if applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders or all of the Lenders, if applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

Section 8.05. Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default hereunder unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default and stating that such notice is a "notice of default". If the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders.

Section 8.06. Non-Reliance on the Agents and Other Lenders. Each Lender expressly acknowledges that no Agent or officer, director, employee, agent, attorney-in-fact or affiliate of any Agent has made any representations or warranties to it and that no act by any Agent hereafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by such Agent to any Lender. Each Lender acknowledges to the Agents that it has, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and to enter into this Agreement. Each Lender also acknowledges

that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower. No Agent shall have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, assets, property, financial and other condition, prospects or creditworthiness of the Borrower which may come into the possession of such Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

**Section 8.07. Exculpatory Provisions.** The Administrative Agent shall not, and no officers, directors, employees, agents, attorneys-in-fact or affiliates of the Administrative Agent, shall (i) be liable for any action lawfully taken or omitted to be taken by it under or in connection with this Agreement or any other Loan Document (except for its own gross negligence, willful misconduct or bad faith) or (ii) be responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any of its officers contained in this Agreement, in any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for any failure of the Borrower or any of its officers to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower. The Administrative Agent shall not be responsible to any Lender for the effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any other Loan Document or for any representations, warranties, recitals or statements made by any other Person herein or therein or made by any other Person in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders or by or on behalf of the Borrower to the Administrative Agent or any Lender or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the Loans or of the existence or possible existence of any Default.

**Section 8.08. Indemnification.** To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Sections 9.03(a), (b) or (c) to be paid by it to the Administrative Agent (or any sub-agent thereof), the Lenders severally agree to indemnify the Administrative Agent, in its capacity as such, and hold the Administrative Agent, in its capacity as such, harmless ratably according to their respective Commitments from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and reasonable expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the full payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against the Administrative Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Document, or any documents contemplated hereby or referred to herein or the transactions contemplated hereby or any action taken or omitted to be taken by the Administrative Agent under or in connection with any of the foregoing, but only to the extent that any of the foregoing is not paid by the Borrower; provided, that no Lender shall be liable to the Administrative Agent for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs or expenses or disbursements resulting from the gross negligence, willful misconduct or bad faith of the Administrative Agent. If any indemnity furnished to the Administrative Agent for any purpose shall, in the reasonable opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished. The agreement in this Section 8.08 shall survive the payment of all Loans, Letter of Credit Liabilities, fees and other obligations of the Borrower arising hereunder.

**Section 8.09. Resignation; Successors.** The Administrative Agent may resign as Administrative Agent upon twenty (20) days notice to the Lenders. Upon the resignation of the Administrative Agent, the Required Lenders shall have the right to appoint from among the Lenders a successor to the Administrative Agent, subject to prior approval by the Borrower (so long as no Event of Default exists) (such approval not to be unreasonably withheld), whereupon such successor Administrative Agent shall succeed to and become vested with all the rights, powers and duties of the retiring Administrative Agent, and the term "Administrative Agent" shall include such successor Administrative Agent effective upon its appointment, and the retiring Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any other Loan Document. If no successor shall have been appointed by the Required Lenders and approved by the Borrower and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may at its election give notice to the Lenders and the Borrower of the immediate effectiveness of its resignation and such resignation shall thereupon become effective and the Lenders collectively shall perform all of the duties of the Administrative Agent hereunder and under the other Loan Documents until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After the retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement or any other Loan Document.

**Section 8.10. Administrative Agent's Fees.** The Borrower shall pay to the Administrative Agent for its own account fees in the amount and at the times agreed to and accepted by the Borrower pursuant to the Fee Letter.

## ARTICLE IX MISCELLANEOUS

**Section 9.01. Notices.** Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing (for purposes hereof, the term "writing" shall include information in electronic format such as electronic mail and internet web pages) or by telephone subsequently confirmed in writing; provided that the foregoing shall not apply to notices to any Lender, the Swingline Lender or Issuing Lender pursuant to Article II or Article III, as applicable, if such Lender, Swingline Lender or Issuing Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article in electronic format. Any notice shall have been duly given and shall be effective if delivered by hand delivery or sent via electronic mail, teletype, recognized overnight courier service or certified or registered mail, return receipt requested, or posting on an internet web page, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by electronic mail, posting on an internet web page, or teletype, (ii) on the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iii) on the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or teletype numbers, in the case of the Borrower and the Administrative Agent, set forth below, and, in the case of the Lenders, set forth on signature pages hereto, or at such other address as such party may specify by written notice to the other parties hereto:

if to the Borrower:

Louisville Gas and Electric Company  
220 West Main Street  
Louisville, Kentucky 40202  
Attention: Treasurer  
Telephone: 502-627-4956  
Facsimile: 502-627-4742

with copies to:

Louisville Gas and Electric Company  
220 West Main Street  
Louisville, Kentucky 40202  
Attention: General Counsel  
Telephone: 502-627-3450

Facsimile: 502-627-3367

PPL Services Corporation  
Two North Ninth Street (GENTW4)  
Allentown, Pennsylvania 18101-1179  
Attention: Frederick C. Paine, Esq.  
Telephone: 610-774-7445  
Facsimile: 610-774-6726

PPL Services Corporation  
Two North Ninth Street (GENTW14)  
Allentown, Pennsylvania 18101-1179  
Attention: Russell R. Clelland  
Telephone: 610-774-5151  
Facsimile: 610-774-5235

if to the Administrative Agent:

Wells Fargo Bank, National Association  
1525 West W.T. Harris Boulevard  
Mail Code: MAC D1 109-019  
Charlotte, NC 28262  
Attention: Syndication Agency Services  
Telephone: 704.590.2706  
Telecopier: 704.590.2790  
Electronic Mail: [agencyervices.requests@wellsfargo.com](mailto:agencyervices.requests@wellsfargo.com)

with a copy to:

Wells Fargo Bank, National Association  
90 S 7th Street, MAC: N9305-070  
Minneapolis, MN 55402  
Attention: Keith Luettel  
Telephone: 612-667-4747  
Facsimile: 602-316-0506

with a copy to:

Davis Polk & Wardwell LLP  
450 Lexington Avenue  
New York, New York 10017  
Attention: Jason Kyrwood  
Telephone : 212-450-4653  
Facsimile: 212-450-5653

Section 9.02. No Waivers; Non-Exclusive Remedies. No failure by any Agent or any Lender to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any Note or other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and in the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03. Expenses; Indemnification.

(a) Expenses. The Borrower shall pay (i) all out-of-pocket expenses of the Agents, including legal fees and disbursements of Davis Polk & Wardwell LLP and any other local counsel retained by the Administrative Agent, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of the Loan Documents, the syndication efforts of the Agents with respect thereto, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) all reasonable out-of-pocket expenses incurred by the Agents and each Lender, including (without duplication) the fees and disbursements of outside counsel, in connection with any restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings in connection with the enforcement and protection of its rights; provided, that the Borrower shall not be liable for any legal fees or disbursements of any counsel for the Agents and the Lenders other than Davis Polk & Wardwell LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) Indemnity in Respect of Loan Documents. The Borrower agrees to indemnify the Agents and each Lender, their respective Affiliates and the respective directors, officers, trustees, agents, employees, trustees and advisors of the foregoing (each an “Indemnitee”) and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, the reasonable fees and disbursements of counsel and any civil penalties or fines assessed by OFAC), which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened (by any third party, by the Borrower or any Subsidiary of the Borrower) in any way relating to or arising out of this Agreement, any other Loan Document or any documents contemplated hereby or referred to herein or any actual or proposed use of proceeds of Loans hereunder; provided, that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee’s own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) Indemnity in Respect of Environmental Liabilities. The Borrower agrees to indemnify each Indemnitee and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in respect of or in connection with any actual or alleged presence or release of Hazardous Substances on or from any property now or previously owned or operated by the Borrower or any of its Subsidiaries or any predecessor of the Borrower or any of its Subsidiaries, or any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Borrower hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses and disbursements in respect of or in connection with Environmental Liabilities that it might have by statute or otherwise against any Indemnitee.

(d) Waiver of Damages. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in clause (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby; provided that nothing in this Section 9.03(d) shall relieve any Lender from its obligations under Section 9.12.

Section 9.04. Sharing of Set-Offs. Each Lender agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Loan made or Note held by it and any Letter of Credit Liabilities which is greater than the proportion received by any other Lender in respect of the aggregate amount of principal and interest due with respect to any Loan, Note and Letter of Credit Liabilities made or held by such other Lender, the Lender receiving such proportionately greater payment shall purchase such participations in the Loan made or Notes and Letter of Credit Liabilities held by the other Lenders, and such other adjustments shall be made, in each case as may be required so that all such payments of principal and interest with respect to the Loan made or Notes and Letter of Credit Liabilities made or held by the Lenders shall be shared by the Lenders pro rata; provided, that nothing in this Section shall impair the right of any Lender to exercise any right of set-off or counterclaim it may have for payment of indebtedness of the Borrower other than its indebtedness hereunder.

Section 9.05. Amendments and Waivers. Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Lenders (and, if the rights or duties of the Administrative Agent, Swingline Lender or any Issuing Lenders are affected thereby, by the Administrative Agent, Swingline Lender or such Issuing Lender, as relevant); provided, that no such amendment or waiver shall, (a) unless signed by each Lender adversely affected thereby, (i) increase the Commitment of any Lender or subject any Lender to any additional obligation (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or of mandatory reductions in the Commitments shall not constitute an increase of the Commitment of any Lender, and that an increase in the available portion of any Commitment of any Lender as in effect at any time shall not constitute an increase in such Commitment), (ii) reduce the principal of or rate of interest on any Loan (except in connection with a waiver of applicability of any post-default increase in interest rates) or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder, (iii) postpone the date fixed for any payment of interest on any Loan or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder or for any scheduled reduction or termination of any Commitment or (except as expressly provided in Article III) expiration date of any Letter of Credit, (iv) postpone or change the date fixed for any scheduled payment of principal of any Loan, (v) change any provision hereof in a manner that would alter the pro rata funding of Loans required by Section 2.04(b), the pro rata sharing of payments required by Sections 2.11(a), 2.09(b) or 9.04 or the pro rata reduction of Commitments required by Section 2.08(a) or (vi) change the currency in which Loans are to be made, Letters of Credit are to be issued or payment under the Loan Documents is to be made, or add additional borrowers or (b) unless signed by each Lender, change the definition of Required Lender or this Section 9.05 or Section 9.06(a).

#### Section 9.06. Successors and Assigns.

(a) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and



their respective successors and assigns, except that the Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all of the Lenders, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement.

(b) Participations. Any Lender may at any time grant to one or more banks or other financial institutions or special purpose funding vehicle (each a "Participant") participating interests in its Commitments and/or any or all of its Loans and Letter of Credit Liabilities. In the event of any such grant by a Lender of a participating interest to a Participant, whether or not upon notice to the Borrower and the Administrative Agent, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrower, the Issuing Lenders, Swingline Lender and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided, that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement which would (i) extend the Termination Date, reduce the rate or extend the time of payment of principal, interest or fees on any Loan or Letter of Credit Liability in which such Participant is participating (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the Participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default or of a mandatory reduction in the Commitments shall not constitute a change in the terms of such participation, and that an increase in any Commitment or Loan or Letter of Credit Liability shall be permitted without the consent of any Participant if the Participant's participation is not increased as a result thereof) or (ii) allow the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, without the consent of the Participant, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article II with respect to its participating interest to the same extent as if it were a Lender, subject to the same limitations, and in no case shall any Participant be entitled to receive any amount payable pursuant to Article II that is greater than the amount the Lender granting such Participant's participating interest would have been entitled to receive had such Lender not sold such participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b). Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register (solely for tax purposes) on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"). The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(c) Assignments Generally. Any Lender may at any time assign to one or more Eligible Assignees (each, an "Assignee") all, or a proportionate part (equivalent to an initial amount of not less than \$5,000,000 or any larger integral multiple of \$1,000,000), of its rights and obligations under this Agreement and the Notes with respect to its Loans and, if still in existence, its Commitment, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit C attached hereto executed by such Assignee and such transferor, with (and subject to) the consent of the Borrower, which shall not be unreasonably withheld or delayed, the Administrative Agent, Swingline Lender and the Issuing Lenders, which consent shall not be unreasonably withheld or delayed; provided, that if an Assignee is an Affiliate of such transferor Lender or was a Lender immediately prior to such assignment, no such consent of the Borrower or the Administrative Agent shall be required; provided, further, that if at the time of such assignment a Default or an Event of Default has occurred and is continuing, no such consent of the Borrower shall be required; provided, further, that no such assignment may be made prior to the Effective Date without the prior written consent of the Joint Lead Arrangers; provided, further, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a transferor with respect to any Loans made, any Letters of Credit issued or any other actions taken by such transferor while it was a Lender. Upon execution and delivery of such instrument and payment by such Assignee to such transferor of an amount equal to the purchase price agreed between such transferor and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender with a Commitment, if any, as set forth in such instrument of assumption, and the transferor shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this subsection (c), the transferor, the Administrative Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to the Assignee. In connection with any such assignment, the transferor shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$3,500; provided that the Administrative Agent may, in its sole discretion, elect to waive such administrative fee in the case of any assignment. Each Assignee shall, on or before the effective date of such assignment, deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States Taxes in accordance with Section 2.17(e).

(d) Assignments to Federal Reserve Banks. Any Lender may at any time assign all or any portion of its rights under this Agreement and its Note to a Federal Reserve Bank. No such assignment shall release the transferor Lender from its obligations hereunder.

(e) Register. The Borrower hereby designates the Administrative Agent to serve as the Borrower's agent, solely for purposes of this Section 9.06(e), to (i) maintain a register (the "Register") on which the Administrative Agent will record the Commitments from time to time of each Lender, the Loans made by each Lender and each repayment in respect of the principal amount of the Loans of each Lender and to (ii) retain a copy of each Assignment and Assumption Agreement delivered to the Administrative Agent pursuant to this Section. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower's obligation in respect of such Loans. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent, Swingline Lender, the Issuing Lenders and the other Lenders shall treat each Person in whose name a Loan and the Note evidencing the same is registered as the owner thereof for all purposes of this Agreement, notwithstanding notice or any provision herein to the contrary. With respect to any Lender, the assignment or other transfer of the Commitments of such Lender and the rights to the principal of, and interest on, any Loan made and any Note issued pursuant to this Agreement shall not be effective until such assignment or other transfer is recorded on the Register and, except to the extent provided in this subsection 9.06(e), otherwise complies with Section 9.06, and prior to such recordation all amounts owing to the transferring Lender with respect to such Commitments, Loans and Notes shall remain owing to the transferring Lender. The registration of assignment or other transfer of all or part of any Commitments, Loans and Notes for a Lender shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement and payment of the administrative fee referred to in Section 9.06(c). The Register shall be available for inspection by each of the Borrower, the Swingline Lender and each Issuing Lender at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to

the Loan Documents is pending, any Lender wishing to consult with other Lenders in connection therewith may request and receive from the Administrative Agent a copy of the Register. The Borrower may not replace any Lender pursuant to Section 2.08(b), unless, with respect to any Notes held by such Lender, the requirements of subsection 9.06(c) and this subsection 9.06(e) have been satisfied.

Section 9.07. Governing Law; Submission to Jurisdiction. This Agreement and each Note shall be governed by and construed in accordance with the internal laws of the State of New York. The Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such court and any claim that any such proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.08. Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Effective Date. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. On and after the Effective Date, this Agreement, the other Loan Documents and the Fee Letter constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 9.09. Generally Accepted Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries most recently delivered to the Lenders; provided, that, if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article VI to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Article VI for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Lenders.

Section 9.10. Usage. The following rules of construction and usage shall be applicable to this Agreement and to any instrument or agreement that is governed by or referred to in this Agreement.

(a) All terms defined in this Agreement shall have the defined meanings when used in any instrument governed hereby or referred to herein and in any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein.

(b) The words "hereof", "herein", "hereunder" and words of similar import when used in this Agreement or in any instrument or agreement governed here shall be construed to refer to this Agreement or such instrument or agreement, as applicable, in its entirety and not to any particular provision or subdivision hereof or thereof.

(c) References in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, this Agreement unless the context otherwise requires; references in any instrument or agreement governed by or referred to in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, such instrument or agreement unless the context otherwise requires.

(d) The definitions contained in this Agreement shall apply equally to the singular and plural forms of such terms. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The word "will" shall be construed to have the same meaning as the word "shall". The term "including" shall be construed to have the same meaning as the phrase "including without limitation".

(e) Unless the context otherwise requires, any definition of or reference to any agreement, instrument, statute or document contained in this Agreement or in any agreement or instrument that is governed by or referred to in this Agreement shall be construed (i) as referring to such agreement, instrument, statute or document as the same may be amended, supplemented or otherwise modified from time to time (subject to any restrictions on such amendments, supplements or modifications set forth in this Agreement or in any agreement or instrument governed by or referred to in this Agreement), including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and (ii) to include (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. Any reference to any Person shall be construed to include such Person's successors and permitted assigns.

(f) Unless the context otherwise requires, whenever any statement is qualified by "to the best knowledge of" or "known to" (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

Section 9.11. WAIVER OF JURY TRIAL. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.12. Confidentiality. Each Lender agrees to hold all non-public information obtained pursuant to the requirements of this Agreement in accordance with its customary procedure for handling confidential information of this nature and in accordance with safe and sound banking practices; provided, that nothing herein shall prevent any Lender from disclosing such information (i) to any other Lender or to any Agent, (ii) to any other Person if reasonably incidental to the administration of the Loans and Letter of Credit Liabilities, (iii) upon the order of any court or administrative agency, (iv) to the extent requested by, or required to be disclosed to, any rating agency or regulatory agency or similar authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (v) which had been publicly disclosed other than as a result of a disclosure by any Agent or any

Lender prohibited by this Agreement, (vi) in connection with any litigation to which any Agent, any Lender or any of their respective Subsidiaries or Affiliates may be party, (vii) to the extent necessary in connection with the exercise of any remedy hereunder, (viii) to such Lender's or Agent's Affiliates and their respective directors, officers, employees and agents including legal counsel and independent auditors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (ix) with the consent of the Borrower, (x) to Gold Sheets and other similar bank trade publications, such information to consist solely of deal terms and other information customarily found in such publications and (xi) subject to provisions substantially similar to those contained in this Section, to any actual or proposed Participant or Assignee or to any actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Borrower's Obligations hereunder. Notwithstanding the foregoing, any Agent, any Lender or Davis Polk & Wardwell LLP may circulate promotional materials and place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web, in each case, after the closing of the transactions contemplated by this Agreement in the form of a "tombstone" or other release limited to describing the names of the Borrower or its Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense.

Section 9.13. USA PATRIOT Act Notice. Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub.L. 107-56 (signed into law October 26, 2001)) (the "Patriot Act"), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Patriot Act.

Section 9.14. No Fiduciary Duty. Each Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph, the "Lender Parties"), may have economic interests that conflict with those of the Borrower, its Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the "Borrower Parties"). The Borrower agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty (other than any implied duty of good faith) between any Lender Party, on the one hand, and any Borrower Party, on the other. The Lender Parties acknowledge and agree that (a) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm's-length commercial transactions between the Lender Parties, on the one hand, and the Borrower, on the other and (b) in connection therewith and with the process leading thereto, (i) no Lender Party has assumed an advisory or fiduciary responsibility in favor of any Borrower Party with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender Party has advised, is currently advising or will advise any Borrower Party on other matters) or any other obligation to any Borrower Party except the obligations expressly set forth in the Loan Documents and (ii) each Lender Party is acting solely as principal and not as the agent or fiduciary of any Borrower Party. The Borrower acknowledges and agrees that the Borrower has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Lender Party has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to any Borrower Party, in connection with such transaction or the process leading thereto.

Section 9.15. Amendment and Restatement of Existing Credit Agreement. Upon the execution and delivery of this Agreement, the Existing Credit Agreement shall be amended and restated to read in its entirety as set forth herein. With effect from and including the Effective Date, (i) the Commitments of each Lender party hereto (the "Extending Lenders") shall be as set forth on the Commitment Appendix (and any Lender under the Existing Credit Agreement that is not listed on the Commitment Appendix shall cease to be a Lender hereunder; provided that, for the avoidance of doubt, such Lender under the Existing Credit Agreement shall continue to be entitled to the benefits of Section 9.03 of the Existing Credit Agreement), (ii) the Commitment Ratio of the Extending Lenders shall be redetermined based on the Commitments set forth in the Commitment Appendix and the participations of the Extending Lenders in, and the obligations of the Extending Lenders in respect of, any Letters of Credit or Swingline Loans outstanding on the Effective Date shall be reallocated to reflect such redetermined Commitment Ratio and (iii) each JLA Issuing Bank shall have the Fronting Sublimit set forth in the JLA L/C Fronting Sublimits Appendix.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Daniel K. Arbough

Name: Daniel K. Arbough

Title: Treasurer

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WELLS FARGO BANK, NATIONAL  
as Administrative Agent, Issuing  
Lender, Swingline Lender and Lender

By: /s/ Keith Luettel  
Name: Keith Luettel  
Title: Vice President

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BANK OF AMERICA, N.A., as Issuing  
Lender and Lender

By: /s/ Mike Mason

Name: Mike Mason

Title: Director

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THE ROYAL BANK OF SCOTLAND  
PLC, as Issuing Lender and Lender

By: /s/ Tyler J. McCarthy  
Name: Tyler J McCarthy  
Title: Director

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BARCLAYS BANK PLC, as Issuing  
Lender and Lender

By: /s/ Ronnie Glenn  
Name: Ronnie Glenn  
Title: Vice President

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THE BANK OF NOVA SCOTIA, as  
Issuing Lender and Lender

By: /s/ Thane Rattew  
Name: Thane Rattew  
Title: Managing Director

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THE BANK OF TOKYO-MITSUBISHI UFJ, INC.  
as Issuing Lender and Lender

By: /s/ Alan Reiter

Name: Alan Reiter

Title: Vice President

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UNION BANK, N.A., as a Lender

By: /s/ Carmelo Restifo

Name: Carmelo Restifo

Title: Director

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BNP PARIBAS, as a Lender

By: /s/ Denis O'Meara

Name: Denis O'Meara

Title: Managing Director

BNP PARIBAS, as a Lender

By: /s/ Pasquale A. Perraglia IV

Name: Pasquale A. Perraglia IV

Title: Vice President

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CITIBANK, N.A., as a Lender

By: /s/ Amit Vasani

Name: Amit Vasani

Title: Vice President

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CREDIT SUISSE AG, CAYMAN ISLANDS  
BRANCH, as a Lender

By: /s/ Christopher Reo Day

Name: Christopher Reo Day

Title: Vice President

By: /s/ Vipul Dhadda

Name: Vipul Dhadda

Title: Associate

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GOLDMAN SACHS BANK USA, as a Lender

By: /s/ Mark Walton

Name: Mark Walton

Title: Authorized Signatory

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J.P. MORGAN CHASE BANK, N.A., as a Lender

By: /s/ Juan Javellana

Name: Juan Javellana

Title: Executive Director

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MORGAN STANLEY BANK, N.A., as a Lender

By: /s/ Kelly Chin

Name: Kelly Chin

Title: Authorized Signatory

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ROYAL BANK OF CANADA, as a Lender

By: /s/ Frank Lambrinos

Name: Frank Lambrinos

Title: Authorized Signatory

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UBS LOAN FINANCE LLC, as a Lender

By: /s/ Irja R. Otsa  
Name: Irja R. Otsa  
Title: Associate Director

UBS LOAN FINANCE LLC, as a Lender

By: /s/ David Urban  
Name: David Urban  
Title: Associate Director

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CREDIT AGRICOLE CORPORATE AND  
INVESTMENT BANK, as a Lender

By: /s/ Dixon Schultz

Name: Dixon Schultz

Title: Managing Director

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By: /s/ Sharada Manne

Name: Sharada Manne

Title: Managing Director

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KEYBANK NATIONAL ASSOCIATION, as a Lender

By: /s/ Craig A. Hanselman

Name: Craig A. Hanselman

Title: Vice President

---

LLOYDS TSB BANK PLC, as a Lender

By: /s/ Stephen Giacolone

Name: Stephen Giacolone

Title: Assistant Vice President –G011

LLOYDS TSB BANK PLC, as a Lender

By: /s/ Julia R. Franklin

Name: Julia R. Franklin

Title: Vice President –F014

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MIZUHO CORPORATE BANK, LTD., as a Lender

By: /s/ Leon Mo

Name: Leon Mo

Title: Authorized Signatory

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SUNTRUST BANK, as a Lender

By: /s/ Andrew Johnson

Name: Andrew Johnson

Title: Director

---



THE BANK OF NEW YORK MELLON, as a  
Lender

By: /s/ Mark W. Rogers  
Name: Mark W. Rogers  
Title: Vice President

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U.S. BANK NATIONAL ASSOCIATION, as a  
Lender

By: /s/ John M. Eyerman  
Name: John M. Eyerman  
Title: Vice President

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CANADIAN IMPERIAL BANK OF  
COMMERCE, New York Agency, as a Lender

By: /s/ Robert Casey

Name: Robert Casey

Title: Authorized Signatory

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By: /s/ Jonathan J. Kim

Name: Jonathan J. Kim

Title: Authorized Signatory

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COMPASS BANK, as a Lender

By: /s/ Susana Campuzano

Name: Susana Campuzano

Title: Senior Vice President

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PNC BANK, NATIONAL ASSOCIATION, as a  
Lender

By: /s/ Edward M. Tessalone

Name: Edward M. Tessalone

Title: Senior Vice President PNC Bank, N.A.

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SOVEREIGN BANK, N.A., as a Lender

By: /s/ William Maag  
Name: William Maag  
Title: Senior Vice President

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SUMITOMO MITSUI BANKING  
CORPORATION, as a Lender

By: /s/ Shugi Yabe  
Name: Shugi Yabe  
Title: Managing Director

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THE NORTHERN TRUST COMPANY, as a  
Lender

By: /s/ Daniel Boote  
Name: Daniel Boote  
Title: Senior Vice President

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## Commitment Appendix

Lender	Revolving Commitment
Wells Fargo Bank, National Association	\$25,714,285.70
Bank of America, N.A.	\$25,714,285.70
The Royal Bank of Scotland plc	\$25,714,285.70
Barclays Bank PLC	\$23,511,904.76
The Bank of Nova Scotia	\$23,511,904.76
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$11,755,952.38
Union Bank, N.A.	\$11,755,952.38
BNP Paribas	\$23,511,904.76
Citibank, N.A.	\$23,511,904.76
Credit Suisse AG, Cayman Islands Branch	\$23,511,904.76
Goldman Sachs Bank USA	\$23,511,904.76
JPMorgan Chase Bank, N.A.	\$23,511,904.76
Morgan Stanley Bank, N.A.	\$23,511,904.76
Royal Bank of Canada	\$23,511,904.76
UBS Loan Finance LLC	\$23,511,904.76
Credit Agricole Corporate & Investment Bank	\$16,785,714.29
KeyBank National Association	\$16,785,714.29
Lloyds Bank	\$16,785,714.29
Mizuho Corporate Bank, Ltd.	\$16,785,714.29
SunTrust Bank	\$16,785,714.29
The Bank of New York Mellon	\$16,785,714.29
U.S. Bank National Association	\$16,785,714.29
Canadian Imperial Bank of Commerce	\$8,154,761.91
Compass Bank	\$8,154,761.91
PNC Bank, National Association	\$8,154,761.91
Sovereign Bank, N.A.	\$8,154,761.91
Sumitomo Mitsui Banking Corporation	\$8,154,761.91
The Northern Trust Company	\$5,952,380.96
<b>Total</b>	<b>\$500,000,000.00</b>

### JLA L/C Fronting Sublimits Appendix

<b>Issuing Lender</b>	<b>L/C Fronting Sublimit</b>
Wells Fargo Bank, National Association	\$48,611,111.11
Bank of America, N.A.	\$48,611,111.11
The Royal Bank of Scotland plc	\$48,611,111.11
Barclays Bank PLC	\$34,722,222.22
The Bank of Nova Scotia	\$34,722,222.22
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$34,722,222.22
<b>Total</b>	<b>\$250,000,000.00</b>

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## Form of Notice of Borrowing

Wells Fargo Bank, National Association,  
 as Administrative Agent  
 1525 W WT Harris Boulevard  
 Charlotte, NC 28262  
 Attention: Syndication Agency Services

Ladies and Gentlemen:

This notice shall constitute a "Notice of Borrowing" pursuant to Section 2.03 of the \$500,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among Louisville Gas and Electric Company, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The date of the Borrowing will be \_\_\_\_\_, \_\_\_\_\_.<sup>1</sup>
2. The aggregate principal amount of the Borrowing will be \_\_\_\_\_.<sup>2</sup>
3. The Borrowing will consist of [Revolving] [Swingline] Loans.
4. The Borrowing will consist of [Base Rate] [Euro-Dollar] Loans.<sup>3</sup>
5. The initial Interest Period for the Loans comprising such Borrowing shall be \_\_\_\_\_.<sup>4</sup>

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[Insert appropriate delivery instructions, which shall include bank and account number ].

<sup>1</sup> Must be a Business Day.

<sup>2</sup> Revolving Borrowings must be an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000, except the Borrowing may be in the aggregate amount of the remaining unused Revolving Commitment. Swingline Borrowings must be an aggregate principal amount of \$2,000,000 or any larger integral multiple of \$500,000.

<sup>3</sup> Applicable for Revolving Loans only.

<sup>4</sup> Applicable for Euro-Dollar Loans only. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of "Interest Period").

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LOUISVILLE GAS AND ELECTRIC COMPANY

By: \_\_\_\_\_

Name:

Title:

\_\_\_\_\_

## Form of Notice of Conversion/Continuation

\_\_\_\_\_

Wells Fargo Bank, National Association,  
as Administrative Agent  
1525 W WT Harris Boulevard  
Charlotte, NC 28262  
Attention: Syndication Agency Services

Ladies and Gentlemen:

This notice shall constitute a "Notice of Conversion/Continuation" pursuant to Section 2.06(d)(ii) of the \$500,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among Louisville Gas and Electric Company, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The Group of Loans (or portion thereof) to which this notice applies is [all or a portion of all Base Rate Loans currently outstanding] [all or a portion of all Euro-Dollar Loans currently outstanding having an Interest Period of \_\_\_ months and ending on the Election Date specified below].
2. The date on which the conversion/continuation selected hereby is to be effective is \_\_\_\_\_, \_\_\_\_\_ (the "Election Date").<sup>5</sup>
3. The principal amount of the Group of Loans (or portion thereof) to which this notice applies is \$ \_\_\_\_\_.<sup>6</sup>
4. [The Group of Loans (or portion thereof) which are to be converted will bear interest based upon the [Base Rate] [Adjusted London Interbank Offered Rate].] [The Group of Loans (or portion thereof) which are to be continued will bear interest based upon the [Base Rate][Adjusted London Interbank Offered Rate].]
5. The Interest Period for such Loans will be \_\_\_\_\_.<sup>7</sup>

LOUISVILLE GAS AND ELECTRIC COMPANY

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<sup>5</sup> Must be a Business Day.

<sup>6</sup> May apply to a portion of the aggregate principal amount of the relevant Group of Loans; provided that (i) such portion is allocated ratably among the Loans comprising such Group and (ii) the portion to which such notice applies, and the remaining portion to which it does not apply, are each \$10,000,000 or any larger integral multiple of \$1,000,000.

<sup>7</sup> Applicable only in the case of a conversion to, or a continuation of, Euro-Dollar Loans. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of Interest Period).

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By: \_\_\_\_\_  
Name:  
Title:

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## Form of Letter of Credit Request

\_\_\_\_\_

[Insert details of Issuing Lender]

Ladies and Gentlemen:

This notice shall constitute a "Letter of Credit Request" pursuant to Section 3.03 of the \$500,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (the "Credit Agreement") among Louisville Gas and Electric Company, the lending institutions party thereto from time to time and Wells Fargo Bank, National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

The undersigned hereby requests that \_\_\_\_\_<sup>8</sup> issue a [Standby] Letter of Credit on \_\_\_\_\_, \_\_\_\_\_<sup>9</sup> in the aggregate amount of \$ \_\_\_\_\_. [This request is to extend a Letter of Credit previously issued under the Credit Agreement; Letter of Credit No. \_\_\_\_\_.]

The beneficiary of the requested Standby Letter of Credit will be \_\_\_\_\_<sup>10</sup>, and such Standby Letter of Credit will be in support of \_\_\_\_\_<sup>11</sup> and will have a stated termination date of \_\_\_\_\_<sup>12</sup>.

Copies of all documentation with respect to the supported transaction are attached hereto.

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<sup>8</sup> Insert name of Issuing Lender.

<sup>9</sup> Must be a Business Day.

<sup>10</sup> Insert name and address of beneficiary.

<sup>11</sup> Insert a description of the obligations, the name of each agreement and/or a description of the commercial transaction to which this Letter of Credit Request relates.

<sup>12</sup> Insert the last date upon which drafts may be presented (which may not be later than one year after the date of issuance specified above or beyond the fifth Business Day prior to the Termination Date).

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LOUISVILLE GAS AND ELECTRIC COMPANY

By: \_\_\_\_\_  
Name:  
Title:

APPROVED:

[ISSUING LENDER]

By: \_\_\_\_\_  
Name:  
Title:

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## Form of Note

FOR VALUE RECEIVED, the undersigned, LOUISVILLE GAS AND ELECTRIC COMPANY, a Kentucky corporation (the "Borrower"), promises to pay to the order of \_\_\_\_\_ (hereinafter, together with its successors and assigns, called the "Holder"), at the Administrative Agent's Office or such other place as the Holder may designate in writing to the Borrower, the principal sum of \_\_\_\_\_ AND \_\_\_\_\_/100s DOLLARS (\$ \_\_\_\_\_), or, if less, the principal amount of all Loans advanced by the Holder to the Borrower pursuant to the Credit Agreement (as defined below), plus interest as hereinafter provided. Such Loans may be endorsed from time to time on the grid attached hereto, but the failure to make such notations shall not affect the validity of the Borrower's obligation to repay unpaid principal and interest hereunder.

All capitalized terms used herein shall have the meanings ascribed to them in that certain \$500,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012 (as the same may be amended, modified or supplemented from time to time, the "Credit Agreement") by and among the Borrower, the lenders party thereto (collectively, the "Lenders") and Wells Fargo Bank, National Association, as administrative agent (the "Administrative Agent") for itself and on behalf of the Lenders and the Issuing Lenders, except to the extent such capitalized terms are otherwise defined or limited herein.

The Borrower shall repay principal outstanding hereunder from time to time, as necessary, in order to comply with the Credit Agreement. All amounts paid by the Borrower shall be applied to the Obligations in such order of application as provided in the Credit Agreement.

A final payment of all principal amounts and other Obligations then outstanding hereunder shall be due and payable on the maturity date provided in the Credit Agreement, or such earlier date as payment of the Loans shall be due, whether by acceleration or otherwise.

The Borrower shall be entitled to borrow, repay, reborrow, continue and convert the Holder's Loans (or portion thereof) hereunder pursuant to the terms and conditions of the Credit Agreement. Prepayment of the principal amount of any Loan may be made as provided in the Credit Agreement.

The Borrower hereby promises to pay interest on the unpaid principal amount hereof as provided in Article II of the Credit Agreement. Interest under this Note shall also be due and payable when this Note shall become due (whether at maturity, by reason of acceleration or otherwise). Overdue principal and, to the extent permitted by law, overdue interest, shall bear interest payable on DEMAND at the default rate as provided in the Credit Agreement.

In no event shall the amount of interest due or payable hereunder exceed the maximum rate of interest allowed by applicable law, and in the event any such payment is inadvertently made by the Borrower or inadvertently received by the Holder, then such excess sum shall be credited as a payment of principal, unless the Borrower shall notify the Holder in writing that it elects to have such excess sum returned forthwith. It is the express intent hereof that the Borrower not pay and the Holder not receive, directly or indirectly in any manner whatsoever, interest in excess of that which may legally be paid by the Borrower under applicable law.

All parties now or hereafter liable with respect to this Note, whether the Borrower, any guarantor, endorser or any other Person or entity, hereby waive presentment for payment, demand, notice of non-payment or dishonor, protest and notice of protest.

No delay or omission on the part of the Holder or any holder hereof in exercising its rights under this Note, or delay or omission on the part of the Holder, the Administrative Agent or the Lenders collectively, or any of them, in exercising its or their rights under the Credit Agreement or under any other Loan Document, or course of conduct relating thereto, shall operate as a waiver of such rights or any other right of the Holder or any holder hereof, nor shall any waiver by the Holder, the Administrative Agent, the Required Lenders or the Lenders collectively, or any of them, or any holder hereof, of any such right or rights on any one occasion be deemed a bar to, or waiver of, the same right or rights on any future occasion.

The Borrower promises to pay all reasonable costs of collection, including reasonable attorneys' fees, should this Note be collected by or through an attorney-at-law or under advice therefrom.

This Note evidences the Holder's Loans (or portion thereof) under, and is entitled to the benefits and subject to the terms of, the Credit Agreement, which contains provisions with respect to the acceleration of the maturity of this Note upon the happening of certain stated events, and provisions for prepayment.

This Note shall be governed by and construed in accordance with the internal laws of the State of New York.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned has caused this Note to be executed by its duly authorized representative as of the day and year first above written.

LOUISVILLE GAS AND ELECTRIC COMPANY

By: \_\_\_\_\_

Name:

Title:

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### Form of Assignment and Assumption Agreement

This Assignment and Assumption (the "Assignment and Assumption") is dated as of the Effective Date set forth below and is entered into by and between [the] [each]<sup>13</sup> Assignor identified on the Schedules hereto as "Assignor" [or "Assignors" (collectively, the "Assignors" and each an "Assignor") and [the] [each]<sup>14</sup> Assignee identified on the Schedules hereto as "Assignee" or "Assignees" (collectively, the "Assignees" and each an "Assignee"). [It is understood and agreed that the rights and obligations of [the Assignors] [the Assignees]<sup>15</sup> hereunder are several and not joint.]<sup>16</sup> Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the "Credit Agreement"), receipt of a copy of which is hereby acknowledged by [the] [each] Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, [the] [each] Assignor hereby irrevocably sells and assigns to [the Assignee] [the respective Assignees], and [the] [each] Assignee hereby irrevocably purchases and assumes from [the Assignor] [the respective Assignors], subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (a) all of [the Assignor's] [the respective Assignors'] rights and obligations in [its capacity as a Lender] [their respective capacities as Lenders] under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of [the Assignor] [the respective Assignors] under the respective facilities identified below (including without limitation any letters of credit, guarantees, and swingline loans included in such facilities) and (b) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of [the Assignor (in its capacity as a Lender)] [the respective Assignors (in their respective capacities as Lenders)] against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (a) above (the rights and obligations sold and assigned by [the] [any] Assignor to [the] [any] Assignee pursuant to clauses (a) and (b) above being referred to herein collectively as, the "Assigned Interest"). Each such sale and assignment is without recourse to [the] [any] Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by [the] [any] Assignor.

1. Assignor: *See Schedule attached hereto*
2. Assignee: *See Schedule attached hereto*
3. Borrower: Louisville Gas and Electric Company
4. Administrative Agent: Wells Fargo Bank, National Association, as the administrative agent under the Credit Agreement
5. Credit Agreement: The \$500,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012, by and among Louisville Gas and Electric Company, as Borrower, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent (as amended, restated, supplemented or otherwise modified)
6. Assigned Interest: *See Schedule attached hereto*
- [7. Trade Date: \_\_\_\_\_]<sup>1</sup>

<sup>13</sup> For bracketed language here and elsewhere in this form relating to the Assignor(s), if the assignment is from a single Assignor, choose the first bracketed language. If the assignment is from multiple Assignors, choose the second bracketed language.

<sup>14</sup> For bracketed language here and elsewhere in this form relating to the Assignee(s), if the assignment is to a single Assignee, choose the first bracketed language. If the assignment is to multiple Assignees, choose the second bracketed language.

<sup>15</sup> Select as appropriate.

<sup>16</sup> Include bracketed language if there are either multiple Assignors or multiple Assignees.

<sup>17</sup> To be completed if the Assignor(s) and the Assignee(s) intend that the minimum assignment amount is to be determined as of the Trade Date.

Effective Date: \_\_\_\_\_, 20\_\_

[TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR

[NAME OF ASSIGNOR]

By: \_\_\_\_\_  
Title:

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ASSIGNEE

See Schedule attached hereto

[Consented to and]<sup>18</sup> Accepted:

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Administrative Agent, [Issuing Lender] and Swingline Lender

By \_\_\_\_\_  
Title:

[Consented to:]<sup>19</sup>

LOUISVILLE GAS AND ELECTRIC COMPANY

By \_\_\_\_\_  
Title:

[Consented to]:

[Issuing Lender]<sup>20</sup>,  
as Issuing Lender

By \_\_\_\_\_  
Title:

[Consented to]:

[JOINT LEAD ARRANGERS]<sup>21</sup>

WELLS FARGO BANK, N.A.

By: \_\_\_\_\_  
Title:

BANK OF AMERICA, N.A.

By: \_\_\_\_\_  
Title:

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<sup>18</sup> To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.

<sup>19</sup> To be added only if the consent of the Borrower is required by the terms of the Credit Agreement.

<sup>20</sup> Add all Issuing Lender signature blocks.

<sup>21</sup> To be added if assignment is made before Effective Date.

SCHEDULE

To Assignment and Assumption

By its execution of this Schedule, the Assignee(s) agree(s) to the terms set forth in the attached Assignment and Assumption.

**Assigned Interests:**

Aggregate Amount of Commitment/ Loans for all Lenders <sup>22</sup>	Amount of Commitment/ Loans Assigned <sup>23</sup>	Percentage Assigned of Commitment/ Loans <sup>24</sup>	CUSIP Number
\$	\$	%	

[NAME OF ASSIGNEE]<sup>25</sup>

[and is an Affiliate of [ *identify Lender*]]<sup>26</sup>

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<sup>22</sup> Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

<sup>23</sup> Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

<sup>24</sup> Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

<sup>25</sup> Add additional signature blocks, as needed.

<sup>26</sup> Select as applicable.

ANNEX 1 to Assignment and Assumption

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT DATED AS OF NOVEMBER 6, 2012  
BY AND AMONG  
LOUISVILLE GAS AND ELECTRIC COMPANY, AS BORROWER,  
THE LENDERS PARTY THERETO  
AND WELLS FARGO BANK, NATIONAL ASSOCIATION,  
AS ADMINISTRATIVE AGENT  
STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1 Assignor. [The] [Each] Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of [the] [the relevant] Assigned Interest, (ii) [the] [such] Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. [The] [Each] Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the] [the relevant] Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, [the] [any] Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations that by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts that have accrued to but excluding the Effective Date and to the Assignee for amounts that have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by and construed in accordance with the internal laws of the State of New York.



## Forms of Opinions of Counsel for the Borrower

[Date]

To the Administrative Agent and  
each of the Lenders party to the Revolving  
Credit Agreement referred to below

Re: Louisville Gas and Electric Company  
\$500,000,000 Amended and Restated Revolving Credit Agreement

Ladies and Gentlemen:

We have acted as special counsel to Louisville Gas and Electric Company, a Kentucky corporation (the "Company"), in connection with the negotiation, execution and delivery of the \$500,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender, and the other Lenders from time to time party thereto (such Revolving Credit Agreement as so amended, the "Agreement"). This letter is being delivered to you at the request of the Company pursuant to Section 4.01(e) of the Agreement.

In preparing this letter, we have reviewed the Agreement[, and the Notes of the Company executed and delivered by the Company on the date hereof (the "Notes"),] and the other documents executed and delivered by the Company in connection with the Agreement. We have also reviewed the Orders of the Kentucky Public Service Commission ("KPSC") dated September 30, 2010, October 11, 2011 and \_\_\_\_\_, 2012 (Case Nos. 2010-00205, 2011-0038 and 2012-\_\_\_\_), in connection with the Agreement (the "KPSC Orders").

Subject to the assumptions, qualifications and other limitations set forth below, it is our opinion that:

1. The Agreement constitutes the valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms.
2. [The Notes constitute the valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms.]
3. The Company is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.
4. The borrowings under the Agreement and the use of proceeds thereof as contemplated by the Agreement do not violate Regulation U or X of the Board of Governors of the Federal Reserve System.

In rendering our opinions, we have (a) without independent verification, relied, with respect to factual matters, statements and conclusions, on certificates, notifications and statements, whether written or oral, of governmental officials and individuals identified to us as officers and representatives of the Company and on the representations made by the Company in the Agreement and other documents delivered to you in connection therewith and (b) reviewed originals, or copies of such agreements, documents and records as we have considered relevant and necessary as a basis for our opinions. We note that, as counsel to the Company, we do not represent it generally and there may be facts relating to the Company of which we have no knowledge.

We have assumed (a) the accuracy and completeness of all certificates, agreements, documents, records and other materials submitted to us; (b) the authenticity of original certificates, agreements, documents, records and other materials submitted to us; (c) the conformity with the originals of any copies submitted to us; (d) the genuineness of all signatures; (e) the legal capacity of all natural persons; (f) that the Agreement constitutes the valid, legally binding and enforceable agreement of the parties thereto under all applicable law (other than, in the case of the Company, the law of the State of New York); (g) that the Company (i) is duly organized, validly existing and in good standing under the law of its jurisdiction of organization, (ii) has the power to execute and deliver, and to perform its obligations under, the Agreement [and the Notes], (iii) has duly taken or caused to be taken all necessary action to authorize the execution, delivery and performance by it of the Agreement [and the Notes] and (iv) has duly executed and delivered the Agreement [and the Notes]; (h) that the execution and delivery by the Company of, and the performance by the Company of its obligations under, the Agreement and the Notes does not and will not (i) breach or violate (A) its Amended and Restated Articles of Incorporation or Bylaws, (B) any agreement or instrument to which the Company or any of its affiliates is a party or by which the Company or any of its affiliates or any of their respective properties may be bound, (C) any authorization, consent, approval or license (or the like) of, or exemption (or the like) from, or any registration or filing (or the like) with, or report or notice (or the like) to, any governmental unit, agency, commission, department or other authority granted to or otherwise applicable to the Company or any of its affiliates or any of their respective properties (each a "Governmental Approval"), (D) any order, decision, judgment or decree that may be applicable to the Company or any of its affiliates or any of their respective properties, or (E) any law (other than the law of the State of New York and the federal law of the United States), or (ii) require any Governmental Approval (other than the KPSC Orders, which we assume to have been duly granted and to remain in full force and effect); (h) that the Company is engaged only in the businesses described in its Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission; (i) that there are no agreements, understandings or negotiations between the parties not set forth in the Agreement that would modify the terms thereof or the rights and obligations of the parties thereunder; and (j) for purposes of our opinion in paragraph 1 as it relates to the choice-of-law provisions in the Agreement, that the choice of law of the State of New York as the governing law of the Agreement would not result in a violation of an important public policy of another state or country having greater contacts with the transactions contemplated by the agreement than the State of New York.

Our opinions are subject to and limited by the effect of (a) applicable bankruptcy, insolvency, fraudulent conveyance, fraudulent transfer, receivership, conservatorship, arrangement, moratorium and other similar laws affecting and relating to the rights of creditors generally; (b) general equitable principles; (c) requirements of reasonableness, good faith, fair dealing and materiality; (d) Article 9 of the Uniform Commercial Code regarding restrictions on assignment or transfer of rights; and (e) additionally in the case of (i) indemnities, a requirement that facts, known to the indemnitee but not the indemnitor, in existence at the time the indemnity becomes effective that would entitle the indemnitee to indemnification be disclosed to the indemnitor, and a requirement that an indemnity provision will not be read to impose obligations upon indemnitors which are neither disclosed at the time of its execution nor reasonably within the scope of its terms and overall intention of the parties at the time of its making, (ii) waivers, Sections 9-602 and 9-603 of the Uniform Commercial Code, and (iii) indemnities, waivers and exculpatory provisions, public policy.

We express no opinion with respect to the following sections of the Agreement: (i) Section 9.02 (cumulative remedies), (ii) provisions relating to rules of evidence or quantum of proof, (iii) Section 9.07 (submission to jurisdiction and waiver of inconvenient forum), insofar as such sections relate to federal courts (except as to the personal jurisdiction thereof), and (choice of venue, i.e., requiring actions to be commenced in a particular court in a particular jurisdiction), and (iv) Section 9.11 (waiver of jury trial), insofar as such section is sought to be enforced in a federal court.

We express no opinion as to the law of any jurisdiction other than the law of the State of New York and the federal law of the United States of America, and in each case, only such law that in our experience is normally applicable to transactions of the type contemplated by the Agreement and excluding (i) any law that is part of a regulatory regime applicable to specific assets or businesses of the lenders and (ii) the statutes and ordinances, the administrative decisions, and the rules and regulations of counties, towns, municipalities and special political subdivisions.

This letter speaks only as of the date hereof. We have no responsibility or obligation to update this letter or to take into account changes in law or facts or any other development of which we may later become aware.

This letter is delivered by us as special counsel for the Company solely for your benefit in connection with the transaction referred to herein and may not be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person or entity without our prior written consent.

Very truly yours,

---

To the Administrative Agent  
and each of the Lenders party to  
the Credit Agreement referred to below

Re: \$500,000,000 Amended and Restated Revolving Credit Agreement

Ladies and Gentlemen:

I am Vice President and Deputy General Counsel – Legal and Environmental Affairs of Louisville Gas and Electric Company (the “Borrower”), and have acted as counsel to the Borrower in connection with the \$500,000,000 Amended and Restated Revolving Credit Agreement dated as of November 6, 2012, among the Borrower, Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender and the Lenders party thereto from time to time (the “Agreement”). Capitalized terms used but not defined herein have the meanings assigned to such terms in the Agreement.

I am familiar with the Agreement[, the Notes of the Borrower executed and delivered by the Borrower on the date hereof (the “Notes”),] and other documents executed and delivered by the Borrower in connection with the Agreement. I also have examined such other documents and satisfied myself as to such other matters as I have deemed necessary in order to render this opinion.

In rendering this opinion, I have assumed: (a) the genuineness of the signatures on all documents and instruments (other than the signatures of officers of the Borrower), the authenticity of all documents submitted as originals, the conformity to originals of all documents submitted as photostatic or certified copies, and the accuracy and completeness of all corporate records made available to me by the Borrower; (b) the due execution and delivery of the Agreement by the Lenders party thereto; and (c) that the Agreement constitutes the legal, valid and binding obligation of the Lenders party thereto.

Based on the foregoing, I am of the opinion that:

1. The Borrower is duly incorporated, validly existing and in good standing under the laws of the Commonwealth of Kentucky, and has the corporate power to make and perform the Agreement [and the Notes].
2. The execution, delivery and performance by the Borrower of the Agreement [and the Notes] have been duly authorized by the Borrower and do not violate any provision of law or regulation, or any decree, order, writ or judgment applicable to the Borrower, or any provision of the Borrower’s certificate of incorporation, by-laws or board or shareholder resolutions, or result in the breach of or constitute a default under any indenture or other agreement or instrument known to me to which the Borrower is a party.
3. [Each of] [T][t]Agreement [and the Notes] has been duly executed and delivered by the Borrower.
4. Except as disclosed in or contemplated by the Agreement or the Borrower’s financial statements referred to in Sections 5.04(a) or 5.04(b) of the Agreement, or otherwise furnished in writing to the Administrative Agent and the Lenders, no litigation, arbitration or administrative proceeding or inquiry is pending, or to my knowledge, threatened, which would reasonably be expected to materially adversely affect the ability of the Borrower to perform any of its obligations under the Agreement [or the Notes]. To my knowledge, there is no litigation, arbitration or administrative proceeding pending or threatened that questions the validity of the Agreement [or the Notes].
5. There have not been any “reportable events,” as that term is defined in Section 4043 of the Employee Retirement Income Security Act of 1974, as amended, which would result in a material liability of the Borrower.
6. The \_\_\_\_\_, 20\_\_ and the \_\_\_\_\_, 2012 Orders of the Kentucky Public Service Commission (the “KPSC”) relating to the Agreement is in full force and effect, and no further authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance of the Agreement by the Borrower or for the borrowings by the Borrower thereunder, except such authorizations, consents and approvals as have been obtained prior to the date hereof, which authorizations, consents and approvals are in full force and effect.

In rendering its opinion to the addressee hereof, Pillsbury Winthrop Shaw Pittman LLP may rely as to matters of Kentucky law addressed herein upon this letter as if it were addressed directly to them. Except as aforesaid, without my prior written consent, this opinion may not be furnished or quoted to, or relied upon by, any other person or entity for any purpose.

Very truly yours,

CLIFFORD  
CHANCE

Clifford Chance LLP

Execution Version

DATED \_\_\_ DECEMBER 2012

PPL WW HOLDINGS LTD.  
AS THE COMPANY

LLOYDS TSB BANK PLC  
AND  
MIZUHO CORPORATE BANK, LTD.  
AS JOINT COORDINATORS AND BOOKRUNNERS

BARCLAYS BANK PLC,  
COMMONWEALTH BANK OF AUSTRALIA,  
HSBC BANK PLC  
LLOYDS TSB BANK PLC,  
MIZUHO CORPORATE BANK, LTD.,  
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.  
AND  
THE ROYAL BANK OF SCOTLAND PLC  
AS MANDATED LEAD ARRANGERS

AND

MIZUHO CORPORATE BANK, LTD.  
AS FACILITY AGENT

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£210,000,000 MULTICURRENCY REVOLVING  
FACILITY AGREEMENT

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THIS AGREEMENT is dated \_\_\_\_ December 2012

**BETWEEN:**

- (1) **PPL WW HOLDINGS LTD.** (registered number 04267536) (the "**Company**");
- (2) **LLOYDS TSB BANK PLC** and **MIZUHO CORPORATE BANK, LTD.** as joint coordinators and bookrunners (the "**Co-ordinators**");
- (3) **BARCLAYS BANK PLC, COMMONWEALTH BANK OF AUSTRALIA, HSBC BANK PLC, LLOYDS TSB BANK PLC, MIZUHO CORPORATE BANK, LTD., THE BANK OF TOKYO-MITSUBISHI UFJ, LTD. AND THE ROYAL BANK OF SCOTLAND PLC** as mandated lead arrangers (whether acting individually or together the "**Arranger**");
- (4) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 (*Original Parties*) as original lenders (the "**Original Lenders**"); and
- (5) **MIZUHO CORPORATE BANK, LTD.** as facility agent (the "**Facility Agent**").

**IT IS AGREED** as follows:

**1. INTERPRETATION**

**1.1 Definitions**

In this Agreement:

"**Acceptable Bank**" means a bank or financial institution which has a rating for its long-term unsecured and non credit-enhanced debt obligations of A- or higher by Standard & Poor's Rating Services or A- or higher by Fitch Ratings Ltd or A3 or higher by Moody's Investor Services Limited or a comparable rating from an internationally recognised credit rating agency.

"**Acceptable Jurisdiction**" means:

- (a) the United States of America;
- (b) the United Kingdom; or
- (c) any other member state of the European Union or any Participating Member State where such country has long term sovereign credit rating of AA or higher by Standard & Poor's Rating Services or Aa2 or higher from Moody's Investor Services Limited or AA or higher from Fitch Ratings Ltd.

"**Act**" means the Electricity Act 1989 and, unless the context otherwise requires, all subordinate legislation made pursuant thereto.

"**Administrative Party**" means the Arranger or the Facility Agent.

"**Affiliate**" means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company. Notwithstanding the foregoing and in so far as it relates to The Royal Bank of Scotland plc as a Lender, the term "**Affiliate**" shall not include (i) the UK government or any member or instrumentality thereof, including Her Majesty's Treasury and UK Financial Investments Limited (or any directors, officers, employees or entities thereof) or (ii) any persons or entities controlled by or under common control with the UK government or any member or instrumentality thereof (including Her Majesty's Treasury and UK Financial Investments Limited) and which are not part of The Royal Bank of Scotland Group plc and its subsidiary or subsidiary undertakings.

"**Agent's Spot Rate of Exchange**" means the Facility Agent's spot rate of exchange for the purchase of the relevant currency in the London foreign exchange market with the Base Currency at or about 11.00 a.m. on a particular day.

"**Applicable Accounting Principles**" means those accounting principles, standards and practices generally accepted in the United Kingdom and the accounting and reporting requirements of the Companies Act 2006, in each case as used in the Original Financial Statements.

"**Authority**" means The Gas and Electricity Markets Authority established under Section 1 of the Utilities Act 2000.

"**Available Commitment**" means a Lender's Commitment minus:

- (a) the Base Currency Amount of its participation in any outstanding Loans; and
- (b) in relation to any proposed Loans, the Base Currency Amount of its participation in any Loans that are due to be made on or before the proposed Drawdown Date,

other than that Lender's participation in any Loans that are due to be repaid or prepaid on or before the proposed Drawdown Date.

"**Available Facility**" means the aggregate for the time being of each Lender's Available Commitment.

"**Availability Period**" means the period from and including the date of this Agreement to and including the date falling one month prior to the Final Maturity Date.

"**Balancing and Settlement Code**" means the document, as modified from time to time, setting out the electricity balancing and settlement arrangements designated by the Secretary of State and adopted by The National Grid Company plc (Registered No. 2366977) or its successor pursuant to its transmission licence.

"**Balancing and Settlement Code Framework Agreement**" means the agreement of that title, in the form approved by the Secretary of State, as amended from time to time, to which a Distribution Company is a party and by which the Balancing and Settlement Code is made binding upon that Distribution Company.

"**Base Currency**" means Sterling.

"**Base Currency Amount**" means, in relation to a Loan, the amount specified in the Request delivered by the Borrower for that Loan (or, if the amount requested is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent's Spot Rate of Exchange on the date which is three Business Days before the Drawdown Date or, if later, on the date the Facility Agent receives the Request) adjusted to reflect any repayment or prepayment of the Loan.

"**Basel III**" means:

- (a) the agreements on capital requirements, a leverage ratio and liquidity standards contained in "Basel III: A global regulatory framework for more resilient banks and banking systems", "Basel III: International framework for liquidity risk measurement, standards and monitoring" and "Guidance for national authorities operating the countercyclical capital buffer" published by the Basel Committee on Banking Supervision in December 2010, each as amended, supplemented or restated;
- (b) the rules for global systematically important banks contained in "Global systematically important banks: assessment methodology and the additional loss absorbency requirement – Rules text" published by the Basel Committee on Banking Supervision in November 2011, as amended, supplemented or restated; and
- (c) any further guidance or standards published by the Basel Committee on Banking Supervision relating to "Basel III".

"**Borrower**" means the Company or any person which becomes the Borrower after the date of this Agreement in accordance with Clause 28.1 (*Assignments and transfers by the Borrower*).

"**Break Costs**" means the amount (if any), calculated in accordance with Clause 25.3 (*Break Costs*), which a Lender is entitled to receive under this Agreement as compensation if any part of a Loan or overdue amount is prepaid.

"**Business Day**" means a day (other than a Saturday or a Sunday) on which commercial banks are open in London, and:

- (a) (in relation to any date for payment or purchase of a currency other than euro) the principal financial centre of the country of that currency; or
- (b) (in relation to any date for payment or purchase of euro) any TARGET Day.

"**Commitment**" means:

- (a) in relation to an Original Lender, the amount in the Base Currency set opposite its name under the heading "Commitment" in Schedule 1 (*Original Parties*) and the amount of any other Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*); and

- (b) in relation to any other Lender, the amount in the Base Currency of any Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*),

to the extent not cancelled, reduced or transferred by it under this Agreement.

**"Compliance Certificate"** means a certificate substantially in the form of Schedule 6 (*Form of Compliance Certificate*) setting out, among other things, calculations of the financial covenants.

**"Confidential Information"** means all information relating to each of the Company and its Subsidiaries, PPL WEM Holdings plc and its Subsidiaries, PPL Corporation and any of its Subsidiaries which directly or indirectly holds shares in the Company or PPL WEM Holdings plc, and the directors, officers and employees of any of them (the "**Extended Group**"), the Finance Documents or the Facility of which a Finance Party becomes aware in its capacity as, or for the purpose of becoming, a Finance Party or which is received by a Finance Party in relation to, or for the purpose of becoming a Finance Party under, the Finance Documents or the Facility from either:

- (a) any member of the Extended Group or any of its advisers; or
- (b) another Finance Party, if the information was obtained by that Finance Party directly or indirectly from any member of the Extended Group or any of its advisers,

in whatever form, and includes information given orally and any document, electronic file or any other way of representing or recording information which contains or is derived or copied from such information but excludes information that:

- (i) is or becomes public information other than as a direct or indirect result of any breach by that Finance Party of Clause 29 (*Confidentiality and disclosure of information*); or
- (ii) is identified in writing at the time of delivery as non-confidential by any member of the Extended Group or any of its advisers; or
- (iii) is known by that Finance Party before the date the information is disclosed to it in accordance with paragraphs (a) or (b) above or is lawfully obtained by that Finance Party after that date, from a source which is, as far as that Finance Party is aware, unconnected with the Group and which, in either case, as far as that Finance Party is aware, has not been obtained in breach of, and is not otherwise subject to, any obligation of confidentiality.

**"Confidentiality Undertaking"** means a confidentiality undertaking substantially in a recommended form of the LMA or in any other form agreed between the Borrower and the Facility Agent.

**"Contribution Notice"** means a contribution notice issued by the Pensions Regulator under section 38 or section 47 of the Pensions Act 2004.

**"CTA 2009"** means the Corporation Tax Act 2009.

**"CTA 2010"** means the Corporation Tax Act 2010.

**"Debt Purchase Transaction"** means, in relation to a person, a transaction where such person:

- (a) purchases by way of assignment or transfer;
- (b) enters into any sub-participation in respect of; or
- (c) enters into any other agreement or arrangement having an economic effect substantially similar to a sub-participation in respect of,

any Commitment or amount outstanding under this Agreement.

**"Default"** means:

- (a) an Event of Default; or
- (b) an event which would be (with the lapse of time, the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

**"Defaulting Lender"** means any Lender:



- (a) which has failed to make its participation in a Loan available or has notified the Facility Agent that it will not make its participation in a Loan available by the Drawdown Date of that Loan in accordance with Clause 5.4 (*Advance of Loan*);
- (b) which has otherwise rescinded or repudiated a Finance Document; or
- (c) with respect to which an Insolvency Event has occurred and is continuing,

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
  - (A) administrative or technical error; or
  - (B) a Disruption Event,
 and payment is made within five Business Days of its due date; or
- (ii) the Lender is disputing in good faith whether it is contractually obliged to make the payment in question.

**"Disruption Event"** means either or both of:

- (a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Finance Documents (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or
- (b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:
  - (i) from performing its payment obligations under the Finance Documents; or
  - (ii) from communicating with other Parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

**"Distribution Certificate"** means a distribution certificate substantially in the form of Schedule 11 (*Form of Distribution Certificate*).

**"Distribution Companies"** means Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc and any other distribution company which is licensed by OFGEM or any successor regulatory body as a distribution network operator and owned (whether directly or indirectly) by the Borrower from time to time including Western Power Distribution (West Midlands) plc and Western Power Distribution (East Midlands) plc if owned (whether directly or indirectly) by the Borrower.

**"Drawdown Date"** means each date on which a Loan is made.

**"Environment"** means humans, animals, plants and all other living organisms including the ecological systems of which they form part and the following media:

- (a) air (including, without limitation, air within natural or man-made structures, whether above or below ground);
- (b) water (including, without limitation, territorial, coastal and inland waters, water under or within land and water in drains and sewers); and
- (c) land (including, without limitation, land under water).

**"Environmental Claim"** means any claim, proceeding, formal notice or investigation by any person in respect of any Environmental Law.

**"Environmental Law"** means any applicable law or regulation which relates to:

- (a) the pollution or protection of the Environment;

- (b) the conditions of the workplace; or
- (c) the generation, handling, storage, use, release or spillage of any substance which, alone or in combination with any other, is capable of causing harm to the Environment, including, without limitation, any waste.

"EURIBOR" means, in relation to any Loan in euro:

- (a) the applicable Screen Rate; or
- (b) (if no Screen Rate is available for the Interest Period of that Loan) the Reference Bank Rate,

as of the Specified Time on the Rate Fixing Day for euro and for a period comparable to the Interest Period of that Loan, and if any such rate is below zero EURIBOR will be deemed to be zero.

"Existing RCF" means a £150,000,000 revolving credit facility agreement dated 24 January 2007 and entered into *inter alia* between the Company, Lloyds TSB Bank plc as facility agent and the other financial institutions listed therein.

"Event of Default" means an event specified as such in this Agreement.

"Facility" means the multicurrency revolving credit facility made available under this Agreement as described in sub-clause 2.1 of Clause 2 ( *The Facility*).

"Facility Office" means the office(s) notified by a Lender to the Facility Agent:

- (a) on or before the date it becomes a Lender; or
- (b) by not less than five Business Days' notice,

as the office(s) through which it will perform its obligations under this Agreement.

"Fee Letter" means any letter entered into by reference to the Facility between one or more Administrative Parties and the Borrower setting out the amount of certain fees referred to in the Agreement.

"Final Maturity Date" means the fourth anniversary of the date of this Agreement.

"Finance Document" means:

- (a) this Agreement;
- (b) a Fee Letter;
- (c) a Transfer Certificate; or
- (d) any other document designated as such by the Facility Agent and the Borrower.

"Finance Party" means a Lender or an Administrative Party.

"Financial Indebtedness" means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit;
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) any finance or capital lease;
- (f) receivables sold or discounted (otherwise than on a non-recourse basis);

- (g) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;
- (h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, except for non-payment of an amount, the then mark to market value of the derivative transaction will be used to calculate its amount);
- (i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;
- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or
- (k) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (j) above.

**"Financial Support Direction"** means a financial support direction issued by the Pensions Regulator under section 43 of the Pensions Act 2004.

**"Group"** means the Borrower and its Subsidiaries.

**"Holding Company"** means in relation to a person, any other person in respect of which it is a Subsidiary.

**"Impaired Agent"** means the Facility Agent at any time when:

- (a) it has failed to make (or has notified a Party that it will not make) a payment required to be made by it under the Finance Documents by the due date for payment;
- (b) the Facility Agent otherwise rescinds or repudiates a Finance Document;
- (c) (if the Facility Agent is also a Lender) it is a Defaulting Lender under paragraph (a) or (b) of the definition of "Defaulting Lender"; or
- (d) an Insolvency Event has occurred and is continuing with respect to the Facility Agent;

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
  - (A) administrative or technical error; or
  - (B) a Disruption Event,
 and payment is made within five Business Days of its due date; or
- (ii) the Facility Agent is disputing in good faith whether it is contractually obliged to make the payment in question.

**"Increase Confirmation"** means a confirmation substantially in the form set out in Schedule 7 (*Form of Increase Confirmation*).

**"Increase Lender"** has the meaning given to that term in Clause 2.2 (*Increase*).

**"Increased Cost"** means:

- (a) an additional or increased cost;
- (b) a reduction in the rate of return under a Finance Document or on a Finance Party's (or its Affiliate's) overall capital; or
- (c) a reduction of an amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates but only to the extent attributable to that Finance Party having entered into any Finance Document or funding or performing its obligations under any Finance Document.

**"Information Package"** means the information package in the form approved by the Company concerning the Group which was prepared in relation to this transaction and distributed via debtdomain to selected financial institutions on 31 October 2012 and which is entitled: "PPL WW Holdings Ltd Refinance Lender Information Pack".

**"Insolvency Event"** in relation to a Finance Party means that the Finance Party:

- (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger);
- (b) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due;
- (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
- (d) institutes or has instituted against it, by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation by it or such regulator, supervisor or similar official;
- (e) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition is instituted or presented by a person or entity not described in paragraph (d) above and:
  - (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding up or liquidation; or
  - (ii) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof;
- (f) has a resolution passed for its winding up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
- (g) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets;
- (h) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter;
- (i) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in paragraphs (a) to (h) above; or
- (j) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

**"ITA"** means the Income Tax Act 2007.

**"Legal Reservations"** means:

- (a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;
- (b) the time barring of claims under the Limitation Act 1980 and the Foreign Limitation Periods Act 1984, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of UK stamp duty may be void and defences of set-off or counterclaim;
- (c) similar principles, rights and defences under the laws of any jurisdiction in which a member of the Group or a Holding Company of the Borrower is incorporated; and
- (d) any other matters which are set out as qualifications or reservations as to matters of law of general application in any legal opinion provided under Schedule 2 (*Conditions Precedent Documents*).

**"Lender"** means:

- (a) an Original Lender; or
- (b) any person which becomes a Lender after the date of this Agreement in accordance with Clause 2.2 (*Increase*) or Clause 28 (*Changes to the Parties*),

which in each case has not ceased to be a Lender in accordance with the terms of this Agreement.

"LIBOR" means for a Term of any Loan or overdue amount:

- (a) the applicable Screen Rate; or
- (b) (if no Screen Rate is available for the relevant currency or Interest Period of that Loan) the Reference Bank Rate,

as of the Specified Time on the Rate Fixing Day for the currency of that Loan and for a period comparable to the Interest Period of that Loan, and if any such rate is below zero LIBOR will be deemed to be zero.

"Licence" means:

- (a) each electricity distribution licence made and treated as granted to a Distribution Company under Section 6(1)(c) of the Act pursuant to a licensing scheme made by the Secretary of State under Part II of Schedule 7 to the Utilities Act 2000 on 28 September, 2001; or
- (b) any statutory amendment or replacement licence or licences granted pursuant to the Utilities Act 2000 (or any equivalent legislation which supersedes the Utilities Act) which permit a Distribution Company to distribute electricity in the area it is certified to operate in.

"LMA" means the Loan Market Association.

"Loan" means, unless otherwise stated in this Agreement, the principal amount of each borrowing under this Agreement or the principal amount outstanding of that borrowing.

"Majority Lenders" means, at any time, Lenders:

- (a) whose share in the outstanding Loans and whose undrawn Commitments then aggregate 66 2/3 per cent. or more of the aggregate of all the outstanding Loans and the undrawn Commitments of all the Lenders;
- (b) if there are no Loans then outstanding, whose undrawn Commitments then aggregate 66 2/3 per cent. or more of the Total Commitments; or
- (c) if there are no Loans then outstanding and the Total Commitments have been reduced to zero, whose Commitments aggregated 66 2/3 per cent. or more of the Total Commitments immediately before the reduction.

"Mandatory Cost" means the cost of complying with certain regulatory requirements, expressed as a percentage rate per annum and calculated by the Facility Agent under Schedule 4 (*Calculation of the Mandatory Cost*).

"Margin" means, provided that:

- (a) at least one of Moody's Investor Services Limited ("**Moody's**") and Standard & Poor's Ratings Services ("**Standard & Poor's**") has provided a current rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Borrower; and
- (b) no Event of Default is outstanding,

the rate set out in the table below:

Rating (Moody's)	Rating (Standard & Poor's)	Margin (per annum)
Less than or equal to Ba1	Less than or equal to BB+	2.50%
Baa3	BBB-	1.80%
Baa2	BBB	1.60%
Baa1 or higher	BBB+ or higher	1.40%

If the current Moody's and Standard & Poor's ratings in respect of the Borrower imply different Margin rates, the Margin shall be the average of the two Margin rates implied. If only one of Moody's and Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Borrower, that rating alone shall be used to determine the applicable Margin. If neither Moody's nor Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Borrower, or if an Event of Default is outstanding, the applicable Margin shall be 2.50% per annum. Any increase or decrease in the Margin shall take effect on (i) the date on which the Moody's and/or Standard & Poor's rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Borrower is published or, as the case may be, changed or (ii) where the Facility Agent receives notice from the Borrower or otherwise becomes aware that an Event of Default has occurred or has ceased to be outstanding, with effect from the date on which such Event of Default occurs or ceases to be outstanding.

For the purposes of this definition, an Event of Default being "outstanding" means that it has not been remedied (as evidenced by the Borrower to the Facility Agent (acting reasonably)) or waived.

**"Material Adverse Effect"** means a material adverse effect on:

- (a) the business, assets or financial condition of the Group taken as a whole;
- (b) the ability of the Borrower to perform its payment obligations under the Finance Documents or its obligations under Clauses 19.3 (*Interest Cover*) or 19.4 (*Asset Cover*) of this Agreement; or
- (c) the validity or enforceability of the Finance Documents or the rights or remedies of any Finance Party under any of the Finance Documents.

**"Maturity Date"** means the last day of the Term of a Loan.

**"Measurement Date"** means the last day of a Measurement Period, being 31 March or 30 September.

**"Measurement Period"** means each period of twelve months ending on 31 March or 30 September.

**"New Lender"** has the meaning given to that term in sub-clause 28.2.1 of Clause 28.2 (*Assignments and transfers by Lenders*).

**"OFGEM"** means the Office of Gas and Electricity Markets.

**"Original Financial Statements"** means the audited consolidated financial statements of the Company and each of Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc for the year ended 31 March 2012.

**"Optional Currency"** means a currency (other than the Base Currency) which complies with the conditions set out in Clause 4.3 (*Conditions relating to Optional Currencies*).

**"Participating Member State"** means any member state of the European Union that has the euro as its lawful currency in accordance with the legislation of the European Union relating to Economic and Monetary Union.

**"Party"** means a party to this Agreement.

**"Pensions Regulator"** means the body corporate called the Pensions Regulator established under Part I of the Pensions Act 2004.

**"Permitted Acquisition"** means the acquisition by any member of the Group of an entity:

- (a) which carries out a Permitted Business;
- (b) which is incorporated or established in England or the European Union; and
- (c) the Borrower has delivered to the Facility Agent not later than three Business Days before the relevant member of the Group legally commits to make such acquisition a certificate signed by two directors of the Borrower to which is attached a copy of the latest audited accounts (or if not available, management accounts) of the target entity giving calculations showing in reasonable detail that the Borrower would have remained in compliance with its obligations under Clause 19 (*Financial Covenants*) if the covenant tests had been recalculated for the most recently ended Measurement Period consolidating the financial statements of the target entity (consolidated if it has Subsidiaries) with the financial statements of the Group for such period on a pro forma basis and as if the consideration (including associated costs and expenses) for the proposed acquisition had been paid at the start of that Measurement Period.

**"Permitted Business"** means a business that:

- (a) possesses characteristics similar to the regulated business of a distribution network operator, as carried out by any of the Distribution Companies (a "**DNO Business**");
- (b) provides facilities for and connected with a DNO Business;
- (c) is complementary or ancillary to the operation of a DNO Business or any other business already conducted by an entity within the Group;
- (d) provides services to any member of the Group which are currently provided by third parties,

or any other business approved or consented to by the Facility Agent.

**"Permitted Reorganisation"** means any amalgamation, demerger, merger, corporate reconstruction, reorganisation or transfer of assets and assumption of liabilities between the Company and PPL WEM Holdings plc (the **Reorganisation**) if:

- (a) after the Reorganisation has occurred:
  - (i) the Company retains all of the rights and obligations under the Finance Documents in its capacity as Borrower; or
  - (ii) if the Company ceases to be the Borrower under the Finance Documents, the new Borrower is a limited liability company incorporated in England and Wales and tax resident in the United Kingdom (or another jurisdiction agreed by all the Lenders) and assumes all of the rights and obligations of the Company in its capacity as Borrower under the Finance Documents,

(in each case, the **New Borrower**), and in each case:

- (A) the New Borrower owns the entire issued share capital (whether directly or indirectly) of the Distribution Companies held by the Company and PPL WEM Holdings plc immediately prior to such Reorganisation; and
- (B) the entire issued share capital of the New Borrower is held (directly or indirectly) by PPL Corporation;
- (b) the Facility Agent has received a legal opinion issued by an internationally recognised law firm and addressed to the Finance Parties in relation to the obligations of the New Borrower under the Finance Documents in form and substance satisfactory to the Facility Agent;
- (c) such Reorganisation is not otherwise materially adverse to the interests of the Finance Parties under the Finance Documents; and
- (d) the Facility Agent has received in form and substance satisfactory to the Facility Agent all documentation and other evidence reasonably requested by the Facility Agent (for itself or on behalf of any Lender or any prospective new Lender) in order for the Facility Agent or such Lender or any prospective new Lender to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations where the New Borrower is not the Company.

**"PPL Group"** means PPL Corporation and any of its Subsidiaries.

**"Pro Rata Share"** means:

- (a) for the purpose of determining a Lender's share in a Loan, the proportion which its Available Commitment bears to the Available Facility immediately prior to making the Loan; and
- (b) for any other purpose on a particular date:
  - (i) the proportion which its Commitment bears to the Total Commitments on that date; or
  - (ii) if the Total Commitments have been cancelled, the proportion which its Commitments bore to the Total Commitments immediately before being cancelled.

**"PUHCA"** means the Public Utility Holding Company Act of 2005, as amended, of the United States of America.

**"Rate Fixing Day"** means, in relation to any period for which an interest rate is to be determined:

- (a) (if the currency is Sterling) the first day of that period;

(b) (if the currency is euro) two TARGET Days before the first day of that period; or

(c) (for any other currency) two Business Days before the first day of that period,

unless market practice differs in the Relevant Interbank Market for a currency, in which case the Rate Fixing Day for that currency will be determined by the Facility Agent in accordance with market practice in the Relevant Interbank Market (and if quotations would normally be given by leading banks in the Relevant Interbank Market on more than one day, the Rate Fixing Day will be the last of those days).

**"Reference Banks"** means Lloyds TSB Bank plc, Mizuho Corporate Bank, Ltd. and The Royal Bank of Scotland plc and any other bank or financial institution appointed as such by the Facility Agent (after consultation with the Borrower) under this Agreement.

**"Reference Bank Rate"** means the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Facility Agent at its request by the Reference Banks:

(a) in relation to LIBOR, as the rate at which the relevant Reference Bank could borrow funds in the London interbank market; or

(b) in relation to EURIBOR, as the rate at which the relevant Reference Bank could borrow funds in the European interbank market,

in the relevant currency and for the relevant period, were it to do so by asking for and then accepting interbank offers for deposits in reasonable market size in that currency and for that period.

**"Related Fund"** in relation to a fund (the **"first fund"**), means a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an Affiliate of the investment manager or investment adviser of the first fund.

**"Relevant Interbank Market"** means, in relation to euro, the European interbank market and, in relation to any other currency, the London interbank market.

**"Repeating Representations"** means the representations which are deemed to be repeated under this Agreement.

**"Representative"** means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

**"Request"** means a request for a Loan, substantially in the relevant form set out in Schedule 3 (*Requests*).

**"Rollover Loan"** means one or more Loans:

(a) made or to be made on the same day that a maturing Loan is due to be repaid;

(b) the aggregate amount of which is equal to or less than the maturing Loan;

(c) in the same currency as the maturing loan (unless it arose as a result of operation of Clause 6.2 (*Unavailability of currency*)); and

(d) made or to be made to the Borrower for the purpose of refinancing a maturing Loan.

**"Screen Rate"** means:

(a) in relation to LIBOR, the London inter-bank offered rate for the relevant currency and period displayed on the appropriate page (being currently Reuters screen page LIBOR01 or LIBOR02) on the information service which publishes that rate; and

(b) in relation to EURIBOR, the percentage rate per annum determined by the Banking Federation of the European Union (or any successor) for the relevant period displayed on the appropriate page (being currently Reuters screen page EURIBOR01) on the information service which publishes that rate,

displayed on the appropriate page of the Reuters screen. If the agreed page is replaced or service ceases to be available, the Facility Agent may specify another page or service displaying the appropriate rate after consultation with the Borrower and the Lenders.

**"Secretary of State"** means the Secretary of State for Business, Innovation and Skills.

**"Security Interest"** means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect.



**"Specified Time"** means a time determined in accordance with Schedule 8 (*Timetable*).

**"Subordination Deed"** means a document substantially in the form set out in Schedule 10 (*Form of Subordination Deed*) duly completed and executed by the parties thereto.

**"Subsidiary"** means:

- (a) a subsidiary within the meaning of section 1159 of the Companies Act 2006; and
- (b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

**"TARGET 2"** means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises single shared platform and which was launched on 19 November 2007.

**"TARGET Day"** means any day on which TARGET 2 is open for the settlement of payments in euro.

**"Tax"** means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty, addition to tax or any interest payable in connection with any failure to pay or any delay in paying any of the same).

**"Term"** means, in respect of a Loan, each period determined under this Agreement by reference to which interest on a Loan or an overdue amount is calculated.

**"Total Commitments"** means the aggregate of the Commitments, being £210,000,000 at the date of this Agreement.

**"Transfer Certificate"** means a certificate, substantially in the form of Schedule 5 (*Form of Transfer Certificate*), with such amendments as the Facility Agent may approve or reasonably require or any other form agreed between the Facility Agent and the Borrower.

**"Transfer Date"** means, in relation to a transfer, the later of:

- (a) the proposed Transfer Date specified in the relevant Transfer Certificate; and
- (b) the date on which the Facility Agent executes the relevant Transfer Certificate.

**"U.K."** means the United Kingdom.

**"Unpaid Sum"** means any sum due and payable but unpaid by the Borrower under the Finance Documents.

**"VAT"** means:

- (a) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112); and
- (b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (a) above, or imposed elsewhere.

## 1.2 Construction

1.2.1 The following definitions have the meanings given to them in Clause 19 (*Financial Covenants*):

- (a) Cash;
- (b) Cash Equivalent Investments;
- (c) Consolidated EBITDA;
- (d) Interest Payable;
- (e) Measurement Period;

- (f) Regulatory Asset Base; and
- (g) Total Net Debt.

1.2.2 In this Agreement, unless the contrary intention appears, a reference to:

- (a) an **amendment** includes a supplement, novation, restatement or re-enactment and **amended** will be construed accordingly;
- (b) **assets** includes present and future properties, revenues and rights of every description;
- (c) an **authorisation** includes an authorisation, consent, approval, resolution, licence, exemption, filing, registration or notarisation;
- (d) **disposal** means a sale, transfer, grant, lease or other disposal, whether voluntary or involuntary, and dispose will be construed accordingly;
- (e) **indebtedness** includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money;
- (f) **know your customer requirements** are the identification checks that a Finance Party requests in order to meet its obligations under any applicable law or regulation to identify a person who is (or is to become) its customer;
- (g) a **person** includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, joint venture or consortium), government, state, agency, organisation or other entity whether or not having separate legal personality;
- (h) a **regulation** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law but, if not having the force of law, being of a type with which any person to which it applies is accustomed to comply) of any governmental, inter-governmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
- (i) the **winding-up** of a person includes the administration, dissolution or liquidation or other like process of that person, any composition or arrangement with the creditors, amalgamation, reconstruction, reorganisation or consolidation pursuant to Part XXVI of the Companies Act 2006 proposed or carried out in respect of that person or a company voluntary arrangement pursuant to the Insolvency Act 1986 carried out or proposed in respect of that person;
- (j) a currency is a reference to the lawful currency for the time being of the relevant country;
- (k) save as set out in the definition of Margin in Clause 1.1 (*Definitions*), a Default (other than an Event of Default) being **outstanding** means that it has not been remedied or waived and an Event of Default being **outstanding** means that it has not been waived;
- (l) a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation;
- (m) a Clause, a Subclause or a Schedule is a reference to a clause or subclause of, or a schedule to, this Agreement;
- (n) a person includes its successors in title, permitted assigns and permitted transferees;
- (o) a Finance Document or another document is a reference to that Finance Document or other document as amended; and
- (p) a time of day is a reference to London time.

1.2.3 Unless the contrary intention appears, a reference to a **month** or **months** is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month or the calendar month in which it is to end, except that:

- (a) if the numerically corresponding day is not a Business Day, the period will end on the next Business Day in that month (if there is one) or the preceding Business Day (if there is not);
- (b) if there is no numerically corresponding day in that month, that period will end on the last Business Day in that month; and

(c) notwithstanding paragraph (a) above, a period which commences on the last Business Day of a month will end on the last Business Day in the next month or the calendar month in which it is to end, as appropriate.

1.2.4 Unless expressly provided to the contrary in a Finance Document, a person who is not a party to a Finance Document may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999 and notwithstanding any term of any Finance Document, the consent of any third party is not required for any variation (including any release or compromise of any liability) or termination of that Finance Document.

1.2.5 Unless the contrary intention appears:

(a) a reference to a Party will not include that Party if it has ceased to be a Party under this Agreement;

(b) a word or expression used in any other Finance Document or in any notice given in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement; and

(c) any obligation of the Borrower under the Finance Documents which is not a payment obligation remains in force for so long as any payment obligation of the Borrower is or may be outstanding under the Finance Documents.

1.2.6 The headings in this Agreement do not affect its interpretation.

### 1.3 Currency symbols and definitions

1.3.1 "\$", "USD" and "dollars" denote the lawful currency of the United States of America.

1.3.2 "€", "EUR" and "euro" denote the single currency of the Participating Member States.

1.3.3 "£", "GBP" and "Sterling" denote the lawful currency of the United Kingdom"

## 2. THE FACILITY

### 2.1 The Facility

Subject to the terms of this Agreement, the Lenders make available to the Borrower a multicurrency revolving credit facility in an aggregate amount equal to the Total Commitments.

### 2.2 Increase

2.2.1 The Borrower may by giving prior notice to the Facility Agent by no later than the date falling 10 Business Days after the effective date of a cancellation of:

(a) the Available Commitments of a Defaulting Lender in accordance with sub-clause 8.6.4 of Clause 8.6 (*Involuntary prepayment and cancellation*); or

(b) the Commitments of a Lender in accordance with Clause 8.1 (*Mandatory prepayment – illegality*),

request that the Total Commitments be increased (and the Total Commitments shall be so increased) in an aggregate amount up to the amount of the Available Commitments or Commitments so cancelled as follows:

(c) the increased Commitments will be assumed by one or more Lenders or other banks, financial institutions, trusts, funds or other entities (each an "**Increase Lender**") selected by the Borrower (each of which shall not be a member of the Group and which is further acceptable to the Facility Agent (acting reasonably)) and each of which confirms its willingness to assume and does assume all the obligations of a Lender corresponding to that part of the increased Commitments which it is to assume, as if it had been an Original Lender;

(d) the Borrower and any Increase Lender shall assume obligations towards one another and/or acquire rights against one another as the Borrower and the Increase Lender would have assumed and/or acquired had the Increase Lender been an Original Lender;

(e) each Increase Lender shall become a Party as a "Lender" and any Increase Lender and each of the other Finance Parties shall assume obligations towards one another and acquire rights against one another as that Increase Lender and those Finance Parties

would have assumed and/or acquired had the Increase Lender been an Original Lender;

- (f) the Commitments of the other Lenders shall continue in full force and effect; and
- (g) any increase in the Total Commitments shall take effect on the date specified by the Borrower in the notice referred to above or any later date on which the conditions set out in sub-clause 2.2.2 below are satisfied.

2.2.2 An increase in the Total Commitments will only be effective on:

- (a) the execution by the Facility Agent of an Increase Confirmation from the relevant Increase Lender; and
- (b) in relation to an Increase Lender which is not a Lender immediately prior to the relevant increase the performance by the Facility Agent of all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the assumption of the increased Commitments by that Increase Lender, the completion of which the Facility Agent shall promptly notify to the Borrower and the Increase Lender.

2.2.3 Each Increase Lender, by executing the Increase Confirmation, confirms (for the avoidance of doubt) that the Facility Agent has authority to execute on its behalf any amendment or waiver that has been approved by or on behalf of the requisite Lender or Lenders in accordance with this Agreement on or prior to the date on which the increase becomes effective.

2.2.4 Unless the Facility Agent otherwise agrees or the increased Commitment is assumed by an existing Lender, the Borrower shall, on the date upon which the increase takes effect, pay to the Facility Agent (for its own account) a fee of £1,750 and the Borrower shall promptly on demand pay the Facility Agent the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with any increase in Commitments under this Clause 2.2.

2.2.5 The Borrower may pay to the Increase Lender a fee in the amount and at the times agreed between the Borrower and the Increase Lender in a letter between the Borrower and the Increase Lender setting out that fee. A reference in this Agreement to a Fee Letter shall include any letter referred to in this paragraph.

2.2.6 Clause 28.4 (*Limitation of responsibility of Existing Lender*) shall apply *mutatis mutandis* in this Clause 2.2 in relation to an Increase Lender as if references in that Clause to:

- (a) an "Existing Lender" were references to all the Lenders immediately prior to the relevant increase;
- (b) the "New Lender" were references to that "Increase Lender"; and
- (c) a "re-transfer" and "re-assignment" were references to respectively a "transfer" and "assignment".

2.2.7 Each Party (other than the Increase Lender) irrevocably authorises the Facility Agent to execute any duly completed Increase Confirmation on its behalf.

### 2.3 Nature of a Finance Party's rights and obligations

Unless otherwise agreed by all the Finance Parties:

- 2.3.1 the obligations of a Finance Party under the Finance Documents are several;
- 2.3.2 failure by a Finance Party to perform its obligations does not affect the obligations of any other Party under the Finance Documents;
- 2.3.3 no Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents;
- 2.3.4 the rights of a Finance Party under the Finance Documents are separate and independent rights;
- 2.3.5 a debt arising under the Finance Documents to a Finance Party is a separate and independent debt; and
- 2.3.6 a Finance Party may, except as otherwise stated in the Finance Documents, separately enforce those rights.

## 3. PURPOSE

### 3.1 Purpose

Source: PPL CORP, 10-K, February 28, 2013

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The information contained herein may not be copied, adapted or distributed and is not warranted to be accurate, complete or timely. The user assumes all risks for any damages or losses arising from any use of this information, except to the extent such damages or losses cannot be limited or excluded by applicable law. Past financial performance is no guarantee of future results.

The Borrower shall apply all amounts borrowed by it under the Facility towards the general corporate purposes of the Group (in relation to each of the Distribution Companies, in compliance with its Licence) including, but not limited to, the refinancing of the Existing RCF.

### 3.2 No obligation to monitor

No Finance Party is bound to monitor or verify any amount borrowed pursuant to this Agreement.

## 4. CONDITIONS PRECEDENT

### 4.1 Conditions precedent documents

A Request may not be given until the Facility Agent has notified the Borrower and the Lenders that it has received (or waived receipt of) all of the documents and evidence set out in Schedule 2 (*Conditions Precedent Documents*) in form and substance satisfactory to the Facility Agent. The Facility Agent shall give this notification to the Borrower and the Lenders upon being so satisfied.

### 4.2 Further conditions precedent

The obligations of each Lender to participate in any Loan are subject to the further conditions precedent that on both the date of the Request and the Drawdown Date for that Loan:

4.2.1 the Repeating Representations are correct in all material respects; and

4.2.2 no Default or, in the case of a Rollover Loan, no Event of Default is outstanding or would result from the Loan.

### 4.3 Conditions relating to Optional Currencies

4.3.1 A currency will constitute an Optional Currency in relation to a Loan if:

- (a) it is readily available in the amount required and freely convertible into the Base Currency in the Relevant Interbank Market on the Rate Fixing Day and the Drawdown Date for that Loan; and
- (b) it is dollars, euro or has been approved by the Facility Agent (acting on the instructions of all the Lenders) on or prior to receipt by the Facility Agent of the relevant Request for that Loan.

4.3.2 If the Facility Agent has received a written request from the Borrower for a currency to be approved under paragraph 4.3.1(b) above, the Facility Agent will confirm to the Borrower by the Specified Time:

- (a) whether or not the Lenders have granted their approval; and
- (b) if approval has been granted, the minimum amount (and, if required, integral multiples) for any subsequent Loan in that currency.

### 4.4 Maximum number

- (a) Unless the Facility Agent agrees, a Request may not be given if, as a result, there would be more than 10 Loans outstanding.
- (b) Any Loan made by a single Lender under Clause 6.2 (*Unavailability of a currency*) shall not be taken into account in this Clause 4.4.

## 5. UTILISATION

### 5.1 Giving of Requests

5.1.1 The Borrower may borrow a Loan by giving to the Facility Agent a duly completed Request not later than the Specified Time.

5.1.2 Each Request is irrevocable.

### 5.2 Completion of Requests

A Request for a Loan will not be regarded as having been duly completed unless:

- 5.2.1 the Drawdown Date is a Business Day falling within the Availability Period;
- 5.2.2 the currency and amount of the Request comply with Clause 5.3 (*Currency and Amount*), and;
- 5.2.3 the proposed Term complies with this Agreement.

Only one Loan may be requested in a Request.

### 5.3 Currency and amount

5.3.1 The currency specified in a Request must be the Base Currency or an Optional Currency.

5.3.2 The amount of the proposed Loan must be:

- (a) if the currency selected is the Base Currency, a minimum of £5,000,000 and an integral multiple of £1,000,000 or, if less, the Available Facility; or
- (b) if the currency selected is dollars, a minimum of \$5,000,000 and an integral multiple of \$1,000,000 or, if less, the Available Facility; or
- (c) if the currency selected is euro, a minimum of EUR5,000,000 and an integral multiple of EUR1,000,000 or, if less, the Available Facility; or
- (d) if the currency selected is an Optional Currency, the minimum amount (and, if required, integral multiple) specified by the Facility Agent pursuant to paragraph (b) of Clause 4.3.2 (*Conditions relating to Optional Currencies*) or, if less, the Available Facility; and
- (e) in any event such that its Base Currency Amount is less than or equal to the Available Facility.

### 5.4 Advance of Loan

5.4.1 The Facility Agent must promptly notify each Lender of the details of the requested Loan and the amount of its share in that Loan.

5.4.2 The amount of each Lender's share of the Loan will be its Pro Rata Share on the proposed Drawdown Date.

5.4.3 No Lender is obliged to participate in a Loan if as a result:

- (a) its share in the aggregate Base Currency Amount of the Loans would exceed its Commitment; or
- (b) the aggregate Base Currency Amount of the Loans would exceed the Total Commitments.

5.4.4 If the conditions set out in this Agreement have been met, and subject to Clause 7.2 (*Cashless Rollover*), each Lender must make its share in the Loan available to the Facility Agent for the Borrower by no later than 2.00 pm on the Drawdown Date.

5.4.5 The Facility Agent shall determine the Base Currency Amount of each Loan which is to be made in an Optional Currency and shall notify each Lender of the amount of each Loan, the amount of its participation in that Loan, and, if different, the amount of that participation to be made available in accordance with 15.2 (*Funds*) in each case by the Specified Time.

## 6. OPTIONAL CURRENCIES

### 6.1 Selection of currency

The Borrower shall select the currency of a Loan in a Request.

### 6.2 Unavailability of a currency

If before the Specified Time on any Rate Fixing Day:

- 6.2.1 a Lender notifies the Facility Agent that the Optional Currency requested is not readily available to it in the amount required; or
- 6.2.2 a Lender notifies the Facility Agent that compliance with its obligation to participate in a Loan in the proposed Optional Currency would contravene a law or regulation applicable to it,

the Facility Agent will give notice to the Borrower to that effect by the Specified Time on that day. In this event, any Lender that gives notice pursuant to this Clause 6.2 will be required to participate in the Loan in the Base Currency (in an amount equal to that Lender's Pro Rata Share of the Base Currency Amount or, in respect of a Rollover Loan, an amount equal to that Lender's Pro Rata Share of the Base Currency Amount of the Rollover Loan that is due to be made) and its participation will be treated as a separate Loan denominated in the Base Currency during that Term.

### 6.3 Participation in a Loan

Each Lender's participation in a Loan will be determined in accordance with sub-clause 5.4.2 of Clause 5.4 (*Advance of Loan*).

## 7. REPAYMENT

### 7.1 Repayment of Loans

7.1.1 The Borrower must repay each Loan in full on its Maturity Date. No Loan may be outstanding after the Final Maturity Date.

7.1.2 Subject to the other terms of this Agreement, any amounts repaid under sub-clause 7.1.1 above may be re-borrowed.

### 7.2 Cashless Rollover

7.2.1 Without prejudice to the Borrower's obligation under Clause 7.1 above, if:

- (a) one or more Loans are to be made available to the Borrower:
  - (i) on the same day that a maturing Loan is due to be repaid by the Borrower;
  - (ii) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 6.2 (*Unavailability of a currency*)); and
  - (iii) in whole or in part for the purpose of refinancing the maturing Loan, and
- (b) the proportion borne by each Lender's participation in the maturing Loan to the amount of that maturing Loan is the same as the proportion borne by that Lender's participation in the new Loans to the aggregate amount of those new Loans,

the aggregate amount of the new Loans shall be treated as if applied in or towards repayment of the maturing Loan so that:

- (a) if the amount of the maturing Loan exceeds the aggregate amount of the new Loans:
  - (i) the Borrower will only be required to pay an amount in cash in the relevant currency equal to that excess; and
  - (ii) each Lender's participation (if any) in the new Loans shall be treated as having been made available and applied by the Borrower in or towards repayment of that Lender's participation (if any) in the maturing Loan and that Lender will not be required to make its participation in the new Loans available in cash; and
- (b) if the amount of the maturing Loan is equal to or less than the aggregate amount of the new Loans:
  - (i) the Borrower will not be required to make any payment in cash; and
  - (ii) each Lender will be required to make its participation in the new Loans available in cash only to the extent that its participation (if any) in the new Loans exceeds that Lender's participation (if any) in the maturing Loan and the remainder of that Lender's participation in the new Loans shall be treated as having been made available and applied by the Borrower in or towards repayment of that Lender's participation in the maturing Loan.

## 8. PREPAYMENT AND CANCELLATION

## 8.1 Mandatory prepayment - illegality

8.1.1 A Lender must notify the Borrower promptly if it becomes aware that it is unlawful in any jurisdiction for that Lender to perform any of its obligations under a Finance Document or to fund or maintain its share in any Loan.

8.1.2 After notification under sub-clause 8.1.1 above:

- (a) the Borrower must repay or prepay the share of that Lender in each Loan made to it on the date specified in sub-clause 8.1.3 below; and
- (b) the Commitments of that Lender will be immediately cancelled.

8.1.3 The date for repayment or prepayment of a Lender's share in a Loan will be:

- (a) the Business Day following receipt by the Borrower of notice from the Lender under sub-clause 8.1.1 above; or
- (b) if later, the latest date allowed by the relevant law.

## 8.2 Mandatory prepayment - change of control

If the Borrower becomes aware of any person (whether alone or together with any associated person or persons) gaining control of the Borrower (for these purposes "associated person" means, in relation to any person, a person who is (i) "acting in concert" (as defined in the City Code on Takeovers and Mergers) with that person or (ii) a "connected person" (as defined in section 1122 of the CTA 2010) of that person and "control" means the relevant person satisfies any of the criteria set out in paragraphs (1)(a) to (c) of Section 1159 of the Companies Act 2006):

8.2.1 within five days of such date, the Borrower shall give notice of such change of control to the Facility Agent;

8.2.2 the Lenders and the Borrower shall immediately enter into negotiations for a period of not more than 45 days from the date of the change of control with a view to agreeing whether the Facility shall continue to be made available and on what terms;

8.2.3 if no such agreement is reached within the said period of 45 days then:

- (a) any Lender may on 10 days' notice to the Facility Agent and to the Borrower require the repayment of its share in each Loan and cancel its Commitment; and
- (b) the Majority Lenders may on 10 days' notice to the Borrower require repayment in full of all outstanding Loans and cancel the Total Commitments; and

8.2.4 a Lender shall not be obliged to fund any further loans under the Facility (except for a Rollover Loan) during the negotiation period set out in sub-clause 8.2.2, and if no agreement is reached within such negotiation period, during the 10 day notice period set out in sub-clause 8.2.3.

There shall be no change of control as a result of the Permitted Reorganisation (including, for the avoidance of doubt, as a result of the ownership arrangements specified in paragraph (a)(ii)(B) of the definition of Permitted Reorganisation).

## 8.3 Voluntary prepayment

8.3.1 The Borrower may, by giving not less than five Business Days' prior written notice to the Facility Agent, prepay any Loan at any time in whole or in part.

8.3.2 A prepayment of part of a Loan must be by an amount that reduces the Base Currency Amount of the Loan by a minimum amount of £5,000,000 and an integral multiple of £1,000,000.

## 8.4 Automatic cancellation

The Commitments of each Lender will be automatically cancelled at the close of business on the last day of the Availability Period.

## 8.5 Voluntary cancellation

8.5.1 The Borrower may, by giving not less than three Business Days' prior written notice to the Facility Agent, cancel the unutilised amount of



the Total Commitments in whole or in part.

8.5.2 Partial cancellation of the Total Commitments must be by an amount that reduces the Base Currency Amount of the Loan by a minimum amount of £5,000,000 and an integral multiple of £1,000,000.

8.5.3 Any cancellation in part shall be applied against the Commitment of each Lender *pro rata*.

## 8.6 Involuntary prepayment and cancellation

8.6.1 If the Borrower is, or will be, required to pay to a Lender a Tax Payment or an Increased Cost, the Borrower may, while the requirement continues, give notice to the Facility Agent requesting prepayment and cancellation in respect of that Lender.

8.6.2 After notification under sub-clause 8.6.1 above:

- (a) the Borrower must repay or prepay that Lender's share in each Loan made to it on the date specified in sub-clause 8.6.3 below; and
- (b) the Commitments of that Lender will be immediately cancelled.

8.6.3 The date for repayment or prepayment of a Lender's share in a Loan will be the last day of the current Term for that Loan or, if earlier, the date specified by the Borrower in its notification.

8.6.4

- (a) If any Lender becomes a Defaulting Lender, the Borrower may, at any time whilst the Lender continues to be a Defaulting Lender, give the Facility Agent five Business Days' notice of cancellation of the Available Commitment of that Lender.
- (b) On the notice referred to in paragraph (a) above becoming effective, the Available Commitment of the Defaulting Lender shall immediately be reduced to zero.
- (c) The Facility Agent shall as soon as practicable after receipt of a notice referred to in paragraph (a) above, notify all the Lenders.

## 8.7 Re-borrowing of Loans

Any voluntary prepayment of a Loan may be re-borrowed on the terms of this Agreement. Any mandatory or involuntary prepayment of a Loan may not be re-borrowed.

## 8.8 Miscellaneous provisions

8.8.1 Any notice of prepayment and/or cancellation under this Agreement is irrevocable and must specify the relevant date(s) and the affected Loans and Commitments. The Facility Agent must notify the Lenders promptly of receipt of any such notice.

8.8.2 All prepayments under this Agreement must be made with accrued interest on the amount prepaid. No premium or penalty is payable in respect of any prepayment except for Break Costs.

8.8.3 The Majority Lenders may agree a shorter notice period for a voluntary prepayment or a voluntary cancellation.

8.8.4 No prepayment or cancellation is allowed except in accordance with the express terms of this Agreement.

8.8.5 Subject to Clause 2.2 (*Increase*), no amount of the Total Commitments cancelled under this Agreement may subsequently be reinstated.

## 9. INTEREST

### 9.1 Calculation of interest

The rate of interest on each Loan for each Term is the percentage rate per annum equal to the aggregate of the applicable:

9.1.1 Margin;

9.1.2 LIBOR, or in relation to any Loan in euro, EURIBOR; and

### 9.1.3 Mandatory Cost.

## 9.2 Payment of interest

Except where it is provided to the contrary in this Agreement, the Borrower must pay accrued interest on each Loan made to it on the last day of each Term and also, if the Term is longer than six months, on the dates falling at six-monthly intervals after the first day of that Term.

## 9.3 Interest on overdue amounts

9.3.1 If the Borrower fails to pay any amount payable by it under the Finance Documents, it must immediately on demand by the Facility Agent pay interest on the overdue amount from its due date up to the date of actual payment, both before, on and after judgment.

9.3.2 Interest on an overdue amount is payable at a rate determined by the Facility Agent to be one per cent. per annum above the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan. For this purpose, the Facility Agent may (acting reasonably):

- (a) select successive Terms of any duration of up to three months; and
- (b) determine the appropriate Rate Fixing Day for that Term.

9.3.3 Notwithstanding sub-clause 9.3.2 above, if the overdue amount is a principal amount of a Loan and becomes due and payable prior to the last day of its current Term, then:

- (a) the first Term for that overdue amount will be the unexpired portion of that Term; and
- (b) the rate of interest on the overdue amount for that first Term will be one per cent. per annum above the rate then payable on that Loan.

After the expiry of the first Term for that overdue amount, the rate on the overdue amount will be calculated in accordance with sub-clause 9.3.2 above.

9.3.4 Interest (if unpaid) on an overdue amount will be compounded with that overdue amount at the end of each of its Terms but will remain immediately due and payable.

## 9.4 Notification of rates of interest

The Facility Agent must promptly notify each relevant Party of the determination of a rate of interest under this Agreement.

## 10. TERMS

### 10.1 Selection

10.1.1 Each Loan has one Term only.

10.1.2 The Borrower must select the Term for a Loan in the relevant Request.

10.1.3 Subject to the following provisions of this Clause, each Term for a Loan will be one, two, three or six months or any other period agreed between the Borrower and the Lenders in relation to the relevant Loan.

10.1.4 A Term for a Loan shall start on the Drawdown Date for that Loan.

### 10.2 No overrunning the Final Maturity Date

If a Term would otherwise overrun the Final Maturity Date, it will be shortened so that it ends on the Final Maturity Date.

### 10.3 Other adjustments

10.3.1 The Facility Agent and the Borrower may enter into such other arrangements as they may agree for the adjustment of Terms and the

consolidation and/or splitting of Loans.

10.3.2 Subject to sub-clause 10.3.3 below, if two or more Terms in respect of Loans denominated in the same currency end on the same date, those Loans will, unless the Borrower specifies to the contrary in the Request for the next Term, be consolidated into, and treated as, a single Loan on the last day of the Term.

10.3.3 Subject to Clause 4.4 (*Maximum Number*) and Clause 5.2 (*Completion of Requests*) if the Borrower requests in a Request that a Loan be divided into two or more Loans, that Loan will, on the last day of its Term, be so divided into the amounts specified in that Request, having an aggregate amount equal to the amount of and in the same currency as the Loan immediately before its division.

#### 10.4 Notification

The Facility Agent must notify the Borrower and the Lenders of the duration of each Term promptly after ascertaining its duration.

### 11. MARKET DISRUPTION

#### 11.1 Failure of a Reference Bank to supply a rate

If LIBOR, or if applicable EURIBOR is to be calculated by reference to the Reference Banks but a Reference Bank does not supply a rate by 12.00 noon on a Rate Fixing Day, the applicable LIBOR will, subject as provided below, be calculated on the basis of the rates of the remaining Reference Banks.

#### 11.2 Market disruption

11.2.1 In this Clause, each of the following events is a **market disruption event**:

- (a) LIBOR, or if applicable, EURIBOR is to be calculated by reference to the Reference Banks but no, or only one, Reference Bank supplies a rate by 12.00 noon on the Rate Fixing Day; or
- (b) the Facility Agent receives by close of business on the Rate Fixing Day notification from Lenders whose shares in the relevant Loan exceed 50 per cent. of that Loan that such Lenders are unable to obtain matching deposits in the Relevant Interbank Market or the rate at which they can do so is in excess of LIBOR, or if applicable, EURIBOR for the relevant Term.

11.2.2 The Facility Agent must promptly notify the Borrower and the Lenders of a market disruption event.

11.2.3 After notification under sub-clause 11.2.2 above, the rate of interest on each Lender's share in the affected Loan for the relevant Term will be the aggregate of the applicable:

- (a) Margin;
- (b) rate notified to the Facility Agent by that Lender as soon as practicable, and in any event before interest is due to be paid in respect of that Term, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its share in that Loan from whatever source it may reasonably select; and
- (c) Mandatory Cost.

#### 11.3 Alternative basis of interest or funding

11.3.1 If a market disruption event occurs and the Facility Agent or the Borrower so requires, the Borrower and the Facility Agent must enter into negotiations for a period of not more than 30 days with a view to agreeing an alternative basis for determining the rate of interest and/or funding for the affected Loan and any future Loan.

11.3.2 Any alternative basis agreed will be, with the prior consent of all the Lenders, binding on all the Parties.

### 12. TAX GROSS-UP AND INDEMNITIES

#### 12.1 Definitions

12.1.1 In this Agreement:

**"Qualifying Lender"** means:

- (a) a Lender which is beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document and is:
  - (i) a Lender:
    - (A) which is a bank (as defined for the purpose of section 879 of ITA) making an advance under a Finance Document and which is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance or would be within such charge as respects such payment apart from section 18A of the CTA 2009; or
    - (B) in respect of an advance made under a Finance Document by a person that was a bank (as defined for the purpose of section 879 of ITA) at the time that that advance was made, and which is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance; or
  - (ii) a Lender which is:
    - (A) a company resident in the United Kingdom for United Kingdom tax purposes;
    - (B) a partnership each member of which is:
      - (1) a company so resident in the United Kingdom; or
      - (2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA 2009) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA 2009; or
    - (C) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA 2009) of that company; or
  - (iii) a Treaty Lender; or
- (b) a Lender which is a building society (as defined for the purpose of section 880 of ITA) making an advance under a Finance Document.

**"Tax Confirmation"** means a confirmation by a Lender that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:

- (a) a company resident in the United Kingdom for United Kingdom tax purposes;
- (b) a partnership each member of which is:
  - (i) a company so resident in the United Kingdom; or
  - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA 2009) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA 2009; or
- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA 2009) of that company.

**"Tax Credit"** means a credit against, relief or remission for, or repayment of any Tax.

**"Tax Deduction"** means a deduction or withholding for or on account of Tax from a payment under a Finance Document.

**"Tax Payment"** means either the increase in a payment made by the Borrower to a Finance Party under Clause 12.2 ( *Tax gross-up*) or a payment under Clause 12.3 ( *Tax indemnity*).

**"Treaty Lender"** means a Lender which:

- (a) is treated as a resident of a Treaty State for the purposes of the Treaty;
- (b) does not carry on a business in the United Kingdom through a permanent establishment with which that Lender's participation in the Loan is effectively connected; and
- (c) meets all other conditions which must be met under the Treaty for residents of such Treaty State to obtain full exemption from tax on interest imposed by the United Kingdom, except that for this purpose it shall be assumed that the following are satisfied:
  - (i) any condition which relates (expressly or by implication) to the amounts or terms of any Loan or the Finance Documents or any condition which relates (expressly or by implication) to there not being a special relationship between the Borrower and the Finance Party or between them both and another person; and
  - (ii) any necessary procedural formality.

**"Treaty State"** means a jurisdiction having a double taxation agreement (a "Treaty") with the United Kingdom which makes provision for full exemption from tax imposed by the United Kingdom on interest.

**"UK Non-Bank Lender"** means where a Lender becomes a Party after the day on which this Agreement is entered into, a Lender which gives a Tax Confirmation in the assignment agreement, Transfer Certificate or Increase Confirmation which it executes on becoming a Party.

12.1.2 Unless a contrary indication appears, in this Clause 12 a reference to "determines" or "determined" means a determination made in the absolute discretion of the person making the determination.

## 12.2 Tax gross-up

12.2.1 The Borrower shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.

12.2.2 The Borrower shall promptly upon becoming aware that it must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Facility Agent accordingly. Similarly, a Lender shall notify the Facility Agent on becoming so aware in respect of a payment payable to that Lender. If the Facility Agent receives such notification from a Lender it shall notify the Borrower.

12.2.3 If a Tax Deduction is required by law to be made by the Borrower, the amount of the payment due from the Borrower shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.

12.2.4 A payment shall not be increased under sub-clause 12.2.3 above by reason of a Tax Deduction on account of Tax imposed by the United Kingdom, if on the date on which the payment falls due:

- (a) the payment could have been made to the relevant Lender without a Tax Deduction if the Lender had been a Qualifying Lender, but on that date that Lender is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Lender under this Agreement in (or in the interpretation, administration, or application of) any law or Treaty, or any published practice or published concession of any relevant taxing authority; or
- (b) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
  - (i) an officer of HM Revenue & Customs has given (and not revoked) a direction (a "Direction") under section 931 of the ITA which relates to the payment and that Lender has received from the Borrower a certified copy of that Direction; and
  - (ii) the payment could have been made to the Lender without any Tax Deduction if that Direction had not been made; or
- (c) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
  - (i) the relevant Lender has not given a Tax Confirmation to the Borrower; and

- (ii) the payment could have been made to the Lender without any Tax Deduction if the Lender had given a Tax Confirmation to the Borrower on the basis that the Tax Confirmation would have enabled the Borrower to have formed a reasonable belief that the payment was an "excepted payment" for the purpose of section 930 of the ITA; or
  - (d) the relevant Lender is a Treaty Lender and the Borrower making the payment is able to demonstrate that the payment could have been made to the Lender without the Tax Deduction had that Lender complied with its obligations under sub-clause 12.2.7 below.
- 12.2.5 If the Borrower is required to make a Tax Deduction, the Borrower shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.
- 12.2.6 Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Borrower making that Tax Deduction shall deliver to the Facility Agent for the Finance Party entitled to the payment a statement under Section 975 of the ITA, or other evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.
- 12.2.7
- (a) Subject to paragraph (b) below, a Treaty Lender and the Borrower which makes a payment to which that Treaty Lender is entitled shall co-operate in completing any procedural formalities necessary for that Borrower to obtain authorisation to make that payment without a Tax Deduction.
  - (b) Nothing in paragraph (a) above shall require a Treaty Lender to:
    - (i) register under the HMRC DT Treaty Passport scheme;
    - (ii) apply the HMRC DT Treaty Passport scheme to any Loan if it has so registered; or
    - (iii) file Treaty forms if it has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 12.2.9 below or sub-clause 12.6.1 of Clause 12.6 (*HMRC DT Treaty Passport scheme confirmation*) and the Borrower making that payment has not complied with its obligations under sub-clause 12.2.10 below or sub-clause 12.6.2 of Clause 12.6 (*HMRC DT Treaty Passport scheme confirmation*).
- 12.2.8 A UK Non-Bank Lender shall promptly notify the Borrower and the Facility Agent if there is any change in the position from that set out in the Tax Confirmation.
- 12.2.9 A Treaty Lender which becomes a Party on the day on which this Agreement is entered into that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Borrower) by including its scheme reference number and its jurisdiction of tax residence opposite its name in Schedule 1 (*Original Parties*).
- 12.2.10 Where a Lender includes the indication described in sub-clause 12.2.9 above in Schedule 1 (*Original Parties*), the Borrower shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the date of this Agreement and shall promptly provide the Lender with a copy of that filing **provided that** the Borrower shall not be liable in respect of any non-compliance with its obligations under this sub-clause 12.2.10 where such non-compliance is due to circumstances beyond the control of the Borrower (including, without limitation, any delay, failure or omission on the part of the relevant Lender or the Facility Agent to comply with any obligation owed to the Borrower, or to any inaccuracy in any information provided by the relevant Lender or the Facility Agent in connection with the DT Treaty Passport scheme).
- 12.2.11 Any Lender which has confirmed that it is entitled to use its DT Treaty Passport in accordance with sub-clause 12.2.9 or sub-clause 12.6.1 of Clause 12.6 (*HMRC DT Treaty Passport scheme confirmation*) will reasonably promptly notify the Facility Agent and the Borrower if at any time it ceases to hold a passport under the HMRC DT Treaty Passport scheme or if it ceases to be able to use such passport as a Lender.
- 12.2.12 If a Lender has not included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 12.2.9 above or sub-clause 12.6.1 of Clause 12.6 (*HMRC DT Treaty Passport scheme confirmation*), the Borrower shall not file any form relating to the HMRC DT Treaty Passport scheme in respect of that Lender's Commitment or its participation in any Loan.

## 12.3 Tax indemnity

- 12.3.1 Except as provided below, the Borrower must indemnify a Finance Party, within three Business Days of demand, against any loss or

liability which that Finance Party (in its absolute discretion) determines will be or has been suffered (directly or indirectly) by that Finance Party for or on account of Tax in relation to a payment received or receivable (or any payment deemed to be received or receivable) under a Finance Document.

12.3.2 Sub-clause 12.3.1 above does not apply to any Tax assessed on a Finance Party under the laws of the jurisdiction in which:

- (a) that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or
- (b) that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction,

if that Tax is imposed on or calculated by reference to the net income received or receivable by that Finance Party. However, any payment deemed to be received or receivable, including any amount treated as income but not actually received by the Finance Party, such as a Tax Deduction, will not be treated as net income received or receivable for this purpose.

12.3.3 Sub-clause 12.3.1 above does not apply to any Tax assessed on a Finance Party to the extent the loss or liability:

- (a) is compensated for by an increased payment under Clause 12.2 (*Tax gross-up*); or
- (b) would have been compensated for by an increased payment under Clause 12.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in Clause 12.2 (*Tax gross-up*) applied.

12.3.4 A Finance Party making, or intending to make, a claim under sub-clause 12.3.1 above must promptly notify the Borrower of the event which will give, or has given, rise to the claim.

## 12.4 Tax Credit

If the Borrower makes a Tax Payment and the relevant Finance Party determines that:

- (a) a Tax Credit is attributable to an increased payment of which that Tax Payment forms part, to that Tax Payment or to a Tax Deduction in consequence of which that Tax Payment was required; and
- (b) that Finance Party has obtained and utilised that Tax Credit,

then, if in its discretion (acting reasonably) it can do so without any further adverse consequences for it, the Finance Party shall pay an amount to the Borrower which that Finance Party determines will leave it (after that payment) in the same after Tax position as it would have been in had the Tax Payment not been required to be made by the Company.

## 12.5 Lender Status Confirmation

Each Lender which becomes a Party to this Agreement after the date of this Agreement shall indicate, in the Transfer Certificate, assignment agreement or Increase Confirmation which it executes on becoming a Party, and for the benefit of the Facility Agent and without liability to the Borrower, which of the following categories it falls in:

- 12.5.1 not a Qualifying Lender;
- 12.5.2 a Qualifying Lender (other than a Treaty Lender); or
- 12.5.3 a Treaty Lender.

If a New Lender or Increase Lender fails to indicate its status in accordance with this Clause 12.5 then such New Lender or Increase Lender shall be treated for the purposes of this Agreement as if it is not a Qualifying Lender until such time as it notifies the Facility Agent which category applies (and the Facility Agent, upon receipt of such notification, shall inform the Borrower). For the avoidance of doubt, a Transfer Certificate, assignment agreement or Increase Confirmation shall not be invalidated by any failure of a Lender to comply with this Clause 12.5.

## 12.6 HMRC DT Treaty Passport scheme confirmation

12.6.1 A New Lender or Increase Lender that is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without

liability to the Borrower) in the assignment agreement, Transfer Certificate or Increase Confirmation (as applicable) which it executes by including its scheme reference number and its jurisdiction of tax residence in that assignment agreement, Transfer Certificate or Increase Confirmation.

12.6.2 Where a New Lender or Increase Lender includes the indication described in sub-clause 12.6.1 above in the relevant assignment agreement, Transfer Certificate or Increase Confirmation (as applicable) the Borrower shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the relevant Transfer Date or the date on which such assignment or increase takes effect and shall promptly provide the Lender with a copy of that filing.

## 12.7 Stamp taxes

The Borrower shall pay and, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document, except for any such Tax payable in respect of a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document.

## 12.8 VAT

12.8.1 All amounts expressed to be payable under a Finance Document by any Party to a Finance Party which (in whole or in part) constitute the consideration for any supply for VAT purposes are deemed to be exclusive of any VAT which is chargeable on that supply and accordingly, subject to sub-clause 12.8.2 below, if VAT is or becomes chargeable on any supply made by any Finance Party to any Party under a Finance Document and such Finance Party is required to account to the relevant tax authority for the VAT, that Party must pay to such Finance Party (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of the VAT (and such Finance Party must promptly provide an appropriate VAT invoice to that Party).

12.8.2 If VAT is or becomes chargeable on any supply made by any Finance Party (the "Supplier") to any other Finance Party (the "Recipient") under a Finance Document, and any Party other than the Recipient (the "Relevant Party") is required by the terms of any Finance Document to pay an amount equal to the consideration for that supply to the Supplier (rather than being required to reimburse or indemnify the Recipient in respect of that consideration):

- (a) (where the Supplier is the person required to account to the relevant tax authority for the VAT) the Relevant Party must also pay to the Supplier (at the same time as paying that amount) an additional amount equal to the amount of the VAT. The Recipient must (where this paragraph (a) applies) promptly pay to the Relevant Party an amount equal to any credit or repayment the Recipient receives from the relevant tax authority which the Recipient reasonably determines relates to the VAT chargeable on that supply; and
- (b) (where the Recipient is the person required to account to the relevant tax authority for the VAT) the Relevant Party must promptly, following demand from the Recipient pay to the Recipient an amount equal to the VAT chargeable on that supply but only to the extent that the Recipient reasonably determines that it is not entitled to credit or repayment from the relevant tax authority in respect of that VAT.

12.8.3 Where a Finance Document requires any Party to reimburse or indemnify a Finance Party for any cost or expense, that Party shall reimburse or indemnify (as the case may be) such Finance Party for the full amount of such cost or expense, including such part thereof as represents VAT, save to the extent that such Finance Party reasonably determines that it is entitled to credit or repayment in respect of such VAT from the relevant tax authority.

12.8.4 Any reference in this Clause 12.8 to any Party shall, at any time when such Party is treated as a member of a group for VAT purposes, include (where appropriate and unless the context otherwise requires) a reference to the representative member of such group at such time (the term "representative member" to have the same meaning as in the Value Added Tax Act 1994).

12.8.5 In relation to any supply made by a Finance Party to any Party under a Finance Document if reasonably requested by such Finance Party that Party must promptly provide such Finance Party with details of that Party's VAT registration and such other information as is reasonably requested in connection with such Finance Party's VAT reporting requirements in relation to such supply.

## 13. INCREASED COSTS

### 13.1 Increased Costs

Except as provided below in this Clause, the Borrower must pay to a Finance Party the amount of any Increased Cost incurred by that Finance Party or any of its Affiliates as a result of:



- 13.1.1 the introduction of, or any change in, or any change in the interpretation or application of, any law or regulation;
- 13.1.2 compliance with any law or regulation made after the date of this Agreement; or
- 13.1.3 the implementation or application of, or compliance with, Basel III or any law or regulation that implements or applies Basel III.

## 13.2 Exceptions

The Borrower need not make any payment for an Increased Cost to the extent that the Increased Cost is:

- 13.2.1 compensated for under another Clause or would have been but for an exception to that Clause;
- 13.2.2 a Tax on the overall net income of a Finance Party or any of its Affiliates; or
- 13.2.3 attributable to a Finance Party or its Affiliate wilfully failing to comply with any law or regulation.

## 13.3 Claims

A Finance Party intending to make a claim for an Increased Cost must notify the Borrower promptly of the circumstances giving rise to, and the amount of, the claim.

## 14. MITIGATION

### 14.1 Mitigation

14.1.1 Each Finance Party must, in consultation with the Borrower (other than upon the occurrence of an event referred to at paragraph (d) below where no such consultation is required), take all reasonable steps to mitigate any circumstances which arise and which result or would result in the Facility ceasing to be available or:

- (a) any Tax Payment or Increased Cost being payable to that Finance Party;
- (b) that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
- (c) that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank; or
- (d) the occurrence of any market disruption event,

including transferring its rights and obligations under the Finance Documents to an Affiliate or changing its Facility Office.

14.1.2 A Finance Party is not obliged to take any step under this Clause 14 if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.

14.1.3 Each Finance Party must promptly notify the Borrower of any circumstances as described in paragraphs (a) to (d) of sub-clause 14.1.1 of this Clause 14.1.

14.1.4 The Borrower must indemnify each Finance Party for all costs and expenses reasonably incurred by it as a result of any step taken under this Clause 14.1.

14.1.5 This Clause does not in any way limit the obligations of the Borrower under the Finance Documents.

### 14.2 Substitution

Notwithstanding Clause 14.1 (*Mitigation*), if any circumstances arise which result in:

- 14.2.1 any Tax Payment or Increased Cost being payable to that Finance Party;
- 14.2.2 that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;

14.2.3 that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank; or

14.2.4 the occurrence of any market disruption event,

then the Borrower, at its expense, at any time within 180 days after the occurrence of the relevant event or circumstance, so long as no Default is outstanding, may by notice to the Facility Agent and such Finance Party require it (and, if applicable, its Affiliate) to (and to the extent permitted by law such Finance Party or, if applicable, its Affiliate shall) novate pursuant to Clause 28 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement to a bank, financial institution, trust, fund or other entity (a "**Replacement Finance Party**") selected by the Borrower, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations of the transferring Finance Party (including the assumption of the transferring Finance Party's participations or unfunded participations (as the case may be) on the same basis as the transferring Finance Party) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Finance Party's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 28.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable to such Finance Party under the Finance Documents **provided that**:

14.2.5 the Borrower shall have paid to the Finance Party (or, if applicable, its Affiliate) all amounts accrued and owing to such Finance Party (or, if applicable, its Affiliate) hereunder;

14.2.6 the Borrower shall have no right to replace the Facility Agent;

14.2.7 neither the Facility Agent nor such Finance Party shall have any obligation to the Borrower to find a Replacement Finance Party;

14.2.8 the transfer must take place no later than 14 days after the notice referred to above; and

14.2.9 in no event shall such Finance Party be required to pay or surrender to the Replacement Finance Party any of the fees received by such Finance Party pursuant to the Finance Documents.

Notwithstanding the above, the Borrower shall not be entitled to require a novation under this Clause 14.2 with respect to any Finance Party if:

14.2.10 the relevant Finance Party shall have mitigated the effect of the relevant event or circumstance as provided in sub-clause 14.1.1 of Clause 14.1 (*Mitigation*), and the novation would have no greater or further mitigating effect; or

14.2.11 the relevant event or circumstances are applicable to all Finance Parties.

### 14.3 **Conduct of business by a Finance Party**

No term of this Agreement will:

14.3.1 interfere with the right of any Finance Party to arrange its affairs (Tax or otherwise) in whatever manner it thinks fit or oblige any Finance Party to investigate or claim any Tax Credit; or

14.3.2 oblige any Finance Party to disclose any information relating to its affairs (Tax or otherwise) or any computation in respect of Tax.

## 15. **PAYMENTS**

### 15.1 **Place**

Unless a Finance Document specifies that payments under it are to be made in another manner, all payments by a Party (other than the Facility Agent) under the Finance Documents must be made to the Facility Agent to its account at such office or bank in the principal financial centre of the country of that currency or, in relation to euro, in a principal centre in a Participating Member State or London as it may notify to that Party for this purpose by not less than five Business Days' prior notice.

### 15.2 **Funds**

Payments under the Finance Documents to the Facility Agent must be made for value on the due date at such times and in such funds as the Facility Agent may specify to the Party concerned as being customary at the time for the settlement of transactions in the relevant currency in the place of payment.

### 15.3 **Distribution**

- 15.3.1 Each payment received by the Facility Agent under the Finance Documents for another Party must, except as provided below, be made available by the Facility Agent to that Party by payment (as soon as practicable after receipt) to its account with such office or bank in the principal financial centre of the country of that currency or, in relation to euro, in a principal centre in a Participating Member State or London as it may notify to the Facility Agent for this purpose by not less than five Business Days' prior notice.
- 15.3.2 The Facility Agent may apply any amount received by it for the Borrower in or towards payment (as soon as practicable after receipt) of any amount due from the Borrower under the Finance Documents or in or towards the purchase of any amount of any currency to be so applied.
- 15.3.3 Where a sum is paid to the Facility Agent under this Agreement for another Party, the Facility Agent is not obliged to pay that sum to that Party until it has established that it has actually received it. However, the Facility Agent may assume that the sum has been paid to it, and, in reliance on that assumption, make available to that Party a corresponding amount. If it transpires that the sum has not been received by the Facility Agent, that Party must immediately on demand by the Facility Agent refund any corresponding amount made available to it together with interest on that amount from the date of payment to the date of receipt by the Facility Agent at a rate calculated by the Facility Agent to reflect its cost of funds.

#### 15.4 Currency of account

- 15.4.1 Subject to sub-clauses 15.4.2 and 15.4.5 below, the Base Currency is the currency of account and payment for any sum due from the Borrower under any Finance Document.
- 15.4.2 A repayment of a Loan or Unpaid Sum or a part of a Loan or Unpaid Sum shall be made in the currency in which that Loan or Unpaid Sum is denominated on its due date.
- 15.4.3 Each payment of interest shall be made in the currency in which the sum in respect of which the interest is payable was denominated when that interest accrued.
- 15.4.4 Amounts payable in respect of costs and expenses and Taxes are payable in the currency in which they are incurred.
- 15.4.5 Any amount expressed to be payable in a currency other than the Base Currency shall be paid in that other currency.

#### 15.5 No set-off or counterclaim

All payments made by the Borrower under the Finance Documents must be made without set-off or counterclaim.

#### 15.6 Business Days

- 15.6.1 If a payment under the Finance Documents is due on a day which is not a Business Day, the due date for that payment will instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not) or whatever day the Facility Agent determines is market practice.
- 15.6.2 During any extension of the due date for payment of any principal (or overdue amount) under this Agreement interest is payable on that principal (or overdue amount) at the rate payable on the original due date.

#### 15.7 Impaired Agent

- 15.7.1 If, at any time, the Facility Agent becomes an Impaired Agent, the Borrower or a Lender which is required to make a payment under the Finance Documents to the Facility Agent in accordance with Clause 15.1 (*Place*) may instead either pay that amount direct to the required recipient or pay that amount to an interest bearing account held with an Acceptable Bank and in relation to which no Insolvency Event has occurred and is continuing, in the name of the Borrower or the Lender making the payment and designated as a trust account for the benefit of the Party or Parties beneficially entitled to that payment under the Finance Documents. In each case such payments must be made on the due date for payment under the Finance Documents.
- 15.7.2 All interest accrued on the amount standing to the credit of the trust account shall be for the benefit of the beneficiaries of that trust account *pro rata* to their respective entitlements.
- 15.7.3 A Party which has made a payment in accordance with this Clause 15.7 shall be discharged of the relevant payment obligation under the Finance Documents and shall not take any credit risk with respect to the amounts standing to the credit of the trust account.
- 15.7.4 Promptly upon the appointment of a successor Facility Agent in accordance with Clause 22.14 (*Replacement of the Facility Agent*), each

Party which has made a payment to a trust account in accordance with this Clause 15.7 shall give all requisite instructions to the bank with whom the trust account is held to transfer the amount (together with any accrued interest) to the successor Facility Agent for distribution in accordance with Clause 15.3 (*Distribution*).

15.7.5 For the purposes of this Clause 15.7 only, an Acceptable Bank shall include any bank or financial institution approved by the Facility Agent or, if the Facility Agent is an Impaired Agent, the Majority Lenders.

## 15.8 Partial payments

15.8.1 If any Administrative Party receives a payment insufficient to discharge all the amounts then due and payable by the Borrower under the Finance Documents, the Administrative Party must apply that payment towards the obligations of the Borrower under the Finance Documents in the following order:

- (a) **first**, in or towards payment *pro rata* of any unpaid fees, costs and expenses of the Administrative Parties under the Finance Documents;
- (b) **secondly**, in or towards payment *pro rata* of any accrued interest or fee due but unpaid under this Agreement;
- (c) **thirdly**, in or towards payment *pro rata* of any principal amount due but unpaid under this Agreement; and
- (d) **fourthly**, in or towards payment *pro rata* of any other sum due but unpaid under the Finance Documents.

15.8.2 The Facility Agent must, if so directed by all the Lenders, vary the order set out in paragraphs (a) to (d) of sub-clause 15.8.1 of this Clause 15.8.

15.8.3 This Clause will override any appropriation made by the Borrower.

## 15.9 Timing of payments

If a Finance Document does not provide for when a particular payment is due, that payment will be due within three Business Days of demand by the relevant Finance Party.

## 16. PERMITTED REORGANISATION

Nothing in this Agreement shall restrict or prevent in any way the Borrower or any other member of the Group from undertaking any Permitted Reorganisation.

## 17. REPRESENTATIONS

### 17.1 Representations

The representations set out in this Clause are made by the Borrower to each Finance Party.

### 17.2 Status

It is a limited liability company, duly incorporated and validly existing under the Companies Act 2006 in England and Wales.

### 17.3 Powers and authority

It has the power to enter into and perform, and has taken all necessary action to authorise the entry into and performance of, the Finance Documents to which it is or will be a party and the transactions contemplated by those Finance Documents.

### 17.4 Legal validity

Subject to any general principles of law limiting its obligations and referred to in any legal opinion required under this Agreement, each Finance Document to which it is a party is its legally binding, valid and enforceable obligation.

### 17.5 Non-conflict

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not conflict with any borrowing or other power or restriction granted or imposed by:

17.5.1 any law or regulation applicable to it and violation of which has or is likely to have a Material Adverse Effect; or

17.5.2 its constitutional documents.

#### 17.6 No default

17.6.1 No Event of Default is outstanding or might reasonably be expected to result from the making of any Loan.

17.6.2 No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries') assets are subject which might have a Material Adverse Effect.

#### 17.7 Authorisations

All authorisations required by it (including any authorisations required under PUHCA or the Act, if any):

17.7.1 in connection with the entry into, performance, validity and enforceability of, and the transactions contemplated by, the Finance Documents; and

17.7.2 to make the Finance Documents admissible in evidence in England and Wales,

have been obtained or effected (as appropriate) and are in full force and effect.

#### 17.8 Financial statements

Its and each of the Distribution Companies' audited consolidated financial statements most recently delivered to the Facility Agent (which, at the date of this Agreement, are the Original Financial Statements):

17.8.1 have been prepared in accordance with accounting principles and practices generally accepted in its jurisdiction of incorporation, consistently applied; and

17.8.2 fairly represent its consolidated financial condition as at the date to which they were drawn up,

except, in each case, as disclosed to the contrary in those financial statements.

#### 17.9 No material adverse change

Other than as disclosed in writing to the Arranger prior to the date of this Agreement, there has been no material adverse change in its consolidated financial condition since the date to which the Original Financial Statements were drawn up.

#### 17.10 Litigation

No litigation, arbitration or administrative proceedings are current or, to its knowledge, pending or threatened, which, if adversely determined, are reasonably likely to have a Material Adverse Effect.

#### 17.11 Winding Up

No meeting has been convened for its winding-up and, so far as it is aware, no petition, application or the like is outstanding for its winding-up.

#### 17.12 Non-Violation of other Agreements:

Its entry into, exercise of its rights and/or performance of or compliance with its obligations under this Agreement do not and will not violate, to an extent or in a manner which has or is likely to have a Material Adverse Effect on it, any agreement to which it is a party or which is binding on it.

#### 17.13 Governing Law and Enforcement

17.13.1 The choice of English law as the governing law of the Finance Documents will be recognised and enforced in its jurisdiction of incorporation.

17.13.2 Any judgement obtained in England in relation to a Finance Document will be recognised and enforced in its jurisdiction of incorporation.

#### 17.14 Deduction of Tax

It is not required to make any deduction for or on account of Tax from any payment it may make under any Finance Document to a Lender which is:

##### 17.14.1 a Qualifying Lender:

- (a) falling within paragraph (a)(i) of the definition of Qualifying Lender; or
- (b) except where a Direction has been given under section 931 of the ITA in relation to the payment concerned, falling within paragraph (a)(ii) of the definition of Qualifying Lender; or
- (c) falling within paragraph (b) of the definition of Qualifying Lender; or

##### 17.14.2 a Treaty Lender and the payment is one specified in a direction given by the Commissioners of Revenue & Customs under Regulation 2 of the Double Taxation Relief (Taxes on Income) (General) Regulations 1970 (SI 1970/488).

#### 17.15 No filing or stamp taxes

Under the law of its jurisdiction of incorporation it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents (which for these purposes does not include a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document) or the transactions contemplated by the Finance Documents.

#### 17.16 No misleading Information

17.16.1 Any factual information provided by any member of the Group for the purposes of the Information Package was true and accurate in all material respects as at the date it was provided or as at the date (if any) at which it is stated.

17.16.2 The financial projections contained in the Information Package have been prepared on the basis of recent historical information and on the basis of reasonable assumptions.

17.16.3 Nothing has occurred or been omitted from the Information Package and no information has been given or withheld that results in the information contained in the Information Package being untrue or misleading in any material respect.

#### 17.17 Pari Passu ranking

Its payment obligations under the Finance Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

#### 17.18 Licence

Each Licence is in full force and effect and there is no investigation or proceeding current, pending or threatened which could, if adversely determined, result in the termination of any Licence.

#### 17.19 Anti-corruption law

Each member of the Group has conducted its businesses in compliance with applicable anti-corruption laws and has instituted and maintained policies and procedures designed to promote and achieve compliance with such laws.

#### 17.20 Sanctions

No member of the Group or, to the knowledge of the Borrower, any director, officer, employee, agent, affiliate or representative of any member of the Group is an individual or entity (the "Person") currently the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control (the "OFAC"), the United Nations Security Council (the "UNSC"), the European Union, Her Majesty's Treasury (the "HMT"), or other relevant sanctions authority (collectively, "Sanctions"), nor is any member of the Group located, organized or resident in a country or territory that is the subject of Sanctions. The Borrower represents and covenants for itself and on behalf of other members of the Group that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise

make available such proceeds to any subsidiary, joint venture partner or other Person, to fund any activities of or business with any Person, or in Burma/Myanmar, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

#### 17.21 Times for making representations

17.21.1 The representations set out in this Clause are made by the Borrower on the date of this Agreement.

17.21.2 The representations in Clauses 17.2 to 17.6.1 (inclusive) and Clauses 17.7, 17.8, 17.10, 17.12, 17.13, 17.17 and 17.19 are deemed to be repeated by the Borrower on the date of each Request and the first day of each Term.

17.21.3 When a representation is repeated, it is applied to the circumstances existing at the time of repetition.

### 18. INFORMATION COVENANTS

#### 18.1 Financial statements

18.1.1 The Borrower must supply to the Facility Agent (in sufficient copies for all the Lenders if the Facility Agent so requests):

- (a) its and each of the Distribution Companies' audited consolidated financial statements for each of their financial years; and
- (b) its interim consolidated financial statements for the first half-year of each of its financial years.

18.1.2 All financial statements must be supplied as soon as they are available and:

- (a) in the case of the Borrower's and each of the Distribution Companies' audited consolidated financial statements, within 180 days; and
  - (b) in the case of the Borrower's interim financial statements, within 90 days,
- of the end of the relevant financial period.

#### 18.2 Form of Financial Statement

If any financial statement delivered or to be delivered to the Facility Agent under Clause 18.1 is not to be or, as the case may be, has not been prepared in accordance with Applicable Accounting Principles:

18.2.1 the Borrower and the Facility Agent (on behalf of and after consultation with all the Lenders) shall, on the request of the Facility Agent or the Borrower, negotiate in good faith with a view to agreeing such amendments to the financial ratios and/or the definitions of the terms used in Clause 19 (*Financial covenants*) as are necessary to give the Lenders comparable protection to that contemplated at the date of this Agreement;

18.2.2 if amendments are agreed by the Borrower and the Majority Lenders within 25 days, those amendments shall take effect in accordance with the terms of that agreement; and

18.2.3 if such amendments are not so agreed within 25 days, the Borrower shall:

- (a) within 30 days after the end of that 25 day period; and
- (b) with all subsequent financial statements to be delivered to the Facility Agent under Clause 18.1,

deliver to the Facility Agent details of all such adjustments as need to be made to the relevant financial statements to bring them into line with the Companies Act 2006 (as in effect on the date of this Agreement) and Applicable Accounting Principles.

#### 18.3 Compliance Certificate

18.3.1 The Borrower must supply to the Facility Agent a Compliance Certificate with each set of its financial statements sent to the Facility Agent under this Agreement.

18.3.2 Each Compliance Certificate must be signed by two directors of the Borrower.

#### 18.4 Information - miscellaneous

The Borrower must supply to the Facility Agent, in sufficient copies for all the Lenders if the Facility Agent so requests:

- 18.4.1 copies of all documents despatched by the Borrower to its creditors generally (or any class of them) at the same time as they are despatched;
- 18.4.2 promptly upon becoming aware of them, details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group and which might, if adversely determined, have a Material Adverse Effect;
- 18.4.3 promptly, details of the loss of any Licence or any communication from OFGEM or other government agency regarding any potential or threatened loss of any Licence;
- 18.4.4 promptly, details of any modification of an authorisation or other material regulatory notices received by any Distribution Company from OFGEM or any other government agency;
- 18.4.5 a copy of all material information relating to any matter which is reasonably likely to have a Material Adverse Effect which any Distribution Company supplies to, or receives from, any applicable regulatory body (including OFGEM) (at the same time as it is supplied to, or promptly following its receipt from, the applicable regulatory body);
- 18.4.6 written notice of the details of any proposed changes to the Licence as soon as reasonably practicable after becoming aware of the same (other than changes of a formal, minor or technical nature);
- 18.4.7 within five Business Days of receiving them, details of any change to the rating by Moody's or Standard & Poor's of the long-term, unsecured and non credit-enhanced debt obligations of the Borrower;
- 18.4.8 the Borrower shall deliver to the Facility Agent at such times as those reports are prepared in order to comply with the then current statutory or auditing requirements (as applicable either to the trustees of any relevant schemes or to the Borrower), actuarial reports in relation to all pension schemes mentioned in sub-clause 20.15.2 of Clause 20.15 (*Pensions*). This obligation shall apply to only those pension schemes (or groups of the Electricity Supply Pension Scheme) of which the Borrower is at that time a participating employer and to those reports which have been provided to the Borrower; and
- 18.4.9 promptly on request, such further information regarding the financial condition, business and operations of the Group as any Finance Party through the Facility Agent may reasonably request.

#### 18.5 Notification of Default

- 18.5.1 The Borrower must notify the Facility Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
- 18.5.2 Promptly on request by the Facility Agent, the Borrower must supply to the Facility Agent a certificate signed by two of its directors on its behalf, certifying that no Default is outstanding or, if a Default is outstanding, specifying the Default and the steps, if any, being taken to remedy it.

#### 18.6 Use of websites

- 18.6.1 Except as provided below, the Borrower may deliver any information under this Agreement to a Lender by posting it on to an electronic website if:
  - (a) the Facility Agent and the Lender agree;
  - (b) the Borrower and the Facility Agent designate an electronic website for this purpose;
  - (c) the Borrower notifies the Facility Agent of the address of and password for the website; and
  - (d) the information posted is in a format agreed between the Borrower and the Facility Agent.

The Facility Agent must supply each relevant Lender with the address of and password for the website.



18.6.2 Notwithstanding the above, the Borrower must supply to the Facility Agent in paper form a copy of any information posted on the website together with sufficient copies for:

- (a) any Lender not agreeing to receive information via the website; and
- (b) any other Lender within ten Business Days of request by that Lender.

18.6.3 The Borrower must promptly upon becoming aware of its occurrence, notify the Facility Agent if:

- (a) the website cannot be accessed;
- (b) the website or any information on the website is infected by any electronic virus or similar software;
- (c) the password for the website is changed; or
- (d) any information to be supplied under this Agreement is posted on the website or amended after being posted.

If the circumstances in paragraphs (a) or (b) above occur, the Borrower must supply any information required under this Agreement in paper form.

## 18.7 Know your customer requirements

18.7.1 If:

- (a) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;
- (b) any change in the status of the Borrower after the date of this Agreement whether as a result of the Permitted Reorganisation or otherwise; or
- (c) a proposed assignment or transfer by a Lender of any of its rights and obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Facility Agent or any Lender (or, in the case of paragraph (c) above, any prospective new Lender) to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, the Borrower shall promptly upon the request of the Facility Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself or on behalf of any Lender) or any Lender (for itself or, in the case of the event described in paragraph (c) above, on behalf of any prospective new Lender) in order for the Facility Agent, such Lender or, in the case of the event described in paragraph (c) above, any prospective new Lender to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

## 19. FINANCIAL COVENANTS

### 19.1 Definitions

In this Clause:

**"Cash"** means, at any time, cash denominated in a currency of an Acceptable Jurisdiction in hand or at bank and (in the latter case) credited to an account in the name of a member of the Group with an Acceptable Bank and to which a member of the Group is alone (or together with other members of the Group) beneficially entitled and for so long as:

- (a) that cash is repayable:
  - (i) if that cash is deposited with a Lender, within 180 days after the relevant date of calculation; or
  - (ii) if that cash is deposited with any other lender or financial institution, within 45 days after the relevant date of calculation;
- (b) repayment of that cash is not contingent on the prior discharge of any other indebtedness of any member of the Group or of any other

person whatsoever or on the satisfaction of any other condition;

- (c) there is no Security Interest over that cash other than Security Interests permitted under paragraph (b) of sub-clause 20.5.3 of Clause 20.5 (*Negative pledge*); and
- (d) the cash is freely and (except as mentioned in paragraph (a) above) immediately available to be applied in repayment or prepayment of the Facility.

**"Cash Equivalent Investments"** means at any time:

- (a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;
- (b) any investment in marketable debt obligations issued or guaranteed by the government of an Acceptable Jurisdiction or by an instrumentality or agency of any of them having an equivalent credit rating, maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;
- (c) commercial paper not convertible or exchangeable to any other security:
  - (i) for which a recognised trading market exists;
  - (ii) issued by an issuer incorporated in an Acceptable Jurisdiction;
  - (iii) which matures within one year after the relevant date of calculation; and
  - (iv) which has a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investor Services Limited, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;
- (d) sterling bills of exchange eligible for rediscount at the Bank of England (or their dematerialised equivalent) and accepted by an Acceptable Bank;
- (e) any investment in money market funds which:
  - (i) have a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investor Services Limited;
  - (ii) which invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above; and
  - (iii) can be turned into cash on not more than 30 days' notice; or
- (f) any other debt security approved by the Majority Lenders,

in each case, denominated in a currency of an Acceptable Jurisdiction and to which any member of the Group is alone (or together with other members of the Group) beneficially entitled at that time and which is not issued or guaranteed by any member of the Group or subject to any Security Interest (other than Security Interests permitted under paragraph (b) of sub-clause 20.5.3 of Clause 20.5 (*Negative pledge*)).

**"Consolidated EBITDA"** means the consolidated net pre-taxation profits of the Group for a Measurement Period as adjusted by:

- (a) adding back Interest Payable;
- (b) taking no account of any exceptional or extraordinary item;
- (c) excluding any amount attributable to minority interests;
- (d) adding back depreciation and amortisation; and
- (e) taking no account of any revaluation of an asset or any loss or gain over book value arising on the disposal of an asset (otherwise than in the ordinary course of trading) by a member of the Group during that Measurement Period.

**"Interest Payable"** means, in relation to any Measurement Period, all interest payable and similar charges of the Group expressed in the relevant

currency and determined on a consolidated basis in accordance with Applicable Accounting Principles but excluding interest payable or similar charges of the Group in relation to intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

**"Regulatory Asset Base"** means at any date, the regulatory asset base of the Distribution Companies for such date as last determined and notified by OFGEM (interpolated as necessary and adjusted for additions to the regulatory asset base and adjusted as appropriate for out-turn inflation / regulatory depreciation).

**"Total Net Debt"** means, at any time, the consolidated Financial Indebtedness of the Group which is required to be accounted for as debt in the consolidated annual financial statements of the Group less the aggregate at such time of all Cash or Cash Equivalent Investments held by any member of the Group excluding intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

## 19.2 Interpretation

19.2.1 Except as provided to the contrary in this Agreement, an accounting term used in this Clause is to be construed in accordance with the principles applied in connection with the Original Financial Statements.

19.2.2 Any amount in a currency other than Sterling is to be taken into account at its Sterling equivalent calculated on the basis of:

- (a) the Agent's Spot Rate of Exchange for the purchase of the relevant currency in the London foreign exchange market with Sterling at or about 11.00 a.m. on the day the relevant amount falls to be calculated; or
- (b) if the amount is to be calculated on the last day of a financial period of the Borrower, the relevant rates of exchange used by the Borrower in, or in connection with, its financial statements for that period.

19.2.3 No item must be credited or deducted more than once in any calculation under this Clause.

## 19.3 Interest cover

The Borrower must ensure that the ratio of Consolidated EBITDA to Interest Payable is not, on the last day of each Measurement Period, less than 3 to 1.

## 19.4 Asset Cover

The Borrower must ensure that on the last day of each Measurement Period, Total Net Debt does not exceed 85% of the Regulatory Asset Base.

## 19.5 Calculation of Interest Payable

For the purpose of the financial covenant set out in Clause 19.3 (*Interest cover*), in relation to any Measurement Period ending less than 12 months from the date of this Agreement, Interest Payable shall be calculated ignoring any amounts accrued before the date of this Agreement and in respect of the period after the date of this Agreement shall be increased by a factor of A/B where 'A' is 365 and 'B' is the total number of calendar days between the date of this Agreement and the last day of such Measurement Period.

## 20. GENERAL COVENANTS

### 20.1 General

The Borrower agrees to be bound by the covenants set out in this Clause relating to it and, where the covenant is expressed to apply to each Distribution Company or each member of the Group, the Borrower must ensure that each Distribution Company or each of its Subsidiaries, as the case may be, performs that covenant.

### 20.2 Authorisations

The Borrower must promptly obtain, maintain and comply with the terms of any authorisation required under any law or regulation to enable it to perform its obligations under, or for the validity or enforceability of, any Finance Document.

### 20.3 Compliance with laws

Each member of the Group must comply in all respects with all laws to which it is subject where failure to do so is reasonably likely to have a Material Adverse Effect.

#### 20.4 **Pari passu ranking**

The Borrower must ensure that its payment obligations under the Finance Documents rank at least *pari passu* with all its other present and future unsecured payment obligations, except for obligations mandatorily preferred by law applying to companies generally.

#### 20.5 **Negative pledge**

In this Clause 20.5, "Quasi-Security" means an arrangement or transaction described in sub-clause 20.5.2 below.

20.5.1 Except as provided below, none of the Borrower, any Distribution Company nor any Holding Company of a Distribution Company may create or allow to exist any Security Interest or Quasi-Security on any of its assets.

20.5.2 Except as provided below, none of the Borrower, any Distribution Company nor any Holding Company of a Distribution Company may:

- (a) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Borrower or any other member of the Group;
- (b) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
- (c) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
- (d) enter into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

20.5.3 Sub-clauses 20.5.1 and 20.5.2 do not apply to:

- (a) any Security Interest or Quasi-Security created over the assets of or any shares or other ownership interests in any entity which becomes a member of the Group after the date of this Agreement as a result of a Permitted Acquisition;
- (b) any Security Interest or Quasi-Security created under or in connection with or arising out of the Balancing and Settlement Code or any transactions or arrangements entered into in connection with the management of risks relating thereto;
- (c) in respect of overdue amounts which have not been overdue for more than 30 days and/or are being contested in good faith, liens arising solely by operation of law or by order of a court or tribunal (or by an agreement of similar effect) and/or in the ordinary course of day to day business or operations;
- (d) any Security Interest or Quasi-Security arising out of title retention provisions in a supplier's standard conditions of supply of goods acquired in the ordinary course of business or operations;
- (e) any Security Interest or Quasi-Security created on any asset acquired after the date of this Agreement for the sole purpose of financing or re-financing that acquisition and securing a principal, capital or nominal amount not exceeding the cost of that acquisition, **provided that** the Security Interest or Quasi-Security is removed or discharged within 6 months of the date of acquisition of such asset;
- (f) any Security Interest or Quasi-Security outstanding on or over any asset acquired after the date of this Agreement and in existence at the date of such acquisition, **provided that** the Security Interest or Quasi-Security is removed or discharged within 6 months of the date of acquisition of such asset;
- (g) any Security Interest or Quasi-Security created or outstanding on or over any asset of any company which becomes a Subsidiary of the Borrower after the date of this Agreement where such Security Interest or Quasi-Security is created prior to the date on which such company becomes a Subsidiary of the Borrower and is not created or increased in contemplation of such company being acquired and/or becoming a Subsidiary of the Borrower and the Security Interest or Quasi-Security is removed or discharged within 6 months of the date of such company becoming a Subsidiary of the Borrower;

- (h) any Security Interest or Quasi-Security created on any asset to secure any Financial Indebtedness incurred in connection with the financing of any asset or project in respect of which the repayment of that Financial Indebtedness is to be made from the revenues arising out of, or other proceeds of realisation from, that asset or project, with recourse to those revenues and proceeds and other assets used in connection with, or forming the subject matter of, that asset or project but without recourse (or with such limited recourse as the Majority Lenders may from time to time agree) to any other assets of the Group;
- (i) any netting arrangements under any swap or other hedging transaction which is on standard market terms;
- (j) any Security Interest or Quasi-Security created or outstanding with the prior approval of the Majority Lenders; and
- (k) any Security Interest or Quasi-Security created or outstanding on or over assets of:
  - (A) the Borrower provided that the aggregate outstanding principal or nominal amount secured by all Security Interests and Quasi-Security created or outstanding under this exception on or over such assets shall not at any time exceed £5,000,000 or its equivalent; and
  - (B) a Distribution Company provided that the aggregate outstanding principal or nominal amount secured by all Security Interests and Quasi-Security created or outstanding under this exception on or over such assets shall not at any time exceed £20,000,000 or its equivalent for each Distribution Company.

## 20.6 Disposals

20.6.1 Except as provided below, no member of the Group may, either in a single transaction or in a series of transactions and whether related or not, dispose of all or any part of its assets (other than cash).

20.6.2 Sub-clause 20.6.1 does not apply to:

- (a) any disposal made in the ordinary course of day to day business or operations of the disposing entity;
- (b) disposals on normal commercial terms of obsolete assets or assets no longer required for the purpose of the relevant Person's business or operations;
- (c) any realisation of investments acquired, purchased or made by the temporary application of funds not immediately required in the relevant Person's business or operations;
- (d) the exchange of assets for other assets of a similar or superior nature and value, or the sale of assets on normal commercial terms for cash which is payable in full on the completion of the sale and is to be, and is, applied in or towards the purchase of similar assets within 6 months;
- (e) the disposal of assets by one wholly-owned Subsidiary of the Borrower to another or (if the consideration for the disposal does not exceed a normal commercial consideration) to the Borrower by one of its Subsidiaries;
- (f) disposals in connection with sale-and-leaseback or sale and repurchase transactions or any other form of "off balance sheet" financing, **provided that** the aggregate book value (in the books of the disposing party) of all assets the subject of all such disposals made during the period commencing on the date of this Agreement and ending on the date when no amount remains to be lent or remains payable under this Agreement shall not exceed £100,000,000 or its equivalents;
- (g) any disposal which the Majority Lenders shall have agreed shall not be taken into account; and
- (h) any disposal of any assets (including shares) other than:
  - (A) any shares held in any Distribution Company or in any Holding Company of a Distribution Company; and
  - (B) any assets of a Distribution Company,

for cash where the higher of the market value and net consideration receivable (when aggregated with the higher of the market value and net consideration receivable for any other sale, lease, licence, transfer or other disposal of any such assets which is not permitted under any other paragraph of this sub-clause 20.6.2) does not exceed 10% of the Regulatory Asset Base (as defined in Clause 19.1 (*Definitions*)) at the relevant time.

## 20.7 Environmental matters

20.7.1 The Borrower will and will ensure that each Distribution Company will comply with all applicable Environmental Law and other regulations, orders or other law applicable to the conduct of the business of the supply or distribution of electricity, in each case, where failure to do so would have a Material Adverse Effect.

20.7.2 The Borrower will, promptly upon becoming aware of the same, inform the Facility Agent in writing of:

- (a) any Environmental Claim against it or any Distribution Company which is current, pending or threatened; and
- (b) any facts or circumstances which are reasonably likely to result in any Environmental Claim being commenced or threatened against it or any Distribution Company,

where the claim, if determined against that member of the Group, would have a Material Adverse Effect.

## 20.8 Insurance

Each member of the Group must insure its business and assets with insurance companies to such an extent and against such risks as that member of the Group reasonably considers to be appropriate, having regard to the insurance arrangements of companies engaged in similar business.

## 20.9 Merger

The Borrower shall not enter into any amalgamation, demerger, merger, corporate reconstruction or reorganisation.

## 20.10 Change of business

The Borrower shall procure that no substantial change is made to the general nature of the business of the Borrower or the Group from that carried on at the date of this Agreement.

## 20.11 Acquisitions

20.11.1 Except as provided below neither the Borrower nor any other member of the Group may acquire a company or any shares or securities or a business or undertaking (or, in each case, any interest in any of them).

20.11.2 **Provided that** no Event of Default is outstanding on the date of the acquisition or would occur as a result of the acquisition, sub-clause 20.11.1 does not apply to:

- (a) an acquisition by a member of the Group of an asset sold, leased, transferred or otherwise disposed of by another member of the Group as permitted under sub-clause 20.6.2 of Clause 20.6 (*Disposals*) above;
- (b) any Permitted Acquisition; or
- (c) any acquisition which the Majority Lenders shall have consented to in writing.

## 20.12 Prohibition on the Debt Purchase Transactions of the Group

The Borrower shall not, and shall procure that no other member of the Group shall, enter into any Debt Purchase Transaction or beneficially own all or any part of the share capital of a company that is a Lender or a party to a Debt Purchase Transaction of the type referred to in paragraphs (b) and (c) of the definition of Debt Purchase Transaction.

## 20.13 Prohibition on Subsidiary Financial Indebtedness

The Borrower shall procure that no member of the Group (other than the Borrower, any Distribution Company or any Subsidiary which is not a Holding Company of a Distribution Company) will incur or allow to remain outstanding any Financial Indebtedness (other than Financial Indebtedness owed to another member of the Group).

## 20.14 Arm's length transactions

The Borrower shall not (and shall ensure that no member of the Group shall) enter into any transactions with any other member of the PPL Group except on arm's length terms and for full market value (or on terms which are more favourable to the Group).

## 20.15 Pensions

- 20.15.1 The Borrower shall ensure that no action or omission is taken by any member of the Group in relation to a pension scheme which has or is reasonably likely to have a Material Adverse Effect (including, without limitation, the termination or commencement of winding-up proceedings of any such pension scheme).
- 20.15.2 Except in respect of WPD South Wales Plc for the Western Power Utilities Pension Scheme, the Infracore 92 Scheme and the WPD Group Electricity Supply Pension Scheme (and in the case of merger, the CN Group of the ESPS) the Borrower shall ensure that no member of the Group is an employer (for the purposes of sections 38 to 51 of the Pensions Act 2004) of an occupational pension scheme which is not a money purchase scheme (both terms as defined in the Pension Schemes Act 1993) or "connected" with or an "associate" of (as those terms are used in sections 38 or 43 of the Pensions Act 2004) such an employer.
- 20.15.3 The Borrower shall promptly notify the Facility Agent of any material change in the rate of contributions payable to any of the pension schemes mentioned in sub-clause 20.15.2 above paid or required (by law or otherwise).
- 20.15.4 The Borrower shall immediately notify the Facility Agent of any investigation or proposed investigation by the Pensions Regulator which may lead to the issue of a Financial Support Direction or a Contribution Notice to any member of the Group.
- 20.15.5 The Borrower shall immediately notify the Facility Agent if it receives a Financial Support Direction or a Contribution Notice from the Pensions Regulator.

## 20.16 Licence

The Borrower will procure that each Distribution Company will at all times:

- 20.16.1 comply with the terms of its Licence in all material respects;
- 20.16.2 without prejudice to the generality of sub-clause 20.16.1 above, comply with the ring fencing provisions of its Licence in all respects; and
- 20.16.3 not take any action or make any omission which is reasonably likely to result in the revocation or termination of its Licence.

## 20.17 Dividends and Distribution

The Borrower (and any other member of the Group) will be permitted, at any time, to:

- (a) declare, make or pay any dividend, charge, fee or other distribution (or interest on any unpaid dividend, charge, fee or other distribution) (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital);
- (b) repay or distribute any dividend or share premium reserve;
- (c) pay or allow any member of the Group to pay any management, advisory or other fee to or to the order of any of the shareholders of the Borrower; or
- (d) redeem, repurchase, defease, retire or repay any of its share capital or resolve to do so,

provided that the Borrower, prior to any action referred to in paragraphs (a) to (d) above being taken, delivers to the Facility Agent a Distribution Certificate, signed by two directors of the Borrower, certifying that, taking into account any such payment, the Borrower will be in compliance with its obligations under Clause 19 (*Financial Covenants*) on each of the next two Measurement Dates.

## 20.18 Anti-corruption law

- 20.18.1 The Borrower shall not (and shall ensure that no other member of the Group will) directly or indirectly use the proceeds of the Facility for any purpose which would breach the Bribery Act 2010, the United States Foreign Corrupt Practices Act of 1977 or other similar legislation in other jurisdictions.
- 20.18.2 The Borrower shall (and shall ensure that each other member of the Group will):
- (a) conduct its business in compliance with applicable anti-corruption laws; and
  - (b) maintain policies and procedures designed to promote and achieve compliance with such laws.

## 21. DEFAULT

## 21.1 Events of Default

Each of the events set out in this Clause is an Event of Default.

## 21.2 Non-payment

The Borrower fails to pay any sum payable under any Finance Document when due unless its failure to pay is caused by:

21.2.1 administrative or technical error; or

21.2.2 a Disruption Event,

and payment is made within three Business Days of its due date.

## 21.3 Breach of other obligations

21.3.1 The Borrower does not perform or comply with its obligations under Clause 19 (*Financial Covenants*), Clause 20.5 (*Negative pledge*), Clause 20.6 (*Disposals*) or Clause 20.11 (*Acquisitions*).

21.3.2 The Borrower does not perform or comply with any of its other obligations under any Finance Document (other than those referred to in Clause 21.2 (*Non-payment*) and in sub-clause 21.3.1 above) in any material respect or any representation or warranty by the Borrower in this Agreement or in any document delivered under it is or proves to have been incorrect when made or deemed repeated, unless the non-compliance or circumstances giving rise to the misrepresentation, as the case may be, is capable of remedy and is not remedied within 15 Business Days of the earlier of the Facility Agent giving notice requiring the same to be remedied and the Borrower becoming aware of such non-compliance or misrepresentation, as the case may be.

## 21.4 Cross-default

21.4.1 Any Financial Indebtedness of the Borrower or any Distribution Company is not paid when due nor within any originally applicable grace period.

21.4.2 Any Financial Indebtedness of the Borrower or any Distribution Company is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).

21.4.3 Any commitment for any Financial Indebtedness of the Borrower or any Distribution Company is cancelled or suspended by a creditor of that member of the Group as a result of an event of default (however described).

21.4.4 Any creditor of the Borrower or any Distribution Company becomes entitled to declare any Financial Indebtedness of any member of the Group due and payable prior to its specified maturity as a result of an event of default (however described).

21.4.5 No Event of Default will occur under this Clause 21.4 unless and until the aggregate amount of such Financial Indebtedness falling within sub-clauses 21.4.1 to 21.4.4 above is more than £20,000,000 or its equivalent in any other currency or currencies.

## 21.5 Insolvency

21.5.1 Any of the following occurs in respect of the Borrower:

- (a) it is unable to pay its debts generally as they fall due or it is deemed by a court of competent jurisdiction to be insolvent;
- (b) it suspends making payments on all or any class of its debts or publicly announces an intention to do so;
- (c) by reason of actual or anticipated financial difficulties, it begins negotiations with all or any class of its creditors for the general rescheduling of its indebtedness; or
- (d) a moratorium is declared in respect of any of its indebtedness.

21.5.2 If a moratorium occurs in respect of the Borrower, the ending of the moratorium will not remedy any Event of Default caused by the moratorium.



## 21.6 Insolvency proceedings

21.6.1 Except as provided below, any of the following occurs in respect of the Borrower:

- (a) a suspension of payments, a moratorium of any indebtedness or a reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise);
- (b) any person presents a petition for its winding-up, administration or dissolution;
- (c) an order for its winding-up, administration or dissolution is made;
- (d) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed in respect of it or any of its assets;
- (e) its directors or other officers request the appointment of a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer;
- (f) enforcement of any Security over any of its assets; or
- (g) any other analogous step or procedure is taken in any jurisdiction.

21.6.2 Sub-clause 21.6.1 does not apply to:

- (a) a petition for winding-up presented by a creditor which is being actively contested in good faith and with due diligence and with a reasonable prospect of success; or
- (b) a voluntary solvent winding-up, amalgamation, reconstruction or reorganisation or otherwise part of a solvent scheme of arrangement, in each case which is on terms approved by the Majority Lenders.

## 21.7 Creditors' process

A distress, attachment, execution or other legal process material in relation to the Borrower's ability to perform its payment obligations under this Agreement is levied, enforced or sued out on or against the assets of the Borrower and is not discharged or stayed within 30 days.

## 21.8 Licence

Either:

21.8.1 notice is given to revoke or terminate any Licence unless such termination is being contested in good faith and such notice is revoked or cancelled within 14 days of notice being given; or

21.8.2 any Licence is revoked,

in either case, other than in circumstances which permit the Borrower or the relevant Distribution Company to carry on the distribution business of the relevant Distribution Company either without a licence as a result of any change in the Act or regulatory regime or with a new licence, permitting the distribution of electricity in the authorised areas covered by the relevant Licence, issued under the Act or pursuant to the Utilities Act, 2000.

## 21.9 Balancing and Settlement Code

21.9.1 any Distribution Company ceases to be a party to the Balancing and Settlement Code Framework Agreement other than in circumstances where that Distribution Company is able to carry on its distribution business; or

21.9.2 any Distribution Company breaches the Balancing and Settlement Code and such breach has or is reasonably likely to have a Material Adverse Effect.

## 21.10 Unlawfulness and invalidity

21.10.1 It is or becomes unlawful for the Borrower to perform any of its obligations under the Finance Documents in any material respect.

21.10.2 Any obligation or obligations of the Borrower under any Finance Documents are not (subject to the Legal Reservations) or cease to be legal,

valid, binding or enforceable and the cessation individually or cumulatively materially and adversely affects the interests of the Lenders under the Finance Documents.

**21.11 Cessation of business**

The Borrower or any Distribution Company suspends or ceases to carry on (or threatens to suspend or cease to carry on) all or a material part of its business except as a result of a disposal permitted by Clause 20.6 (*Disposals*).

**21.12 Repudiation and rescission of agreements**

The Borrower (or any other relevant party other than a Finance Party) rescinds or purports to rescind or repudiates or purports to repudiate a Finance Document or evidences an intention to rescind or repudiate a Finance Document.

**21.13 Ownership of the Distribution Companies**

The Borrower ceases to own (directly or indirectly) 100% of the shares in any Distribution Company.

**21.14 Material Adverse Effect**

Any event or circumstance occurs which has or is reasonably likely to have a Material Adverse Effect.

**21.15 Acceleration**

If an Event of Default is outstanding, the Facility Agent may, and must if so instructed by the Majority Lenders, by notice to the Borrower:

21.15.1 cancel the Total Commitments; and/or

21.15.2 declare that all or part of any amounts outstanding under the Finance Documents are:

- (a) immediately due and payable; and/or
- (b) payable on demand by the Facility Agent acting on the instructions of the Majority Lenders.

Any notice given under this sub-clause will take effect in accordance with its terms.

**22. THE ADMINISTRATIVE PARTIES**

**22.1 Appointment and duties of the Facility Agent**

22.1.1 Each Finance Party (other than the Facility Agent) irrevocably appoints the Facility Agent to act as its agent under the Finance Documents.

22.1.2 Each Finance Party irrevocably authorises the Facility Agent to:

- (a) perform the duties and to exercise the rights, powers and discretions that are specifically given to it under the Finance Documents, together with any other incidental rights, powers and discretions; and
- (b) execute each Finance Document expressed to be executed by the Facility Agent.

22.1.3 The Facility Agent has only those duties which are expressly specified in the Finance Documents. Those duties are solely of a mechanical and administrative nature.

22.1.4 The Facility Agent shall provide to the Borrower within three Business Days of a request by the Borrower (but no more frequently than once per calendar month), a list (which may be in electronic form) setting out the names of the Lenders as at the date of that request, their respective Commitments, the address and fax number (and the department or officer, if any, for whose attention any communication is to be made) of each Lender for any communication to be made or document to be delivered under or in connection with the Finance Documents, the electronic mail address and/or any other information required to enable the sending and receipt of information by electronic mail or other electronic means to and by each Lender to whom any communication under or in connection with the Finance Documents may be made by that means and the account details of each Lender for any payment to be distributed by the Facility Agent to that Lender under the Finance Documents.

## 22.2 Role of the Arranger

Except as specifically provided in the Finance Documents, neither the Arranger nor any Co-ordinator has any obligations of any kind to any other Party in connection with any Finance Document.

## 22.3 No fiduciary duties

Except as specifically provided in a Finance Document, nothing in the Finance Documents makes an Administrative Party a trustee or fiduciary for any other Party or any other person and no Administrative Party need hold in trust any moneys paid to it for a Party or be liable to account for interest on those moneys.

## 22.4 Individual position of an Administrative Party

22.4.1 If it is also a Lender, each Administrative Party has the same rights and powers under the Finance Documents as any other Lender and may exercise those rights and powers as though it were not an Administrative Party.

22.4.2 Each Administrative Party may:

- (a) carry on any business with the Borrower or its related entities (including acting as an agent or a trustee for any other financing); and
- (b) retain any profits or remuneration it receives under the Finance Documents or in relation to any other business it carries on with the Borrower or its related entities.

## 22.5 Reliance

The Facility Agent may:

- 22.5.1 rely on any notice or document believed by it to be genuine and correct and to have been signed by, or with the authority of, the proper person;
- 22.5.2 rely on any statement made by any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify;
- 22.5.3 engage, pay for and rely on professional advisers selected by it (including those representing a Party other than the Facility Agent); and
- 22.5.4 act under the Finance Documents through its personnel and agents.

## 22.6 Majority Lenders' instructions

- 22.6.1 The Facility Agent is fully protected if it acts on the instructions of the Majority Lenders in the exercise of any right, power or discretion or any matter not expressly provided for in the Finance Documents. Any such instructions given by the Majority Lenders will be binding on all the Lenders. In the absence of instructions, the Facility Agent may act as it considers to be in the best interests of all the Lenders.
- 22.6.2 The Facility Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings in connection with any Finance Document.
- 22.6.3 The Facility Agent may require the receipt of security satisfactory to it, whether by way of payment in advance or otherwise, against any liability or loss which it may incur in complying with the instructions of the Majority Lenders.

## 22.7 Responsibility

22.7.1 No Administrative Party is responsible to any other Finance Party for the adequacy, accuracy or completeness of:

- (a) any Finance Document or any other document; or
- (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document.

22.7.2 Without affecting the responsibility of the Borrower for information supplied by it or on its behalf in connection with any Finance Document, each Lender confirms that it:

- (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Borrower and its related entities and the nature and extent of any recourse against any Party or its assets); and
- (b) has not relied exclusively on any information provided to it by any Administrative Party in connection with any Finance Document.

### 22.7.3

- (a) Nothing in this Agreement will oblige the Facility Agent to satisfy any know your customer requirement in relation to the identity of any person on behalf of any Finance Party.
- (b) Each Finance Party confirms to the Facility Agent that it is solely responsible for any know your customer requirements it is required to carry out and that it may not rely on any statement in relation to those requirements made by any other person.

## 22.8 Exclusion of liability

22.8.1 The Facility Agent is not liable or responsible to any other Finance Party for any action taken or not taken by it in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.

22.8.2 The Facility Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Facility Agent, if the Facility Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Facility Agent for that purpose.

22.8.3 No Party may take any proceedings against any officer, employee or agent of the Facility Agent in respect of any claim it might have against the Facility Agent or in respect of any act or omission of any kind by that officer, employee or agent in connection with any Finance Document. Any officer, employee or agent of the Facility Agent may rely on this sub-clause and enforce its terms under the Contracts (Rights of Third Parties) Act 1999.

## 22.9 Default

22.9.1 The Facility Agent is not obliged to monitor or enquire whether a Default has occurred. The Facility Agent is not deemed to have knowledge of the occurrence of a Default.

22.9.2 If the Facility Agent:

- (a) receives notice from a Party referring to this Agreement, describing a Default and stating that the event is a Default; or
- (b) is aware of the non-payment of any principal or interest or any fee payable to a Lender under this Agreement,

it must promptly notify the Lenders.

## 22.10 Information

22.10.1 The Facility Agent must promptly forward to the person concerned the original or a copy of any document which is delivered to the Facility Agent by a Party for that person.

22.10.2 Except where a Finance Document specifically provides otherwise, the Facility Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.

22.10.3 Except as provided above, the Facility Agent has no duty:

- (a) either initially or on a continuing basis to provide any Lender with any credit or other information concerning the risks arising under or in connection with the Finance Documents (including any information relating to the financial condition or affairs of the Borrower or its related entities or the nature or extent of recourse against any Party or its assets) whether coming into its possession before, on or after the date of this Agreement; or
- (b) unless specifically requested to do so by a Lender in accordance with a Finance Document, to request any certificate or other document from the Borrower.

- 22.10.4 In acting as the Facility Agent, the agency division of the Facility Agent is treated as a separate entity from its other divisions and departments. Any information acquired by the Facility Agent which, in its opinion, is acquired by it otherwise than in its capacity as the Facility Agent may be treated as confidential by the Facility Agent and will not be treated as information possessed by the Facility Agent in its capacity as such.
- 22.10.5 The Facility Agent is not obliged to disclose to any person any confidential information supplied to it by a member of the Group solely for the purpose of evaluating whether any waiver or amendment is required to any term of the Finance Documents.
- 22.10.6 The Borrower irrevocably authorises the Facility Agent to disclose to the other Finance Parties any information which, in its opinion, is received by it in its capacity as the Facility Agent.
- 22.10.7 Without prejudice to the generality of the foregoing, the Facility Agent may disclose the identity of a Defaulting Lender to the other Finance Parties and the Borrower and shall disclose the same upon the written request of the Borrower or the Majority Lenders.

## 22.11 Indemnities

- 22.11.1 Without limiting the liability of the Borrower under the Finance Documents, each Lender must indemnify the Facility Agent for that Lender's Pro Rata Share of any loss or liability incurred by the Facility Agent in acting as the Facility Agent, except to the extent that the loss or liability is caused by the Facility Agent's gross negligence or wilful misconduct or to the extent that the Facility Agent has been reimbursed in full by the Borrower for such loss or liability.
- 22.11.2 The Facility Agent may deduct from any amount received by it for a Lender any amount due to the Facility Agent from that Lender under a Finance Document but unpaid.
- 22.11.3 The Borrower must indemnify the Facility Agent against any loss or liability properly incurred by the Facility Agent as a result of:
- (a) investigating any event which the Facility Agent reasonably believes to be a Default; or
  - (b) acting or relying on any notice which the Facility Agent reasonably believes to be genuine, correct and appropriately authorised.

## 22.12 Compliance

The Facility Agent may refrain from doing anything (including disclosing any information) which might, in its opinion, constitute a breach of any law or regulation or be otherwise actionable at the suit of any person, and may do anything which, in its opinion, is necessary or desirable to comply with any law or regulation.

## 22.13 Resignation of the Facility Agent

- 22.13.1 The Facility Agent may resign and appoint any of its Affiliates as successor Facility Agent by giving notice to the Lenders and the Borrower.
- 22.13.2 Alternatively, the Facility Agent may resign by giving notice to the Lenders and the Borrower, in which case the Majority Lenders may appoint a successor Facility Agent.
- 22.13.3 If no successor Facility Agent has been appointed under sub-clause 22.13.2 above within 30 days after notice of resignation was given, the Facility Agent may appoint a successor Facility Agent.
- 22.13.4 The person(s) appointing a successor Facility Agent must, if practicable, consult with the Borrower prior to the appointment. Any successor Facility Agent must have an office in the U.K.
- 22.13.5 The resignation of the Facility Agent and the appointment of any successor Facility Agent will both become effective only when the successor Facility Agent notifies all the Parties that it accepts its appointment. On giving the notification, the successor Facility Agent will succeed to the position of the Facility Agent and the term "Facility Agent" will mean the successor Facility Agent.
- 22.13.6 The retiring Facility Agent must, at its own cost, make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as the Facility Agent under the Finance Documents.
- 22.13.7 Upon its resignation becoming effective, this Clause will continue to benefit the retiring Facility Agent in respect of any action taken or not taken by it in connection with the Finance Documents while it was the Facility Agent, and, subject to sub-clause 22.13.6 above, it will have no further obligations under any Finance Document.

## 22.14 Replacement of the Facility Agent

- 22.14.1 After consultation with the Borrower, the Majority Lenders may, by giving 30 days' notice to the Facility Agent (or, at any time the Facility Agent is an Impaired Agent, by giving any shorter notice determined by the Majority Lenders) replace the Facility Agent by appointing a successor Facility Agent (acting through an office in the United Kingdom).
- 22.14.2 The retiring Facility Agent shall (at its own cost if it is an Impaired Agent and otherwise at the expense of the Lenders) make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as Facility Agent under the Finance Documents.
- 22.14.3 The replacement of the Facility Agent and the appointment of the successor Facility Agent shall take effect on the date specified in the notice from the Majority Lenders to the retiring Facility Agent. As from this date, the retiring Facility Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 22 (and any agency fees for the account of the retiring Facility Agent shall cease to accrue from (and shall be payable on) that date).
- 22.14.4 Any successor Facility Agent and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.

## 22.15 Relationship with Lenders

- 22.15.1 Subject to Clause 28.9 (*Pro rata interest settlement*), the Facility Agent may treat each Lender as a Lender, entitled to payments under this Agreement and as acting through its Facility Office(s) until it has received not less than five Business Days' prior notice from that Lender to the contrary.
- 22.15.2 The Facility Agent may at any time, and must if requested to do so by the Majority Lenders, convene a meeting of the Lenders.
- 22.15.3 The Facility Agent must keep a register of all the Parties and supply any other Party with a copy of the register on request. The register will include each Lender's Facility Office(s) and contact details for the purposes of this Agreement.

## 22.16 Facility Agent's management time

If the Facility Agent requires, any amount payable to the Facility Agent by any Party under any indemnity or in respect of any costs or expenses incurred by the Facility Agent under the Finance Documents after the date of this Agreement may include the cost of using its management time or other resources and will be calculated on the basis of such reasonable daily or hourly rates as the Facility Agent may notify to the relevant Party. This is in addition to any amount in respect of fees or expenses paid or payable to the Facility Agent under any other term of the Finance Documents.

## 22.17 Notice period

Where this Agreement specifies a minimum period of notice to be given to the Facility Agent, the Facility Agent may, at its discretion, accept a shorter notice period.

## 22.18 Subordination Deed

The Lenders expressly authorise the Facility Agent, at the request of the Company, to enter into a Subordination Deed in respect of any intra-Group items, loans from Affiliates and shareholder loans made to any member of the Group.

## 23. EVIDENCE AND CALCULATIONS

### 23.1 Accounts

Accounts maintained by a Finance Party in connection with this Agreement are *prima facie* evidence of the matters to which they relate for the purpose of any litigation or arbitration proceedings.

### 23.2 Certificates and determinations

Any certification or determination by a Finance Party of a rate or amount under the Finance Documents will be, in the absence of manifest error, conclusive evidence of the matters to which it relates.

### 23.3 Calculations

Any interest or fee accruing under this Agreement accrues from day to day and is calculated on the basis of the actual number of days elapsed and a

year of 360 or 365 days or otherwise, depending on what the Facility Agent determines is market practice.

## 24. FEES

### 24.1 Agency fee

The Borrower must pay to the Facility Agent for its own account an annual agency fee in the manner agreed between the Facility Agent and the Borrower.

### 24.2 Upfront fees

The Borrower must pay the upfront fees in the manner agreed between the relevant Administrative Parties and the Borrower.

### 24.3 Commitment fee

24.3.1 The Borrower must pay a commitment fee computed at the rate of 40 per cent. of the applicable Margin on the undrawn, uncanceled amount of each Lender's Commitment for the Availability Period calculated from the date of this Agreement.

24.3.2 The commitment fee is payable quarterly in arrears during the Availability Period and on the last day of the Availability Period. Accrued commitment fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.

24.3.3 No commitment fee is payable to the Facility Agent (for the account of a Lender) on any Available Commitment of that Lender for any day on which that Lender is a Defaulting Lender.

### 24.4 Utilisation fee

24.4.1 The Borrower must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.20 per cent. per annum on the aggregate principal amount of the Loans for each day on which the aggregate amount of all Loans exceeds 33.34 per cent. of the Total Commitments but is lower than or equal to 66.67 per cent. of the Total Commitments.

24.4.2 The Borrower must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.40 per cent. per annum on the aggregate principal amount of the Loans for each day on which the aggregate amount of all Loans exceeds 66.67 per cent. of the Total Commitments. For the avoidance of doubt, the fee described in sub-clause 24.4.1 above is not payable in respect of any day for which the fee described in this sub-clause 24.4.2 is payable.

24.4.3 Utilisation fee is payable on the amount of each Lender's share in the Loans.

24.4.4 Accrued utilisation fee is payable quarterly in arrears. Accrued utilisation fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.

## 25. INDEMNITIES AND BREAK COSTS

### 25.1 Currency indemnity

25.1.1 The Borrower must, as an independent obligation, indemnify each Finance Party against any loss or liability which that Finance Party incurs as a consequence of:

(a) that Finance Party receiving an amount in respect of the Borrower's liability under the Finance Documents; or

(b) that liability being converted into a claim, proof, judgment or order,

in a currency other than the currency in which the amount is expressed to be payable under the relevant Finance Document.

25.1.2 Unless otherwise required by law, the Borrower waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency other than that in which it is expressed to be payable.

### 25.2 Other indemnities

The Borrower shall within 15 days of demand indemnify the Facility Agent and each Lender against any funding or other cost, loss, expense or liability in an amount certified by it in reasonable detail (together with documentation in support) sustained or incurred by it as a direct result of:

- 25.2.1 the occurrence of any Event of Default;
- 25.2.2 (other than by reason of negligence or default by a Finance Party) a Loan not being made after a Request has been delivered for that Loan; or
- 25.2.3 the receipt or recovery by any party (or the Facility Agent on its behalf) of all or any part of a Loan or overdue sum due from the Borrower otherwise than on the Final Maturity Date or Maturity Date of that Loan or, in the case of an overdue sum, the last day of an interest period relating to that overdue sum, as the case may be or a Loan or any part thereof not being prepaid in accordance with a notice of prepayment.

### 25.3 Break Costs

- 25.3.1 The Borrower must pay to each Lender its Break Costs within three Business Days of demand.
- 25.3.2 Break Costs are the amount (if any) determined by the relevant Lender by which:
  - (a) the interest (excluding Margin and Mandatory Costs) which that Lender would have received for the period from the date of receipt of any part of its share in a Loan or overdue amount to the last day of the applicable Term for that Loan or overdue amount if the principal or overdue amount received had been paid on the last day of that Term;  
  
exceeds
  - (b) the amount which that Lender would be able to obtain by placing an amount equal to the amount received by it on deposit with a leading bank in the appropriate interbank market for a period starting on the Business Day following receipt and ending on the last day of the applicable Term.
- 25.3.3 Each Lender must supply to the Facility Agent for the Borrower details of the amount of any Break Costs claimed by it under this Clause.

## 26. EXPENSES

### 26.1 Initial costs

The Borrower must pay to each Administrative Party promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with the negotiation, preparation, printing, execution and syndication of the Finance Documents.

### 26.2 Subsequent costs

The Borrower must pay to the Facility Agent promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with:

- 26.2.1 the negotiation, preparation, printing and execution of any Finance Document (other than a Transfer Certificate) executed after the date of this Agreement and the syndication of the facility; and
- 26.2.2 any amendment, waiver or consent requested by or on behalf of the Borrower or specifically allowed by this Agreement.

### 26.3 Enforcement costs

The Borrower must pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

## 27. AMENDMENTS AND WAIVERS

### 27.1 Procedure

- 27.1.1 Except as provided in this Clause 27, any term of the Finance Documents may be amended or waived with the agreement of the Borrower and the Majority Lenders. The Facility Agent may effect, on behalf of any Finance Party, an amendment or waiver allowed under this Clause.
- 27.1.2 The Facility Agent must promptly notify the other Parties of any amendment or waiver effected by it under sub-clause 27.1.1 above. Any such amendment or waiver is binding on all the Parties.



## 27.2 Exceptions

27.2.1 An amendment or waiver that has the effect of changing or which relates to:

- (a) the definition of Majority Lenders in Clause 1.1 (*Definitions*);
- (b) an extension of the date of payment of any amount to a Lender under the Finance Documents;
- (c) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fee or other amount payable to a Lender under the Finance Documents;
- (d) an increase in, or an extension of, a Commitment or the Total Commitments or any requirement that a cancellation of Commitments reduces the Commitments of the Lenders rateably under the Facility;
- (e) a term of a Finance Document which expressly requires the consent of each Lender;
- (f) the right of a Lender to assign or transfer its rights or obligations under the Finance Documents;
- (g) Clause 8.1 (*Mandatory prepayment – illegality*) or Clause 8.2 (*Mandatory prepayment – change of control*); or
- (h) this Clause,

may only be made with the consent of all the Lenders.

27.2.2 An amendment or waiver which relates to the rights or obligations of an Administrative Party may only be made with the consent of that Administrative Party.

## 27.3 Disenfranchisement of Defaulting Lenders

27.3.1 For so long as a Defaulting Lender has any Available Commitment, in ascertaining the Majority Lenders or whether any given percentage (including, for the avoidance of doubt, unanimity) of the Total Commitments has been obtained to approve any request for a consent, waiver, amendment or other vote under the Finance Documents, that Defaulting Lender's Commitments will be reduced by the amount of its Available Commitment.

27.3.2 For the purposes of this Clause 27.3, the Facility Agent may assume that the following Lenders are Defaulting Lenders:

- (a) any Lender which has notified the Facility Agent that it has become a Defaulting Lender;
- (b) any Lender in relation to which it is aware that any of the events or circumstances referred to in paragraphs (a), (b) or (c) of the definition of "Defaulting Lender" has occurred where, in the case of the events or circumstances referred to in paragraph (a), none of the exceptions to that paragraph apply,

unless it has received notice to the contrary from the Lender concerned (together with any supporting evidence reasonably requested by the Facility Agent) or the Facility Agent is otherwise aware that the Lender has ceased to be a Defaulting Lender.

## 27.4 Replacement of a Defaulting Lender

27.4.1 The Borrower may, at any time a Lender has become and continues to be a Defaulting Lender, by giving 10 Business Days' prior written notice to the Facility Agent and such Lender:

- (a) replace such Lender by requiring such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 28 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement; or
- (b) require such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 28 (*Changes to the Parties*) all (and not part only) of the undrawn Commitment of the Lender,

to a Lender or other bank, financial institution, trust, fund or other entity (a "Replacement Lender") selected by the Borrower, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations or all the relevant obligations of the transferring Lender (including the assumption of the

transferring Lender's participations or unfunded participations (as the case may be) on the same basis as the transferring Lender) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Lender's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 28.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable in relation thereto under the Finance Documents.

27.4.2 Any transfer of rights and obligations of a Defaulting Lender pursuant to this Clause shall be subject to the following conditions:

- (a) the Borrower shall have no right to replace the Facility Agent;
- (b) neither the Facility Agent nor the Defaulting Lender shall have any obligation to the Borrower to find a Replacement Lender;
- (c) the transfer must take place no later than 14 days after the notice referred to in sub-clause 27.4.1 above; and
- (d) in no event shall the Defaulting Lender be required to pay or surrender to the Replacement Lender any of the fees received by the Defaulting Lender pursuant to the Finance Documents.

## 27.5 Change of currency

If a change in any currency of a country occurs (including where there is more than one currency or currency unit recognised at the same time as the lawful currency of a country), the Finance Documents will be amended to the extent the Facility Agent (acting reasonably and after consultation with the Borrower) determines is necessary to reflect the change.

## 27.6 Waivers and remedies cumulative

The rights of each Finance Party under the Finance Documents:

- 27.6.1 may be exercised as often as necessary;
- 27.6.2 are cumulative and not exclusive of its rights under the general law; and
- 27.6.3 may be waived only in writing and specifically.

Delay in exercising or non-exercise of any right is not a waiver of that right.

## 28. CHANGES TO THE PARTIES

### 28.1 Assignments and transfers by the Borrower

The Borrower may not assign or transfer any of its rights and obligations under the Finance Documents without the prior consent of all the Lenders unless the assignment or transfer is to effect and complete a Permitted Reorganisation.

### 28.2 Assignments and transfers by Lenders

- 28.2.1 A Lender (the "Existing Lender") may, subject to the following provisions of this Clause 28, at any time assign or transfer (including by way of novation) any of its rights and obligations under this Agreement to any bank, financial institution or trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the "New Lender").
- 28.2.2 Unless the Borrower and the Facility Agent otherwise agree, an assignment or transfer of part of a Commitment or rights and obligations under this Agreement by the Existing Lender must be in a minimum amount of £5,000,000.
- 28.2.3 An Existing Lender must consult with the Borrower for no more than five Business Days before it may make an assignment or transfer unless the New Lender is another Lender or an Affiliate of a Lender or an Event of Default has occurred and is outstanding.
- 28.2.4 The Facility Agent is not obliged to accept an assignment or to execute a Transfer Certificate until it has completed all know your customer requirements to its satisfaction. The Facility Agent must promptly notify the Existing Lender and the New Lender if there are any such requirements.
- 28.2.5 An assignment of rights or a transfer of rights and obligations will be effective only if either:

- (a) the obligations are novated in accordance with the following provisions of this Clause 28; or
- (b) the New Lender confirms to the Facility Agent and the Borrower in form and substance satisfactory to the Facility Agent that it is bound by the terms of this Agreement as a Lender. On the assignment or transfer becoming effective in this manner the Existing Lender will be released from its rights and obligations under this Agreement to the extent that they are transferred to the New Lender.

28.2.6 Unless the Facility Agent otherwise agrees, the New Lender must pay to the Facility Agent for its own account, on or before the date any assignment or transfer occurs, a fee of £1,750.

28.2.7 Any reference in this Agreement to a Lender includes a New Lender but excludes a Lender if no amount is or may be owed to or by it under this Agreement.

### 28.3 Procedure for transfer by way of novations

28.3.1 A novation is effected if:

- (a) the Existing Lender and the New Lender deliver to the Facility Agent a duly completed Transfer Certificate; and
- (b) the Facility Agent executes it.

Subject to sub-clause 28.2.4 of Clause 28.2 (*Assignments and transfers by Lenders*), the Facility Agent must execute as soon as reasonably practicable a Transfer Certificate delivered to it and which appears on its face to be in order.

28.3.2 Each Party (other than the Existing Lender and the New Lender) irrevocably authorises the Facility Agent to execute any duly completed Transfer Certificate on its behalf.

28.3.3 Subject to Clause 28.9 (*Pro rata interest settlement*), on the Transfer Date:

- (a) the New Lender will assume the rights and obligations of the Existing Lender expressed to be the subject of the novation in the Transfer Certificate in substitution for the Existing Lender; and
- (b) the Existing Lender will be released from those obligations and cease to have those rights.

### 28.4 Limitation of responsibility of Existing Lender

28.4.1 Unless expressly agreed to the contrary, an Existing Lender is not responsible to a New Lender for the legality, validity, adequacy, accuracy, completeness or performance of:

- (a) any Finance Document or any other document; or
- (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document, and any representations or warranties implied by law are excluded.

28.4.2 Each New Lender confirms to the Existing Lender and the other Finance Parties that it:

- (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Borrower and its related entities and the nature and extent of any recourse against any Party or its assets) in connection with its participation in this Agreement; and
- (b) has not relied exclusively on any information supplied to it by the Existing Lender in connection with any Finance Document.

28.4.3 Nothing in any Finance Document requires an Existing Lender to:

- (a) accept a re-transfer or re-assignment from a New Lender of any of the rights and obligations assigned or transferred under this Clause; or
- (b) support any losses incurred by the New Lender by reason of the non-performance by the Borrower of its obligations under any

Finance Document or otherwise.

## 28.5 Costs resulting from change of Lender or Facility Office

If:

28.5.1 a Lender assigns or transfers any of its rights and obligations under the Finance Documents or changes its Facility Office; and

28.5.2 as a result of circumstances existing at the date the assignment, transfer or change occurs, the Borrower would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 12 (*Tax gross-up and indemnities*) or Clause 13 (*Increased costs*),

then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred. This Clause 28.5 shall not apply:

- (i) in respect of an assignment or transfer made in the ordinary course of the primary syndication of the Facility; or
- (ii) in relation to Clause 12 (*Tax gross-up and indemnities*), to a Treaty Lender that has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 12.6.1 of Clause 12.6 (*HMRC DT Treaty Passport scheme confirmation*) if the Borrower making the payment has not complied with its obligations under sub-clause 12.6.2 of Clause 12.6 (*HMRC DT Treaty Passport scheme confirmation*).

## 28.6 Changes to the Reference Banks

28.6.1 If a Reference Bank (or, if a Reference Bank is not a Lender, the Lender of which it is an Affiliate) ceases to be a Lender, the Facility Agent must (in consultation with the Borrower) appoint another Lender or an Affiliate of a Lender to replace that Reference Bank.

28.6.2 If a Reference Bank ceases to have a London office or novates or assigns all its rights and obligations under this Agreement or if any Commitments of any Reference Bank are cancelled or if Loans it has advanced are prepaid it shall be replaced as a Reference Bank by such other Lender or an Affiliate of a Lender with an office in London as the Facility Agent (after consultation with the Borrower) shall designate by notice to the Borrower and the Lenders.

## 28.7 Copy of Transfer Certificate or Increase Confirmation to Borrower

The Facility Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate or an Increase Confirmation, send to the Borrower a copy of that Transfer Certificate or Increase Confirmation.

## 28.8 Security over Lenders' rights

In addition to the other rights provided to Lenders under this Clause 28, each Lender may without consulting with or obtaining consent from the Borrower, at any time charge, assign or otherwise create security in or over (whether by way of collateral or otherwise) all or any of its rights under any Finance Document to secure obligations of that Lender including, without limitation:

28.8.1 any charge, assignment or other security to secure obligations to a federal reserve, central bank, governmental authority, agency or department (including Her Majesty's Treasury); and

28.8.2 in the case of any Lender which is a fund, any charge, assignment or other security granted to any holders (or trustee or representatives of holders) of obligations owed, or securities issued, by that Lender as security for those obligations or securities,

except that no such charge, assignment or security shall:

- (a) release a Lender from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or other security for the Lender as a party to any of the Finance Documents; or
- (b) require any payments to be made by the Borrower or grant to any person any more extensive rights than those required to be made or granted to the relevant Lender under the Finance Documents.

## 28.9 Pro rata interest settlement

If the Facility Agent has notified the Lenders that it is able to distribute interest payments on a " *pro rata basis*" to Existing Lenders and New Lenders then (in respect of any transfer pursuant to Clause 28.3 ( *Procedure for transfer by way of novations*) the Transfer Date of which, in each case, is after the date of such notification and is not on the last day of a Term):

28.9.1 any interest or fees in respect of the relevant participation which are expressed to accrue by reference to the lapse of time shall continue to accrue in favour of the Existing Lender up to but excluding the Transfer Date (" **Accrued Amounts** ") and shall become due and payable to the Existing Lender (without further interest accruing on them) on the last day of the current Term (or, if the Term is longer than six months, on the next of the dates which falls at six monthly intervals after the first day of that Term); and

28.9.2 the rights assigned or transferred by the Existing Lender will not include the right to the Accrued Amounts, so that, for the avoidance of doubt:

- (i) when the Accrued Amounts become payable, those Accrued Amounts will be payable to the Existing Lender; and
- (ii) the amount payable to the New Lender on that date will be the amount which would, but for the application of this Clause 28.9, have been payable to it on that date, but after deduction of the Accrued Amounts.

## 28.10 **Disenfranchisement on Debt Purchase Transactions entered into by Relevant Persons**

28.10.1 For so long as a Holding Company of the Borrower or any of such Holding Company's Affiliates other than a member of the Group (a "**Relevant Person** ") (i) beneficially owns a Commitment or (ii) has entered into a sub-participation agreement relating to a Commitment or other agreement or arrangement having a substantially similar economic effect and such agreement or arrangement has not been terminated:

- (a) in ascertaining the Majority Lenders or whether any given percentage (including for the avoidance of doubt, unanimity) of the Total Commitments has been obtained to approve any request for a consent, waiver, amendment or other vote under the Finance Documents such Commitment shall be deemed to be zero; and
- (b) for the purposes of Clause 26.2 ( *Exceptions* ), such Relevant Person or the person with whom it has entered into such sub-participation, other agreement or arrangement shall be deemed not to be a Lender (unless in the case of a person not being a Relevant Person it is a Lender by a virtue otherwise than by beneficially owning the relevant Commitment).

28.10.2 Each Lender shall, unless such Debt Purchase Transaction is an assignment or transfer, promptly notify the Facility Agent in writing if it knowingly enters into a Debt Purchase Transaction with a Relevant Person (a "**Notifiable Debt Purchase Transaction** "), such notification to be substantially in the form set out in Part I of Schedule 9 ( *Forms of Notifiable Debt Purchase Transaction Notice* ).

28.10.3 A Lender shall promptly notify the Facility Agent if a Notifiable Debt Purchase Transaction to which it is a party:

- (a) is terminated; or
- (b) ceases to be with a Relevant Person,

such notification to be substantially in the form set out in Part II of the Schedule 9 ( *Forms of Notifiable Debt Purchase Transaction Notice* ).

28.10.4 Each Relevant Person that is a Lender agrees that:

- (a) in relation to any meeting or conference call to which all the Lenders are invited to attend or participate, it shall not attend or participate in the same if so requested by the Facility Agent or, unless the Facility Agent otherwise agrees, be entitled to receive the agenda or any minutes of the same; and
- (b) in its capacity as Lender, unless the Facility Agent otherwise agrees, it shall not be entitled to receive any report or other document prepared at the request of, or on the instructions of, the Facility Agent or one or more of the Lenders.

## 29. **CONFIDENTIALITY AND DISCLOSURE OF INFORMATION**

### 29.1 **Confidential Information**

Each Finance Party agrees to keep all Confidential Information confidential and not to disclose it to anyone, save to the extent permitted by Clause 29.2 ( *Disclosure of Confidential Information* ) and Clause 29.3 ( *Disclosure to numbering service providers* ), and to ensure that all Confidential

Information is protected with security measures and a degree of care that would apply to its own confidential information.

## 29.2 Disclosure of Confidential Information

Any Finance Party may disclose:

29.2.1 to any of its Affiliates and Related Funds and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives such Confidential Information as that Finance Party shall consider appropriate if any person to whom the Confidential Information is to be given pursuant to this sub-clause 29.2.1 is informed in writing of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of the information or is otherwise bound by requirements of confidentiality in relation to the Confidential Information;

29.2.2 to any person:

- (a) to (or through) whom it assigns or transfers (or may potentially assign or transfer) all or any of its rights and/or obligations under one or more Finance Documents and to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
- (b) with (or through) whom it enters into (or may potentially enter into), whether directly or indirectly, any sub-participation in relation to, or any other transaction under which payments are to be made or may be made by reference to, one or more Finance Documents and/or the Borrower and to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
- (c) appointed by any Finance Party or by a person to whom paragraphs (a) or (b) of sub-clause 29.2.2 above applies to receive communications, notices, information or documents delivered pursuant to the Finance Documents on its behalf;
- (d) who invests in or otherwise finances (or may potentially invest in or otherwise finance), directly or indirectly, any transaction referred to in paragraphs (a) or (b) of sub-clause 29.2.2 above;
- (e) to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation;
- (f) to whom or for whose benefit that Finance Party charges, assigns or otherwise creates security (or may do so) pursuant to Clause 28.8 (*Security over Lenders' rights*);
- (g) to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes;
- (h) who is a Party; or
- (i) with the consent of the Borrower;

in each case, such Confidential Information as that Finance Party shall consider appropriate if:

- (i) in relation to paragraphs (a), (b) and (c) of sub-clause 29.2.2 above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking except that there shall be no requirement for a Confidentiality Undertaking if the recipient is a professional adviser and is subject to professional obligations to maintain the confidentiality of the Confidential Information;
- (ii) in relation to paragraph (d) of sub-clause 29.2.2 above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking or is otherwise bound by requirements of confidentiality in relation to the Confidential Information they receive and is informed that some or all of such Confidential Information may be price-sensitive information;
- (iii) in relation to paragraphs (e), (f) and (g) of sub-clause 29.2.2 above, the person to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of that Finance Party, it is not practicable so to do in the circumstances;

- 29.2.3 to any person appointed by that Finance Party or by a person to whom paragraph (a) or (b) of sub-clause 29.2.2 above applies to provide administration or settlement services in respect of one or more of the Finance Documents including without limitation, in relation to the trading of participations in respect of the Finance Documents, such Confidential Information as may be required to be disclosed to enable such service provider to provide any of the services referred to in this sub-clause 29.2.3 if the service provider to whom the Confidential Information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Borrower and the relevant Finance Party;
- 29.2.4 to any rating agency (including its professional advisers) such Confidential Information as may be required to be disclosed to enable such rating agency to carry out its normal rating activities in relation to the Finance Documents and/or the Borrower if the rating agency to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information.

### 29.3 Disclosure to numbering service providers

29.3.1 Any Finance Party may disclose to any national or international numbering service provider appointed by that Finance Party to provide identification numbering services in respect of this Agreement, the Facility and/or the Borrower the following information:

- (a) name of the Borrower;
- (b) country of domicile of the Borrower;
- (c) place of incorporation of the Borrower;
- (d) date of this Agreement;
- (e) the names of the Facility Agent and the Arranger;
- (f) date of each amendment and restatement of this Agreement;
- (g) amount of Total Commitments;
- (h) currency of the Facility;
- (i) type of the Facility;
- (j) ranking of Facility;
- (k) Final Maturity Date for the Facility;
- (l) changes to any of the information previously supplied pursuant to paragraphs (a) to (k) above; and
- (m) such other information agreed between such Finance Party and the Borrower,

to enable such numbering service provider to provide its usual syndicated loan numbering identification services.

29.3.2 The Parties acknowledge and agree that each identification number assigned to this Agreement, the Facility and/or the Borrower by a numbering service provider and the information associated with each such number may be disclosed to users of its services in accordance with the standard terms and conditions of that numbering service provider.

29.3.3 The Borrower represents that none of the information set out in paragraphs (a) to (m) of sub-clause 29.3.1 above is, nor will at any time be, unpublished price-sensitive information.

29.3.4 The Facility Agent shall notify the Borrower and the other Finance Parties of:

- (a) the name of any numbering service provider appointed by the Facility Agent in respect of this Agreement, the Facility and/or the Borrower; and
- (b) the number or, as the case may be, numbers assigned to this Agreement, the Facility and/or the Borrower by such numbering service provider.

### 30. SET-OFF

A Finance Party may set off any matured obligation owed to it by the Borrower under the Finance Documents (to the extent beneficially owned by that Finance Party) against any obligation (whether or not matured) owed by that Finance Party to the Borrower, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

### 31. PRO RATA SHARING

#### 31.1 Redistribution

If any amount owing by the Borrower under this Agreement to a Lender (the "recovering Lender") is discharged by payment, set-off or any other manner other than through the Facility Agent under this Agreement (a "recovery"), then:

31.1.1 the recovering Lender must, within three Business Days, supply details of the recovery to the Facility Agent;

31.1.2 the Facility Agent must calculate whether the recovery is in excess of the amount which the recovering Lender would have received if the recovery had been received by the Facility Agent under this Agreement; and

31.1.3 the recovering Lender must pay to the Facility Agent an amount equal to the excess (the "redistribution").

#### 31.2 Effect of redistribution

31.2.1 The Facility Agent must treat a redistribution as if it were a payment by the Borrower under this Agreement and distribute it among the Lenders, other than the recovering Lender, accordingly.

31.2.2 When the Facility Agent makes a distribution under sub-clause 31.2.1 above, the recovering Lender will be subrogated to the rights of the Finance Parties which have shared in that redistribution.

31.2.3 If and to the extent that the recovering Lender is not able to rely on any rights of subrogation under sub-clause 31.2.2 above, the Borrower will owe the recovering Lender a debt which is equal to the redistribution, immediately payable and of the type originally discharged.

31.2.4 If:

(a) a recovering Lender must subsequently return a recovery, or an amount measured by reference to a recovery, to the Borrower; and

(b) the recovering Lender has paid a redistribution in relation to that recovery,

each Finance Party must reimburse the recovering Lender all or the appropriate portion of the redistribution paid to that Finance Party, together with interest for the period while it held the re-distribution. In this event, the subrogation in sub-clause 31.2.2 above will operate in reverse to the extent of the reimbursement.

#### 31.3 Exceptions

Notwithstanding any other term of this Clause 31, a recovering Lender need not pay a redistribution to the extent that:

31.3.1 it would not, after the payment, have a valid claim against the Borrower in the amount of the redistribution; or

31.3.2 it would be sharing with another Finance Party any amount which the recovering Lender has received or recovered as a result of legal or arbitration proceedings, where:

(a) the recovering Lender notified the Facility Agent of those proceedings; and

(b) the other Finance Party had an opportunity to participate in those proceedings but did not do so or did not take separate legal or arbitration proceedings as soon as reasonably practicable after receiving notice of them.

### 32. SEVERABILITY



If a term of a Finance Document is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:

32.1.1 the legality, validity or enforceability in that jurisdiction of any other term of the Finance Documents; or

32.1.2 the legality, validity or enforceability in other jurisdictions of that or any other term of the Finance Documents.

### 33. COUNTERPARTS

Each Finance Document may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

### 34. NOTICES

#### 34.1 In writing

34.1.1 Any communication in connection with a Finance Document must be in writing and, unless otherwise stated, may be given:

- (a) in person, by post, or fax or any other electronic communication approved by the Facility Agent; or
- (b) if between the Facility Agent and a Lender and the Facility Agent and the Lender agree, by e-mail or other electronic communication.

34.1.2 For the purpose of the Finance Documents, an electronic communication will be treated as being in writing.

34.1.3 Unless it is agreed to the contrary, any consent or agreement required under a Finance Document must be given in writing.

#### 34.2 Contact details

34.2.1 Except as provided below, the contact details of each Party for all communications in connection with the Finance Documents are those notified by that Party for this purpose to the Facility Agent on or before the date it becomes a Party.

34.2.2 The contact details of the Borrower for this purpose are:

Address:	Avonbank, Feeder Road, Bristol BS2 0TB
Fax number:	01179 332 108
Phone number:	01179 332 354
E-mail:	jhunt9@wsternpower.co.uk
Attention:	Julie Hunt

The contact details of the Facility Agent for this purpose are:

Address:	Mizuho Corporate Bank, Ltd. Bracken House One Friday Street London EC4M 9JA
Fax number:	+44 207 012 4053
E-mail:	Dawn.halstead@mhcb.co.uk
Attention:	Loan Agency

34.2.3 Any Party may change its contact details by giving five Business Days' notice to the Facility Agent or (in the case of the Facility Agent) to the other Parties.

34.2.4 Where a Party nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

#### 34.3 Effectiveness

34.3.1 Except as provided below, any communication in connection with a Finance Document will be deemed to be given as follows:

- (a) if delivered in person, at the time of delivery;
- (b) if posted, five days after being deposited in the post, postage prepaid, in a correctly addressed envelope; and
- (c) if by fax, when received in legible form.

34.3.2 A communication given under sub-clause 34.3.1 above but received on a non-working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.

34.3.3 A communication to the Facility Agent will only be effective on actual receipt by it.

#### 34.4 **The Borrower**

All formal communication under the Finance Documents to or from the Borrower must be sent through the Facility Agent.

#### 34.5 **Communication when Facility Agent is Impaired Agent**

If the Facility Agent is an Impaired Agent the Parties may, instead of communicating with each other through the Facility Agent, communicate with each other directly and (while the Facility Agent is an Impaired Agent) all the provisions of the Finance Documents which require communications to be made or notices to be given to or by the Facility Agent shall be varied so that communications may be made and notices given to or by the relevant Parties directly. This provision shall not operate after a replacement Facility Agent has been appointed.

### 35. **LANGUAGE**

35.1.1 Any notice given in connection with a Finance Document must be in English.

35.1.2 Any other document provided in connection with a Finance Document must be:

- (a) in English; or
- (b) (unless the Facility Agent otherwise agrees) accompanied by a certified English translation. In this case, the English translation prevails unless the document is a statutory or other official document.

### 36. **GOVERNING LAW**

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

### 37. **ENFORCEMENT**

#### 37.1 **Jurisdiction**

37.1.1 The English courts have exclusive jurisdiction to settle any dispute in connection with any Finance Document including a dispute relating to any non-contractual obligation arising out of or in connection with this Agreement.

37.1.2 The English courts are the most appropriate and convenient courts to settle any such dispute and the Borrower waives objection to those courts on the grounds of inconvenient forum or otherwise in relation to proceedings in connection with any Finance Document.

37.1.3 This Clause is for the benefit of the Finance Parties only. To the extent allowed by law, a Finance Party may take:

- (a) proceedings in any other court; and
- (b) concurrent proceedings in any number of jurisdictions.

**THIS AGREEMENT** has been entered into on the date stated at the beginning of this Agreement.

**SCHEDULE 1  
ORIGINAL PARTIES**

<b>Name of Original Lender</b>	<b>Commitment</b>	<b>Treaty Passport scheme reference number and jurisdiction of tax residence (if applicable)</b>
Barclays Bank PLC	£30,000,000	
Commonwealth Bank of Australia	£30,000,000	
HSBC Bank plc	£30,000,000	
Lloyds TSB Bank plc	£30,000,000	
Mizuho Corporate Bank, Ltd.	£30,000,000	
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	£30,000,000	
The Royal Bank of Scotland plc	£30,000,000	
<b>Total</b>	<b>£210,000,000</b>	

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**SCHEDULE 2**  
**CONDITIONS PRECEDENT DOCUMENTS**

**The Borrower**

1. A certified copy of the constitutional documents of the Borrower.
2. A certified copy of a resolution of the board of directors or a committee of the board of directors of the Borrower approving the terms of, and the transactions contemplated by, the Finance Documents.
3. A specimen of the signature of each person authorised on behalf of the Borrower to execute or witness the execution of any Finance Document or to sign or send any document or notice in connection with any Finance Document.
4. A certificate of the Borrower (signed by a director) confirming that borrowing the Total Commitments would not cause any borrowing limit binding on the Borrower to be exceeded.
5. A certificate of an authorised signatory of the Borrower certifying that each copy document relating to it specified in this Schedule 2 is correct, complete and in full force and effect as at a date no earlier than the date of this Agreement.

**Legal opinions**

6. A legal opinion of Clifford Chance LLP, legal advisers to the Arranger and the Facility Agent addressed to the Finance Parties.

**Other documents and evidence**

7. Evidence that all fees and expenses then due and payable from the Borrower under this Agreement have been or will be paid no later than the first Drawdown Date.
  8. The Original Financial Statements.
  9. The Information Package.
  10. A copy of any other authorisation or other document, opinion or assurance which the Facility Agent notifies the Borrower is necessary or desirable in connection with the entry into and performance of the transactions contemplated by any Finance Document or for the validity and enforceability of any Finance Document.
  11. Evidence that (i) any amounts outstanding under the Existing RCF have been or will, on the advance of the first Loan under this Agreement, be repaid in full, and (ii) all commitments under the Existing RCF have been or will, on the advance of the first Loan under this Agreement irrevocably cancelled in full.
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**SCHEDULE 3  
REQUESTS**

To: Mizuho Corporate Bank, Ltd. as Facility Agent  
From: PPL WW Holdings Ltd.  
Date: [•]

**PPL WW Holdings Ltd. - £210,000,000 Revolving Facility Agreement dated [•] 2012 (as amended and restated from time to time) (the "Agreement")**

1. We refer to the Agreement. This is a Request. Terms defined in the Agreement have the same meaning in this Request unless given a different meaning in this Request.
2. We wish to borrow a Loan on the following terms:
  - (a) Drawdown Date: [•]
  - (b) Amount: [•]
  - (c) Term: [•]
  - (d) Currency: [•]
3. Our payment instructions are: [•]
4. We confirm that each condition precedent under the Agreement which must be satisfied on the date of this Request is so satisfied.
5. [This Loan is to be made in [whole]/[part] for the purpose of refinancing [ *identify maturing Loan* ][The proceeds of this Loan should be credited to [ *account* ]].
6. We confirm that as at [ *relevant testing date* ] Consolidated EBITDA was [•] and Interest Payable was [•]; therefore, the ratio of Consolidated EBITDA to Interest Payable was [•] to 1.
7. We confirm that as at [ *relevant testing date* ] Regulatory Asset Base was [•] and Total Net Debt was [•]; therefore, Total Net Debt does not exceed an amount equal to 85% of the Regulatory Asset Base.
8. This Request is irrevocable.

By:

**PPL WW HOLDINGS LTD.**

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**SCHEDULE 4**  
**CALCULATION OF THE MANDATORY COST**

1. The Mandatory Cost is an addition to the interest rate to compensate Lenders for the cost of compliance with (a) the requirements of the Bank of England and/or the Financial Services Authority (or, in either case, any other authority which replaces all or any of its functions) or (b) the requirements of the European Central Bank.
2. On the first day of each Term (or as soon as possible thereafter) the Facility Agent shall calculate, as a percentage rate, a rate (the " **Additional Cost Rate**") for each Lender, in accordance with the paragraphs set out below. The Mandatory Cost will be calculated by the Facility Agent as a weighted average of the Lenders' Additional Cost Rates (weighted in proportion to the percentage participation of each Lender in the relevant Loan) and will be expressed as a percentage rate per annum.
3. The Additional Cost Rate for any Lender lending from a Facility Office in a Participating Member State will be the percentage notified by that Lender to the Facility Agent. This percentage will be certified by that Lender in its notice to the Facility Agent to be its reasonable determination of the cost (expressed as a percentage of that Lender's participation in all Loans made from that Facility Office) of complying with the minimum reserve requirements of the European Central Bank in respect of loans made from that Facility Office.
4. The Additional Cost Rate for any Lender lending from a Facility Office in the United Kingdom will be calculated by the Facility Agent as follows:

(a) in relation to a Sterling Loan:

$$\frac{AB + C(B - D) + E \times 0.01}{100 - (A + C)} \quad \text{per cent annum}$$

(b) in relation to a Loan in any currency other than sterling:

$$\frac{E \times 0.01}{300} \quad \text{per cent. per annum}$$

Where:

- A is the percentage of Eligible Liabilities (assuming these to be in excess of any stated minimum) which that Lender is from time to time required to maintain as an interest free cash ratio deposit with the Bank of England to comply with cash ratio requirements.
  - B is the percentage rate of interest (excluding the Margin and the Mandatory Cost and, if the Loan is an Unpaid Sum, the additional rate of interest specified in sub-clause 9.3.1 of Clause 9.3 (*Interest on overdue amounts*)) payable for the relevant Term on the Loan.
  - C is the percentage (if any) of Eligible Liabilities which that Lender is required from time to time to maintain as interest bearing Special Deposits with the Bank of England.
  - D is the percentage rate per annum payable by the Bank of England to the Facility Agent on interest bearing Special Deposits.
  - E is designed to compensate Lenders for amounts payable under the Fees Rules and is calculated by the Facility Agent as being the average of the most recent rates of charge supplied by the Reference Banks to the Facility Agent pursuant to paragraph 7 below and expressed in pounds per £1,000,000.
5. For the purposes of this Schedule:
- (a) "**Eligible Liabilities**" and "**Special Deposits**" have the meanings given to them from time to time under or pursuant to the Bank of England Act 1998 or (as may be appropriate) by the Bank of England;
  - (b) "**Fees Rules**" means the rules on periodic fees contained in the FSA Supervision Manual or such other law or regulation as may be in force from time to time in respect of the payment of fees for the acceptance of deposits;
  - (c) "**Fee Tariffs**" means the fee tariffs specified in the Fees Rules under the activity group A.1 Deposit acceptors (ignoring any minimum fee or zero rated fee required pursuant to the Fees Rules but taking into account any applicable discount rate);
  - (d) "**Tariff Base**" has the meaning given to it in, and will be calculated in accordance with, the Fees Rules; and
  - (e) "**Unpaid Sum**" means any sum due and payable but unpaid by the Borrower under the Finance Documents.

6. In application of the above formulae, A, B, C and D will be included in the formulae as percentages (i.e. 5 per cent. will be included in the formula as 5 and not as 0.05). A negative result obtained by subtracting D from B shall be taken as zero. The resulting figures shall be rounded to four decimal places.
7. If requested by the Facility Agent, each Reference Bank shall, as soon as practicable after publication by the Financial Services Authority, supply to the Facility Agent, the rate of charge payable by that Reference Bank to the Financial Services Authority pursuant to the Fees Rules in respect of the relevant financial year of the Financial Services Authority (calculated for this purpose by that Reference Bank as being the average of the Fee Tariffs applicable to that Reference Bank for that financial year) and expressed in pounds per £1,000,000 of the Tariff Base of that Reference Bank.
8. Each Lender shall supply any information required by the Facility Agent for the purpose of calculating its Additional Cost Rate. In particular, but without limitation, each Lender shall supply the following information on or prior to the date on which it becomes a Lender:
  - (a) the jurisdiction of its Facility Office; and
  - (b) any other information that the Facility Agent may reasonably require for such purpose.

Each Lender shall promptly notify the Facility Agent of any change to the information provided by it pursuant to this paragraph.

9. The percentages of each Lender for the purpose of A and C above and the rates of charge of each Reference Bank for the purpose of E above shall be determined by the Facility Agent based upon the information supplied to it pursuant to paragraphs 7 and 8 above and on the assumption that, unless a Lender notifies the Facility Agent to the contrary, each Lender's obligations in relation to cash ratio deposits and Special Deposits are the same as those of a typical bank from its jurisdiction of incorporation with a Facility Office in the same jurisdiction as its Facility Office.
  10. The Facility Agent shall have no liability to any person if such determination results in an Additional Cost Rate which over or under compensates any Lender and shall be entitled to assume that the information provided by any Lender or Reference Bank pursuant to paragraphs 3, 7 and 8 above is true and correct in all respects.
  11. The Facility Agent shall distribute the additional amounts received as a result of the Mandatory Cost to the Lenders on the basis of the Additional Cost Rate for each Lender based on the information provided by each Lender and each Reference Bank pursuant to paragraphs 3, 7 and 8 above.
  12. Any determination by the Facility Agent pursuant to this Schedule in relation to a formula, the Mandatory Cost, an Additional Cost Rate or any amount payable to a Lender shall, in the absence of manifest error, be conclusive and binding on all Parties.
  13. The Facility Agent may from time to time, after consultation with the Borrower and the Lenders, determine and notify to all Parties any amendments which are required to be made to this Schedule in order to comply with any change in law, regulation or any requirements from time to time imposed by the Bank of England, the Financial Services Authority or the European Central Bank (or, in any case, any other authority which replaces all or any of its functions) and any such determination shall, in the absence of manifest error, be conclusive and binding on all Parties.
-

**SCHEDULE 5**  
**FORM OF TRANSFER CERTIFICATE**

To: Mizuho Corporate Bank, Ltd. as Facility Agent  
From: [THE EXISTING LENDER] (the "Existing Lender") and [THE NEW LENDER] (the "New Lender")  
Date: [•]

**PPL WW Holdings Ltd. - £210,000,000 Revolving Facility Agreement dated [•] 2012 (as amended and restated from time to time) (the "Agreement")**

We refer to the Agreement. This is a Transfer Certificate.

1. The Existing Lender transfers by novation to the New Lender all of the Existing Lender's rights and obligations under the Agreement and the other Finance Documents which relate to that portion of the Existing Lender's Commitment and participations in Loans under the Agreement referred to in the Schedule below in accordance with the terms of the Agreement.
2. The proposed Transfer Date is [•].
3. The administrative details of the New Lender for the purposes of the Agreement are set out in the Schedule.
4. The New Lender confirms, for the benefit of the Facility Agent and without liability to the Borrower, that it is:
  - (a) [a Qualifying Lender (other than a Treaty Lender);]
  - (b) [a Treaty Lender;]
  - (c) [not a Qualifying Lender].\*
5. [The New Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
  - (a) a company resident in the United Kingdom for United Kingdom tax purposes; or
  - (b) a partnership each member of which is:
    - (i) a company so resident in the United Kingdom; or
    - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA 2009) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA 2009; or
  - (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA 2009) of that company.]\*\*
6. [The New Lender confirms (for the benefit of the Facility Agent and without liability to the Borrower) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [•]), and is tax resident in [•] \*\*\* so that interest payable to it by the Borrower is generally subject to full exemption from UK withholding tax and notifies the Borrower that the Borrower must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]\*\*\*\*

NOTES:

- \* Delete as applicable - each Increase Lender is required to confirm which of these three categories it falls within.
- \*\* Include if Increase Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 12.1 ( *Definitions*).
- \*\*\* Insert jurisdiction of tax residence.
- \*\*\*\* This confirmation must be included if the Increase Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.



7. This Transfer Certificate and any non-contractual obligations arising out of or in connection with it are governed by English law.

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**THE SCHEDULE**

**Rights and obligations to be transferred by novation**

[insert relevant details, including applicable Commitment (or part)]

**Administrative details of the New Lender**

[insert details of Facility Office, address for notices and payment details etc.]

**[EXISTING LENDER]**

**[NEW LENDER]**

By:

By:

The Transfer Date is confirmed by the Facility Agent as [•].

[•]

By:

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**SCHEDULE 6  
FORM OF COMPLIANCE CERTIFICATE**

To: Mizuho Corporate Bank, Ltd. as Facility Agent

From: PPL WW Holdings Ltd.

Date: [•]

**PPL WW Holdings Ltd. - £210,000,000 Revolving Facility Agreement dated [•] 2012 (as amended and restated from time to time) (the "Agreement")**

1. We refer to the Agreement. This is a Compliance Certificate.
2. We confirm that as at [*relevant testing date*], Consolidated EBITDA was [•] and Interest Payable was [•], therefore the ratio of Consolidated EBITDA to Interest Payable was [•] to 1.
3. We confirm that as at [*relevant testing date*], Regulatory Asset Base was [•] and Total Net Debt was [•]; therefore Total Net Debt does not exceed 85% of the Regulatory Asset Base.
4. We set out below calculations establishing the figures in paragraphs 2 and 3 above:  
  
[•].
5. [We confirm that no Default is outstanding as at [*relevant testing date*].]<sup>1</sup>

**PPL WW HOLDINGS LTD.**

By:

Director

Director

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<sup>1</sup> If this statement cannot be made, the certificate should identify any Default that is outstanding and the steps, if any, being taken to remedy it.

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**SCHEDULE 7**  
**FORM OF INCREASE CONFIRMATION**

To: Mizuho Corporate Bank, Ltd. as Facility Agent, and PPL WW Holdings Ltd. as Borrower

From: [the *Increase Lender*] (the "**Increase Lender**")

Dated: [•]

**PPL WW Holdings Ltd. - £210,000,000 Revolving Facility Agreement dated [•] 2012 (as amended and restated from time to time) (the "Agreement")**

1. We refer to the Agreement. This is an Increase Confirmation. Terms defined in the Agreement have the same meaning in this Increase Confirmation unless given a different meaning in this Increase Confirmation.
2. We refer to Clause 2.2 (*Increase*) of the Agreement.
3. In accordance with the terms of the Agreement, the Increase Lender agrees to assume and will assume all of the obligations corresponding to the Commitment specified in the Schedule (the "**Relevant Commitment**") as if it was an Original Lender under the Agreement.
4. The proposed date on which the increase in relation to the Increase Lender and the Relevant Commitment is to take effect (the "**Increase Date**") is [•].
5. On the Increase Date, the Increase Lender becomes party to the Finance Documents as a Lender.
6. The Facility Office and address, fax number and attention details for notices to the Increase Lender are set out in the Schedule.
7. The Increase Lender expressly acknowledges the limitations on the Lenders' obligations referred to in Clause 2.2 ( *Increase*).
8. The Increase Lender confirms, for the benefit of the Facility Agent and without liability to the Borrower, that it is:
  - (a) [a Qualifying Lender (other than a Treaty Lender);]
  - (b) [a Treaty Lender;]
  - (c) [not a Qualifying Lender].\*
9. [The Increase Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
  - (a) a company resident in the United Kingdom for United Kingdom tax purposes; or
  - (b) a partnership each member of which is:
    - (1) a company so resident in the United Kingdom; or
    - (2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA 2009) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA 2009; or
  - (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA 2009) of that company.]\*\*
10. [The Increase Lender confirms (for the benefit of the Facility Agent and without liability to the Borrower) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [•]), and is tax resident in [•] \*\*\* so that interest payable to it by the Borrower is generally subject to full exemption from UK withholding tax and notifies the Borrower that the Borrower must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]\*\*\*\*

NOTES:

- \* Delete as applicable - each Increase Lender is required to confirm which of these three categories it falls within.
- \*\* Include if Increase Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 12.1 ( *Definitions*).
- \*\*\* Insert jurisdiction of tax residence.
- \*\*\*\* This confirmation must be included if the Increase Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.

11. This Increase Confirmation may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Increase Confirmation.
  12. This Increase Confirmation and any non-contractual obligations arising out of or in connection with it are governed by English law.
  13. This Increase Confirmation has been entered into on the date stated at the beginning of this Increase Confirmation.
-

**SCHEDULE 8  
TIMETABLES**

	<b>Loans in euro</b>	<b>Loans in sterling</b>	<b>Loans in other currencies</b>
Facility Agent notifies the Borrower if a currency is approved as an Optional Currency in accordance with Clause 4.3 ( <i>Conditions relating to Optional Currencies</i> )	D-10 10 a.m.	N/A	D-10 10:00 a.m.
Delivery of a duly completed Request in accordance with Clause 5.1 ( <i>Giving of Requests</i> )	D-3 10.00am	D-1 10.00am	D-3 10.00am
Facility Agent determines (in relation to a Loan) the Base Currency Amount of the Loan, if required under Clause 5.4 ( <i>Advance of Loan</i> ) and notifies the Lenders of the Loan in accordance with Clause 5.4 ( <i>Advance of Loan</i> )	D-3 4.00pm	D-1 4.00pm	D-3 4.00pm
Facility Agent receives a notification from a Lender under Clause 6.2 ( <i>Unavailability of a currency</i> )	D-2 9.00am	D 10.00am	D-2 10.00am
Agent gives notice in accordance with Clause 6.2 ( <i>Unavailability of a currency</i> )	D-2 4.00pm	D 4.00pm	D-2 4.00pm
LIBOR or EURIBOR is fixed	Rate Fixing Day as of 11:00 a.m. London time in respect of LIBOR and as of 11:00 a.m. (Brussels time) in respect of EURIBOR	Rate Fixing Day as of 11:00 a.m.	Rate Fixing Day as of 11:00 a.m.

"D" = date of drawdown

"D- X"= Business Days prior to date of drawdown

**SCHEDULE 9**  
**FORMS OF NOTIFIABLE DEBT PURCHASE TRANSACTION NOTICE**

**PART I**  
**FORM OF NOTICE ON ENTERING INTO NOTIFIABLE DEBT PURCHASE TRANSACTION**

To: [ ] as Facility Agent

From: [The Lender]

Dated:

**PPL WW Holdings Ltd. - £210,000,000 Revolving Facility**  
**dated [ ] (the "Facilities Agreement")**

1. We refer to paragraph (b) of clause 28.10 (*Disenfranchisement on Debt Purchase Transactions entered into by Relevant Persons*) of the Facilities Agreement. Terms defined in the Facilities Agreement have the same meaning in this notice unless given a different meaning in this notice.
2. We have entered into a Notifiable Debt Purchase Transaction.
3. The Notifiable Debt Purchase Transaction referred to in paragraph 2 above relates to [ *insert amount (of that Commitment) to which the relevant Debt Purchase Transaction applies*]

[Lender]

By:

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**PART II**  
**FORM OF NOTICE ON TERMINATION OF NOTIFIABLE DEBT PURCHASE TRANSACTION/NOTIFIABLE DEBT PURCHASE TRANSACTION CEASING TO BE WITH RELEVANT PERSON**

To: [ ] as Agent

From: [The Lender]

Dated:

**PPL WW Holdings Ltd. - £210,000,000 Facility Agreement**  
**dated [ ] (the "Facilities Agreement")**

1. We refer to paragraph (c) of clause 28.10 (*Disenfranchisement on Debt Purchase Transactions entered into by Relevant Persons*) of the Facilities Agreement. Terms defined in the Facilities Agreement have the same meaning in this notice unless given a different meaning in this notice.
2. A Notifiable Debt Purchase Transaction which we entered into and which we notified you of in a notice dated [ • ] has [terminated]/[ceased to be with a Relevant Person].
3. The Notifiable Debt Purchase Transaction referred to in paragraph 2 above relates to [ *insert amount (of that Commitment) to which the relevant Debt Purchase Transaction applies*]

[Lender]

By:

---



## THE SCHEDULE

### Relevant Commitment/rights and obligations to be assumed by the Increase Lender

*[insert relevant details]*

*[Facility office address, fax number and attention details for notices and account details for payments ]*

[Increase Lender]

By:

This Increase Confirmation is confirmed as an Increase Confirmation for the purposes of the Agreement by the Facility Agent and the Increase Date is confirmed as [\*].

Facility Agent

By:

as Facility Agent for and on behalf of each of the parties to the Agreement (other than the Increase Lender)



(c) Any undertaking by the Subordinated Creditor in this Deed remains in force from the date of this Deed to the Senior Debt Discharge Date.

### 1.3 Third Party rights

Unless otherwise indicated and save in respect of any other creditor under any of the Finance Documents, a person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 (or any other applicable law) to enforce any term of this Deed.

## 2. SUBORDINATION

### 2.1 Ranking

Each of the Parties hereby agrees that the Senior Debt, whether secured or unsecured, shall rank senior in priority to the Subordinated Debt.

### 2.2 Undertakings of the Company

The Company must not without the prior consent of the Lenders:

- (a) make any payment whatsoever in respect of the Subordinated Debt other than a Permitted Subordinated Debt Payment; or
- (b) secure, in any manner, all or any part of the Subordinated Debt; or
- (c) defease, in any manner, all or any part of the Subordinated Debt; or
- (d) give any financial support (including the taking of any participation, the giving of any guarantee or other assurance or the making of any deposit) to any person in connection with all or any part of the Subordinated Debt; or
- (e) procure any other person to do any of the acts or take any of the actions referred to in paragraphs (a) to (d) above.

### 2.3 Undertakings of the Subordinated Creditor

- (a) The Subordinated Creditor will not without the prior written consent of the Lenders:
  - (i) allow to exist or receive the benefit of any Security Interest, guarantee, indemnity or other assurance against loss in respect of all or any of the Subordinated Debt or all or any rights which it may have against the Company in respect of all or any part of the Subordinated Debt; or
  - (ii) take or omit to take any action or step whereby the subordination of all or any of the Subordinated Debt might be terminated, impaired or adversely affected.
- (b) The Subordinated Creditor will not without the prior written consent of the Lenders receive any payment save where such payment is a Permitted Subordinated Debt Payment.
- (c) The Subordinated Creditor will not without the prior written consent of the Lenders:
  - (i) demand payment, declare prematurely due and payable or otherwise seek to accelerate payment of or place on demand all or any part of the Subordinated Debt or enforce the Subordinated Debt by execution or otherwise;
  - (ii) initiate or support or take any steps with a view to, or which may lead to:
    - I. any insolvency, liquidation, reorganisation, administration or dissolution proceedings;
    - II. any voluntary arrangement or assignment for the benefit of creditors; or
    - III. any similar proceedings,involving the Company or any of its Subsidiaries, whether by petition, convening a meeting, voting for a resolution or otherwise;
  - (iii) bring or support any legal proceedings against the Company or any of its Subsidiaries; or
  - (iv) otherwise exercise any remedy for the recovery of all or any part of the Subordinated Debt (including, without limitation, the exercise of any right of set-off, counterclaim or lien).
- (d) If the Subordinated Creditor receives any payment which is in breach of any Finance Document, it shall hold such sums on trust for the

Facility Agent (acting on behalf of the Lenders) and pay them immediately to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt.

- (e) The Subordinated Creditor and the Company hereby agree for the benefit of the Facility Agent and the Lenders that, notwithstanding the terms of the Subordinated Finance Document and any agreement relating to the Subordinated Debt, the Subordinated Debt is made available on terms such that it is not, save for a Permitted Subordinated Debt Payment or otherwise with the consent of the Lenders, repayable unless and until the Senior Debt Discharge Date shall have occurred.

## 2.4 Subordination on insolvency

If there occurs any payment, distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of any kind or character of the Company or the proceeds thereof, to creditors of the Company, by reason of the liquidation, dissolution or other winding-up of the Company or its businesses or any bankruptcy, reorganisation, receivership or insolvency or similar proceeding or any assignment for the benefit of creditors or there is a marshalling of the assets and liabilities of the Company, or the Company becomes subject to any event mentioned in clause 21.6 (*Insolvency proceedings*) of the Agreement or a voluntary arrangement, then and in any such event:

- (a) the Subordinated Debt shall continue to be subordinated to the Senior Debt;
- (b) any payment or distribution of any kind or character and all and any rights in respect thereof, whether in cash, securities or other property which is payable or deliverable upon or with respect to the Subordinated Debt or any part thereof by a liquidator, administrator or receiver (or the equivalent thereof) of the Company or its estate (the "rights") made to or paid to, or received by the Subordinated Creditor or to which the Subordinated Creditor is entitled shall be held on trust by the Subordinated Creditor for the Lenders and shall forthwith be paid or, as the case may be, transferred or assigned to the Lenders to be applied against the Senior Debt;
- (c) if the trust referred to in paragraph (b) above or paragraph (d) of Clause 2.3 above fails or cannot be given effect to or if the Subordinated Creditor receives and retains the relevant payment or distribution, the Subordinated Creditor will pay over such rights in the form received to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt;
- (d) the Subordinated Creditor acknowledges the rights of the Facility Agent (acting on behalf of the Lenders) to demand, sue and prove for, collect and receive every payment or distribution referred to in paragraph (b) above and give acquittance therefore and to file claims and take such other proceedings, in the Facility Agent's own name or otherwise, as the Facility Agent may deem necessary or advisable for the enforcement of this Deed; and
- (e) the Subordinated Creditor by way of security for its obligations under this Deed irrevocably appoints the Facility Agent to be its attorney in order to enable the Facility Agent to enforce any and all claims upon or with respect to the Subordinated Debt or any part thereof, and to collect and receive any and all payments or distributions referred to in paragraph (b) above or to do anything which that Subordinated Creditor has authorised the Facility Agent or any other Party to do under this Deed or is itself required to do under this Deed but has failed to do (and the Facility Agent may delegate that power on such terms as it sees fit).

## 3. SET-OFF

- (a) The Subordinated Creditor shall not set off against the Subordinated Debt any amount payable by the Subordinated Creditor to the Company.
- (b) If any part of the Subordinated Debt is discharged in whole or in part by way of set-off, the Subordinated Creditor will promptly pay to the Facility Agent for application in accordance with the terms of paragraph (b) of Clause 2.4 (*Subordination on insolvency*) an amount equal to the amount of the Subordinated Debt discharged by such set-off.

## 4. NEW MONEY

The Subordinated Creditor hereby agrees that the Facility Agent (acting on behalf of the Lenders) may, at its discretion, increase the facility made available to the Company and make further advances to the Company, and each such advance will be deemed to be made under the terms of the Agreement.

## 5. PROTECTION OF SUBORDINATION

- (a) The subordination in this Deed is a continuing subordination and benefits the ultimate balance of the Senior Debt.
- (b) Except as provided in this Deed, the subordination is, and the Subordinated Creditor's obligations under this Deed will, not be affected by any act, omission or thing which, but for this provision, would reduce, release or prejudice the subordination or any of the Subordinated Creditor's obligations under this Deed.

## 6. MISCELLANEOUS

- (a) This Deed overrides anything in any Subordinated Finance Document to the contrary.
- (b) Any communication in respect of this Deed must be in writing. Contact details for each Party are set out opposite their name, below.
- (c) This Deed is a Finance Document.

## **7. ASSIGNMENT**

- (a) The Facility Agent (acting on behalf of the Lenders) shall have the full and unfettered right to assign or otherwise transfer the whole or any part of the benefit of this Deed to any person to whom all or a corresponding part of its rights, benefits and obligations under any of the Finance Documents are assigned or transferred in accordance with their provisions.
- (b) The Subordinated Creditor shall not assign or transfer all or any of its rights, title, benefit and interest in or to all or any part of the Subordinated Debt unless in full and on or prior to such assignment or transfer the assignee or transferee accedes to this Deed as Subordinated Creditor pursuant to the Subordinated Creditor Accession Deed.

## **8. TRUSTS**

- (a) The Facility Agent shall hold the benefit of this Deed upon trust for itself and the Lenders.
- (b) The perpetuity period for each trust created by this Deed shall be 80 years.

## **9. TERMINATION**

Subject to Clause 4 (*New Money*), on the Senior Debt Discharge Date, the terms of this Deed shall terminate.

## **10. GOVERNING LAW**

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

## **11. JURISDICTION**

The English courts have exclusive jurisdiction to settle any dispute including a dispute relating to non-contractual obligations arising out of or in connection with this Deed and the Parties submit to the exclusive jurisdiction of the English courts.

**IN WITNESS** whereof this Deed has been duly executed by the Parties on the day and year first above written.

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**Annex 1**

**Form of Subordinated Creditor Accession Deed**

To: **MIZUHO CORPORATE BANK, LTD.**, as Facility Agent acting on behalf of the Lenders.

To: **PPL WW HOLDINGS LTD.**

From: *[Acceding Subordinated Creditor]*

THIS DEED is made on [date] by *[Acceding Subordinated Creditor]* (the "**Acceding Subordinated Creditor**") in relation to the subordination deed (the "**Subordination Deed**") dated [•] between, among others, PPL WW Holdings Ltd. as Company, Mizuho Corporate Bank, Ltd. as Facility Agent and the Subordinated Creditor (as defined in the Subordination Deed). Terms defined in the Subordination Deed shall, unless otherwise defined in this Deed, bear the same meanings when used in this Deed.

In consideration of the Acceding Subordinated Creditor being accepted as the Subordinated Creditor for the purposes of the Subordination Deed, the Acceding Subordinated Creditor confirms that, as from [date], it intends to be party to the Subordination Deed as the Subordinated Creditor and undertakes to perform all the obligations expressed in the Subordination Deed to be assumed by the Subordinated Creditor and agrees that it shall be bound by all the provisions of the Subordination Deed, as if it had been an original party to the Subordination Deed as the Subordinated Creditor.

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

**IN WITNESS** whereof this Deed has been duly executed by the Parties on the day and year first above written.

---

SIGNATORIES

Company

EXECUTED as a DEED )
by PPL WW HOLDINGS LTD. )
acting by ) Director

In the presence of:

Witness's Signature: .....

Name: .....

Address: .....

Company contact details:

Address: Avonbank, Feeder Road, Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wsternpower.co.uk
Attention: Julie Hunt

Acceding Subordinated Creditor

EXECUTED as a DEED )
by [ACCEDING SUBORDINATED CREDITOR ] )
acting by ) Director

In the presence of:

Witness's Signature: .....

Name: .....

Address: .....

Company contact details:

Subordinated Creditor contact details:

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED )
by MIZUHO CORPORATE BANK, LTD. )
acting by ) Director

In the presence of:

Witness's Signature: .....

Name: .....

Address: .....

Company contact details:

Facility Agent contact details:

Address:           Bracken House  
                      One Friday Street  
                      London EC4M 9JA

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**Annex 2  
Form of Certificate**

To: Mizuho Corporate Bank, Ltd. as Facility Agent  
From: PPL WW Holdings Ltd.  
Date: [●]

**PPL WW Holdings Ltd. - £210,000,000 Revolving Facility Agreement dated [●] 2012 (as amended and restated from time to time) (the "Agreement") and Subordination Deed dated [●] (as amended and restated from time to time) (the "Deed")**

1. We refer to the Agreement and the Deed. Capitalised terms defined in the Deed have the same meaning in this Certificate, unless given a different meaning in this Certificate.
2. We confirm that the Company will make [*insert type of payment*] of [*insert amount and currency*] under [*insert description of relevant Subordinated Finance Document*] on [*insert date of payment*].
3. We confirm that, taking into account such payment, the Company will be in compliance with its obligations under Clause 19 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates (as such term is defined in the Agreement).

**PPL WW HOLDINGS LTD.**

By:  
Director

By:  
Director

**SIGNATORIES**

**Company**

EXECUTED as a DEED )  
by PPL WW HOLDINGS LTD. ) .....  
acting by ) Director

In the presence of:

Witness's Signature: .....

Name: .....

Address: .....

Company contact details:

Address: Avonbank,  
Feeder Road,  
Bristol BS2 0TB  
Fax number: 01179 332 108  
Phone number: 01179 332 354  
E-mail: jhunt9@wsternpower.co.uk  
Attention: Julie Hunt

**Subordinated Creditor**

EXECUTED as a DEED )  
by [SUBORDINATED CREDITOR ] ) .....  
acting by ) Director

In the presence of:

Witness's Signature: .....

Name: .....

Address: .....

Subordinated Creditor contact details:

Address:  
Fax number:  
Phone number:  
E-mail:  
Attention:

**Facility Agent**

EXECUTED as a DEED  
by **MIZUHO CORPORATE BANK, LTD.**  
acting by

)  
)  
) .....  
Director

In the presence of:

Witness's Signature: .....

Name: .....

Address: .....

Facility Agent contact details:

Address: **Bracken House  
One Friday Street  
London EC4M 9JA**



**SCHEDULE 11  
FORM OF DISTRIBUTION CERTIFICATE**

To: Mizuho Corporate Bank, Ltd. as Facility Agent

From: [PPL WW Holdings Ltd.]

Date: [●]

**PPL WW Holdings Ltd. - £210,000,000 Facility Agreement dated [●] 2012 (as amended and restated from time to time) (the "Facility Agreement")**

1. We refer to the Facility Agreement. Capitalised terms defined in the Facility Agreement have the same meaning in this Distribution Certificate, unless given a different meaning in this Distribution Certificate
2. We confirm that the Company will make [insert type of payment] of [insert amount and currency] on [insert date of payment].
3. We confirm that, taking into account such payment, the Borrower will be in compliance with its obligations under Clause 19 (*Financial Covenants*) of the Facility Agreement on each of the next two Measurement Dates.

**PPL WW HOLDINGS LTD.**

By:

Director

By:

Director

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**SIGNATORIES**

**THE BORROWER**

Signed by )  
for and on behalf of )  
 )  
**PPL WW HOLDINGS LTD.** )

Address: Avonbank  
Feeder Road  
Bristol BS2 0TB  
Fax: +44 (0)1179 332 108

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**THE JOINT COORDINATORS AND BOOKRUNNERS**

Signed by )  
for and on behalf of )  
**LLOYDS TSB BANK PLC** )

Address: 10 Gresham Street  
London EC2V 7AE  
Tel: +44 20 7158 2908  
Email: Nick.Walker@lloydsbanking.com

Signed by )  
for and on behalf of )  
**MIZUHO CORPORATE BANK, LTD.** )

Address: Bracken House  
One Friday Street  
London EC4M 9JA

**THE MANDATED LEAD ARRANGERS**

Signed by )  
for and on behalf of )  
)  
**BARCLAYS BANK PLC** )

Address: Barclays Bank PLC  
5 The North Colonnade  
Canary Wharf  
London E14 4BB  
Tel: +44 (0) 20 7773 2190  
Fax: +44 (0) 20 7773 1840

Signed by )  
for and on behalf of )  
)  
**COMMONWEALTH BANK OF AUSTRALIA** )

Address: Senator House  
Level 3  
85 Queen Victoria Street  
London  
EC4V 4HA  
Tel: (0)20 7710 3956  
Fax: (0)20 7329 6611  
E-mail: john.russell@cba.com.au

Signed by )  
for and on behalf of )  
**HSBC BANK PLC** )  
)

Address: 3 Rivergate  
Bristol, BS1 6ER  
Tel: 08455 839817  
Fax: 08455 877941  
E-mail: sharondaw@hsbc.com

Signed by )  
for and on behalf of )  
**LLOYDS TSB BANK PLC** )

Address: 10 Gresham Street  
London EC2V 7AE  
Tel: +44 (0)20 7158 2908  
E-mail: Nick.Walker@lloydsbanking.com

Signed by )  
for and on behalf of )  
**MIZUHO CORPORATE BANK, LTD.** )  
)

Address: Bracken House  
One Friday Street  
London EC4M 9JA

Signed by )  
for and on behalf of )  
**THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.** )  
)

Address: Ropemaker Place  
25 Ropemaker Street  
London EC2Y 9AN  
Tel: 020 7577 2029/ 020 7577 5161/ 020 7577 1596  
E-mail: Robert.welford@uk.mufg.jp / kumar.shah@uk.mufg.jp /  
mayumi.saito-o'connor@uk.mufg.jp



Signed by )  
for and on behalf of )  
 )  
**THE ROYAL BANK OF SCOTLAND PLC** )

Address: 135 Bishopsgate  
London EC2M 3UR  
Tel: +44 20 7085 8539  
Fax: +44 20 7085 8692  
E-mail: [www.rbs.com/mib](http://www.rbs.com/mib)

---

**THE ORIGINAL LENDERS**

Signed by )  
for and on behalf of )  
)  
**BARCLAYS BANK PLC** )

Address: Barclays Bank PLC  
5 The North Colonnade  
Canary Wharf  
London E14 4BB  
Tel: +44 (0) 20 7773 2190  
Fax: +44 (0) 20 7773 1840

Signed by )  
for and on behalf of )  
)  
**COMMONWEALTH BANK OF AUSTRALIA** )

Address: Senator House  
Level 3  
85 Queen Victoria Street  
London  
EC4V 4HA  
Tel: (0)20 7710 3956  
Fax: (0)20 7329 6611  
E-mail: john.russell@cba.com.au

Signed by )  
for and on behalf of )  
)  
**HSBC BANK PLC** )

Address: 3 Rivergate  
Bristol, BS1 6ER  
Tel: 08455 839817  
Fax: 08455 877941  
E-mail: sharondaw@hsbc.com

Signed by )  
for and on behalf of )

**LLOYDS TSB BANK PLC** )

Address: 10 Gresham Street  
London EC2V 7AE  
Attention: Nick Walker (for credit matters)  
Tel: +44 20 7158 2908  
E-mail: Nick.Walker@lloydsbanking.com

Address: Wholesale Loan Services  
Level 1, Citymark  
150 Fountainbridge  
Edinburgh EH3 9PE  
Attention: Wholesale Loans Services (for administration matters)  
Tel: 08456 366 0025  
Fax: +44 20 7158 3204

Signed by )  
for and on behalf of )

**MIZUHO CORPORATE BANK, LTD.** )

Address: Bracken House  
One Friday Street  
London EC4M 9JA

Signed by )  
for and on behalf of )

**THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.** )

Address: Ropemaker Place  
25 Ropemaker Street  
London EC2Y 9AN  
Tel: 020 7577 2029/ 020 7577 5161/ 020 7577 1596  
E-mail: Robert.welford@uk.mufg.jp / kumar.shah@uk.mufg.jp /  
mayumi.saito-o'connor@uk.mufg.jp

Signed by )  
for and on behalf of )  
**THE ROYAL BANK OF SCOTLAND PLC** )  
)

Address: 135 Bishopsgate  
London EC2M 3UR  
Tel: +44 20 7085 8539  
Fax: +44 20 7085 8692  
E-mail: [www.rbs.com/mib](http://www.rbs.com/mib)

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**THE FACILITY AGENT**

Signed by )  
for and on behalf of )  
MIZUHO CORPORATE BANK, LTD. )

Address: Bracken House  
One Friday Street  
London EC4M 9JA

**TRUST AGREEMENT**

**Between**

**PPL CORPORATION**

**And**

**FIRST UNION NATIONAL BANK AS TRUSTEE**

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**PPL EMPLOYEE NON-QUALIFIED PLAN TRUST**

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**TRUST AGREEMENT**  
**Between**  
**PPL CORPORATION**  
**And**  
**FIRST UNION NATIONAL BANK, AS TRUSTEE**

This Agreement and Declaration of Trust (hereinafter called the "Trust Agreement") made as of the 1st day of April 2001, as amended, by and between PPL Corporation, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, with its principal place of business at Allentown, Pennsylvania, hereinafter referred to as "PPL," and First Union National Bank, with its principal place of business at Charlotte, North Carolina, hereinafter called the "Trustee",

WITNESSETH:

WHEREAS, PPL has heretofore adopted a nonqualified deferred compensation plan and agreement for certain of its Directors (such Directors and their designated beneficiaries where applicable being hereinafter referred to collectively as the "Participants" and individually as a "Participant") and may hereafter adopt other such plans or agreements; and

WHEREAS, PPL wishes to establish this grantor trust, hereinafter called the "Trust," for the collective investment of such property as may from time to time be contributed thereto, subject only to the claims of PPL's general creditors in the event of PPL's Insolvency (as defined in Article III); and

WHEREAS, PPL wishes the Trust to be used in connection with such plan or plans or agreements as it may from time to time designate under Article X of this

Trust Agreement (which plans and agreements are hereinafter called the "Plans" collectively or the "Plan" individually), although the Trust may not necessarily hold sufficient assets to satisfy all of the benefits to be provided under the Plans; and

WHEREAS, the Trustee is willing to hold and administer such trust assets pursuant to the terms of this Trust Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual

covenants herein contained, PPL and the Trustee intending to be legally bound hereby, do covenant and agree as follows:

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**Article 1**  
**Establishment, Purpose and Nature of Trust Fund**

1.1 PPL hereby establishes with the Trustee a trust consisting of such cash and/or marketable securities as shall be paid to the Trustee with respect to the Plans pursuant to Article II, Paragraph 2.1. The Trust shall be known as the PPL EMPLOYEE NONQUALIFIED PLANS TRUST. The creation of this Trust is not intended to create an employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974. The Trust is intended to constitute an unfunded arrangement and shall not affect the status of the Plans as unfunded plans maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended. 1.2 The Trust shall consist of all contributions to the Trust by PPL and the earnings and losses thereon (including unrealized gains and losses), less disbursements therefrom (hereinafter called the "Trust Fund"). The principal of the Trust, and any earnings thereon shall be held separate and apart from other funds of PPL and shall be used exclusively for the uses and purposes of Participants, and general creditors as herein set forth. Participants shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plans and this Trust Agreement shall be mere unsecured contractual rights of Participants against PPL. Any assets held by the Trust will be subject to the claims of PPL's general creditors under federal and state law in the event PPL becomes Insolvent.

1.3 The Trust hereby established is revocable by PPL; provided, however, that it shall be irrevocable (a) during the pendency of a Potential Change in Control and (b) upon a Change in Control, each as defined in Paragraph 10.3.

1.4 The Trust Fund shall be held by the Trustee, subject to the reservation of powers under Paragraphs 10.1 and 10.2 of Article X, for the purpose of providing benefits in accordance with the terms of the Plans. The Trustee shall pay all benefits as they become due and payable pursuant to the Plans in accordance with Article III and Article IV to the extent there are sufficient funds in the Trust to do so. Notwithstanding the foregoing, the Trust Fund shall be treated as an asset of PPL and shall remain subject to the claims of PPL's general creditors in the event of PPL becomes Insolvent.

1.5 The rights, powers, titles, duties, discretions and immunities of the Trustee shall be governed solely by this Trust Agreement and applicable state and federal law.

1.6 The Trust is intended to be a grantor trust, of which PPL is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, Sections 671-678, and any successor statute thereto, and shall be construed accordingly.

1.7 The Plans and any persons who may be entitled to benefit payments under the terms of the Plans shall not have any preferred claim on the Trust Fund. Persons who may be entitled to benefit payments under the terms of the Plans shall have no greater right or status than an unsecured creditor of PPL with respect to such amounts.

1.8 Notwithstanding anything else in this Agreement to the contrary: (1) the Trustee is not a party to, and has, except as expressly provided herein, no duties or responsibilities under, the Plans; (2) PPL shall be required to certify in writing to the Trustee the identity of any party or person, whether or not a fiduciary named in any Plans, which has the power to manage and control Plan assets, and the Trustee shall be entitled to rely upon such certification until notified otherwise in writing by PPL; and (3) in any case in which a provision of this Agreement conflicts with any provision in any Plans, this Agreement shall control. Notwithstanding the preceding sentence, the Trustee reserves the right to seek a judicial and/or administrative determination as to its proper course of action under this Agreement.

1.9 The terms of the Plans shall govern the amount, form and timing of benefit payments to which a Participant is entitled under the Plans. The Trustee shall have no right or obligations with respect to any of the provisions of the Plans except as provided in this Trust Agreement.

**Article II**  
**Contributions to Trust Fund and Allocation to Plan Accounts**

2.1 Subject to the provisions of Paragraph 2.2, PPL may from time to time make, or cause to be made, such contributions to the Trust Fund of cash and/or marketable securities as it determines to be appropriate in its sole discretion and are acceptable to the Trustee, which shall be held by the Trustee for the benefit of the Participants covered by each respective Plan, subject to the reservation of powers under Paragraphs 10.1 and 10.2 of Article X and the claims of PPL's general creditors in the event PPL becomes Insolvent. The Trustee shall be accountable for all such contributions, but shall have no duty to determine that the amounts thereof comply with the provisions of the Plans. PPL shall designate the Plan Account or Accounts as defined in Paragraph 2.3 to which each contribution shall be allocated and the amount of such contribution to be allocated to each such Plan Account.

2.2 Immediately prior to a Change in Control (as defined in Paragraph 10.3), the Chief Executive Officer of PPL (or his or her designee) shall authorize an irrevocable cash contribution to be made to the Trust in an amount equal to the amount that, in the determination of PPL, is sufficient to pay each Participant or beneficiary the benefits to which Participants or their beneficiaries would be entitled pursuant to the terms of the Plans as of the date of the Change in Control assuming each Participant terminated employment as of such date under circumstances giving rise to payment of benefits under the Plans. After a Change in Control, the Trustee may compel any contribution that is required under the Trust. Within 60 days following the end of each Plan year ending after a Change in Control has occurred, PPL shall be required to irrevocably deposit additional cash or other property to the Trust in an amount sufficient and to the extent necessary, to pay each Participant or beneficiary the benefits payable pursuant to the terms of the Plans as of the close of the Plan years.

2.3 The Trustee shall hold the Trust Fund without distinction as to principal or income as a single commingled fund, but for bookkeeping purposes shall maintain a separate account (hereinafter called a "Plan Account" or an "Account") reflecting the interest of each Plan in the Trust Fund. Each Plan Account shall consist of contributions to and payments from the Trust Fund which are allocable to each such Plan, and the earnings thereon, less disbursements therefrom attributable to the interest of each Plan in the entire Trust Fund. The Trustee shall advise the Accounting Party (as defined in Paragraph 2.4 below) of the Fair Market Value (as defined in Paragraph 2.5 below) of assets in the Trust Fund as of the close of each calendar year of the Trust, or at such more frequent intervals as may be mutually agreed upon between the Accounting Party and Trustee, among the Plan Accounts based upon the actual return of each Plan Account.

2.4 For purposes of this Trust Agreement, the Accounting Party is PPL prior to the occurrence of a Change in Control, and after the occurrence of a Change in Control, in lieu of PPL, a committee composed of three members appointed by the Board of Directors of PPL prior to the occurrence of a Change in Control. Any vacancy on the committee after the occurrence of a Change in Control (arising for any reason, including the failure of the Board of Directors of PPL to appoint three members willing to serve on the committee or the death or resignation of any member) will be filled by the employee or former employee of PPL with an accrued benefit under any of the Plans designated by the remaining members or member of the committee, who is willing to serve as a member of the committee. If the remaining members of the committee cannot agree on a new member or there are no members of the committee (for any reason, including the failure of the Board of Directors of PPL to appoint prior to the occurrence of a Change in Control any person who is willing to serve on the committee or the death or resignation of all members) any vacancy after the occurrence of a Change in Control shall be filled by the Participant with the largest accrued benefit under the Plans and who is willing to serve as a member. If at any time after an occurrence of a Change in Control, there are no members of the committee willing or able to serve, the determination as to the Participant with the largest accrued benefit under the Plans shall be made by the Trustee. In the event that there are less than three persons who are willing to serve as members, the committee shall consist of the number of such persons who are willing to serve as members.

2.5 For purposes of this Trust Agreement, "Fair Market Value" for any security shall be determined as follows:

(a) securities listed on the New York Stock Exchange, the American Stock Exchange or any other recognized exchange shall be valued at their last sale prices on the exchange on which securities are principally traded on the valuation date (NYSE-Composite Transactions or AMEX-Composite Transactions prices to prevail on any security listed on either of these exchanges as well as on another exchange); and where no sale is reported for that date, the last bid price shall be used.

(b) all other securities and assets shall be valued at their market values as fixed by the Trustee's staff regularly engaged in such activities.

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**Article III**  
**Cessation of Payments from**  
**Trust Fund While Company Insolvent**

3.1 The Trust Fund shall be subject to claims of general creditors of PPL in the event PPL becomes Insolvent, and at any time the Trustee has actual knowledge, or has determined, that PPL is Insolvent, the Trustee shall deliver the Trust Fund to satisfy such claims as a court of competent jurisdiction may direct. PPL shall be considered "Insolvent" for purposes of this Trust Agreement if (1) PPL is unable to pay its debts as they become due or (2) PPL is subject to a pending proceeding as a debtor or a debtor-in-possession under the federal Bankruptcy Code, 11 U.S.C. 101 et seq.

(or any successor federal statute).

3.2 At all times during the continuance of this Trust, as provided in Section 1.3 hereof, the principal and income of the Trust shall be subject to claims of general creditors of PPL under federal and state law as set forth below.

3.3 The Board of Directors and the Chief Executive Officer of PPL shall have the duty to inform the Trustee in writing that PPL has become Insolvent and the basis on which they consider PPL to be Insolvent. If a person claiming to be a creditor of PPL alleges in writing to the Trustee that PPL has become Insolvent, the Trustee shall determine whether PPL is Insolvent and, pending such determination, the Trustee shall discontinue payment of benefits to Participants or their beneficiaries.

3.4 If the Board of Directors or the Chief Executive Officer of PPL informs the Trustee in writing that PPL has become Insolvent, the Trustee shall independently determine, within a reasonable time that in no event shall exceed sixty days after receipt of such notice, whether PPL is Insolvent and, pending such determination, the Trustee shall discontinue payments from the Trust Fund, shall hold the Trust Fund for the benefit of PPL's general creditors, and shall resume payments from the Trust Fund only after the Trustee has determined that PPL is not Insolvent (or is no longer Insolvent, if the Trustee initially determined PPL to be Insolvent).

3.5 If at any time the Trustee has determined that PPL is Insolvent, the Trustee shall discontinue payments to Participants and shall hold the assets of the Trust for the benefit of PPL's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights of Participants or their beneficiaries to pursue their rights as general creditors of PPL with respect to benefits due under the Plans or otherwise.

3.6 Trustee shall resume the payment of benefits to Participants in accordance with Article IV of this Trust Agreement only after the Trustee has determined that PPL is not Insolvent (or is no longer Insolvent). If the Trustee discontinues payments from the Trust Fund and subsequently resumes such payments, the first payments following such discontinuance shall include the aggregate amount of all payments which would have been made to Participants under Article IV during the period of such discontinuance (together with interest based upon the daily average, as determined by the Trustee, of the Average Prime Rate Charged by Banks (Percent) as published in the Business Conditions Digest, or any successor publication, of the Social and Economic Statistics Administration, Bureau of Economic Analysis, of the U.S. Department of Commerce, or any successor governmental agency), less the aggregate amount of payments made to any such persons by or on behalf of PPL in lieu of the

payments provided for in Article IV during any such period of discontinuance.

3.7 Except as provided in Paragraph 3.3 or 3.4, or unless the Trustee has actual knowledge that PPL is Insolvent, the Trustee shall have no duty to inquire whether PPL is Insolvent. The Trustee may in all events rely on such evidence concerning PPL's insolvency as may be furnished to the Trustee which will give the Trustee a reasonable basis for making a determination concerning PPL's insolvency.

3.8 Nothing in this Trust Agreement shall in any way diminish any rights of a person to pursue his rights as a general creditor of PPL under the Plans.

**Article IV**  
**Payments from Trust Fund While Company Solvent**

4.1 All payments from the Trust Fund while PPL is solvent shall be made by the Trustee only to such persons who at any time prior to the occurrence of a Change in Control were employees of PPL, or any of its subsidiaries, and, in such manner, at such times, and in such amounts as required by the terms of each respective Plan in effect when such payment is made or, if such payment is made after a Change in Control occurs, as required by the terms of each respective Plan in effect when any such Change in Control occurs.

4.2 Immediately preceding the occurrence of a Change in Control, PPL shall deliver to the Trustee: a) a schedule (the "Payment Schedule") that indicates the amounts payable in respect of each Participant, that provides a formula or other instructions acceptable to the Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Plans), and the time of commencement for payment of such amounts, and b) copies of all then current Plans and any subsequent amendments thereto. Except as otherwise provided herein, the Trustee shall make payments to the Participants in accordance with such Payment Schedule. The Trustee shall make provision for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Plans and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by PPL.

4.3 PPL hereby agrees that the Accounting Party (as defined in Section 2.4) shall have the exclusive responsibility, and the Trustee shall not have any responsibility or duty under this Trust Agreement for determining that any change in the Payment Schedule is in accordance with the terms of the Plan and applicable law, including without limitation, the amount, timing or method of payment and the identity of each person to whom such payments shall be made. The Trustee shall have no responsibility or duty to determine the tax effect of any payment or to see to the application of any payment.

4.4 The entitlement of a Participant to benefits under the Plans shall be determined under the Plans, and any claim for such benefits shall be considered and reviewed under the procedures, if any, set out in the Plans.

4.5 Notwithstanding anything contained in Paragraph 4.1, PPL may make payment of benefits directly to Participants as they become due under the terms of the Plans. PPL shall notify the Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to Participants. In addition, if the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Plans, PPL shall make the balance of each such payment as it falls due. The Trustee shall notify PPL where principal and earnings are not sufficient. The Trustee shall have no responsibility to inquire whether payments have been made pursuant to the Plans in question.

4.6 In no event shall the Trustee knowingly cause any payment or distribution to be made from the Trust Fund pursuant to the terms of any Plan for any purpose in an amount which is in excess of the then current balance of the Plan Account (as defined in Section 2.3) attributable to that Plan.

4.7 After the occurrence of a Change in Control, if a Participant does not receive a payment that the Participant believes he or she has become entitled to under any Plan, he or she shall notify the Trustee of such entitlement. Within thirty (30) days of its receipt of such notice, the Trustee shall determine whether the terms of the Plan dictate that the Participant is entitled to a payment. If the Trustee determines that a payment is required, the Trustee shall make the payment to the Participant as soon as practicable, but in no event shall the payment be made later than thirty (30) days after the expiration of the initial thirty-day period. The Trustee shall provide PPL with written confirmation of the fact and amount of such payment after it is made. The Trustee's decision shall be final and binding, and the Participant shall be notified of the decision in writing within ten (10) days. The notice shall include specific reasons for the decision, including specific references to the pertinent Plan provisions on which the decision is based, and shall be written in a manner calculated to be understood by the Participant. The provisions of this Paragraph 4.7 shall apply only after the occurrence of a Change in Control. The Trustee may rely upon direction from the Accounting Party in making such determinations.

4.8 The Trustee shall not be liable for any payment made in good faith without actual notice or knowledge of the changed condition or status of any recipient thereof. If the Trustee has responsibility for benefit payments and if any payment is not claimed, the Trustee shall retain the payment as part of the Trust Fund.

4.9 Except as provided in this Article IV, after the Trust has become irrevocable, PPL shall have no right or power to direct the Trustee to return to PPL or to divert to others any of the Trust assets before all payments of benefits have been made to Participants and their beneficiaries pursuant to the terms of the Plans and all expenses of the Trust have been paid. At any time prior to the Trust becoming irrevocable, however, PPL shall have the right or power to direct the Trustee to return to PPL any of the assets of the Trust.

**Article V**  
**Responsibilities of Trustee**

5.1 Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims (the "Prudent Man Standard of Care"), provided however, that Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by PPL or the Accounting Party which is contemplated by, and in conformity with, the terms of the Plan or this Trust and is given in writing by PPL or the Accounting Party. In the event of a dispute between PPL and a party, Trustee may apply to a court of competent jurisdiction to resolve the dispute. The Trustee shall not be responsible for the title, validity or genuineness of any property or evidence of title thereto received by it or delivered by it pursuant to this Trust Agreement and shall be held harmless in acting upon any notice, request, direction, instruction, consent, certification or other instrument believed by it to be genuine and delivered by the proper party or parties. Under no circumstances shall Trustee be liable for consequential, special, or speculative damages under the Trust Agreement even if the Trustee is advised as to the possibility thereof. It is understood and agreed that Trustee shall be under no duty to take any action other than herein specified with respect to any securities or other property at any time deposited hereunder unless specifically agreed to by the Trustee in writing or as otherwise provided in this Trust Agreement. Subject to the Accounting Party's power of investment direction under Article X, the Trustee shall have exclusive authority and discretion to hold, manage, care for and protect the Trust Fund and shall have the following powers and discretions in addition to those conferred bylaw:

(a) To invest and reinvest the Trust Fund in such equities (of any classification, including common and preferred stocks), fixed income, cash, cash equivalents or other property (real, personal or mixed) and interests in investment companies and investment trusts as the Trustee shall deem advisable, excluding any obligations or security, or other property of PPL, whether or not such investments and reinvestments be authorized by any state law for the investment of Trust Funds generally;

(b) To sell, exchange, convey, transfer or dispose of, and also to grant options with respect to, any property, whether real or personal, at any time held by it by private contract or by public auction, for cash or upon credit, or partly for cash and partly upon credit, as the Trustee may deem best, and no person dealing with the Trustee shall be bound to see to the application of the purchase money or to inquire into the validity, expediency or propriety of any such sale or other disposition;

(c) To acquire, hold and dispose of any real estate, at such time, in such manner and upon such terms as the Trustee may deem advisable; to retain, manage, operate, repair, improve, partition, mortgage or lease for any term or terms of years any such real estate, or to exchange all or any part thereof for other real estate, upon such terms and conditions as the Trustee deems proper, using other Trust assets for any of such purposes if deemed advisable;

(d) To compromise, compound and settle any debt or obligation due to or from it as Trustee and to reduce the rate of interest thereon, to extend or otherwise modify, or to foreclose upon default or otherwise enforce or act with respect to any such obligation;

(e) If directed by the Accounting Party, Trustee shall vote as instructed by Accounting Party, in person or by general or limited proxy, any stocks or other securities at any time held in the Trust Fund, at any meeting of stockholders or security holders, in respect to any business which may come before the meeting.

(f) To vote, in person or by general or limited proxy, any stocks or other securities at any time held in the Trust Fund, at any meeting of stockholders or security holders, in respect to any business which may come before the meeting; to exercise any options appurtenant to any stocks, bonds or other securities for the conversion thereof into other stocks, bonds or securities; to exercise or sell any conversion or subscription rights appurtenant to any stocks, bonds or other securities at any time held in the Trust Fund, and to make any and all necessary payments therefor; to join in, and to approve, or to dissent from and to oppose, any corporate act or proceeding, including any reorganization, recapitalization, consolidation, merger, dissolution, liquidation, sale of assets or other action by or plan in respect of corporations or properties, the stocks or securities of which may at any time be held in the Trust Fund; to deposit with any committee or depository, pursuant to any plan or agreement of protection, reorganization, consolidation, sale, merger, or other readjustment, any property held in the Trust Fund; and to make payment from the Trust Fund of any charges or assessments imposed by the terms of any such plan agreement;

(g) To accept and hold any securities or other property received by it under the provisions of any of the subdivisions of this Article whether or not the Trustee would be authorized hereunder then to invest therein;

(h) To borrow money on behalf of the Trust upon such terms and conditions as the Trustee shall deem advisable to carry out the purposes of the Trust and to pledge securities or other property of the Trust Fund in repayment of any such loan;

(i) To enforce any right, obligation or claim in its discretion and in general to protect in any way the interests of the Trust Fund, either before or after default, and in case the Trustee shall, in its discretion, consider such action for the best interest of the Trust Fund, to abstain from the enforcement of any right, obligation or claim and to abandon any property, whether real or personal, which at any time may be held by the Trustee;

(j) To make, execute, acknowledge and deliver any and all deeds, leases, assignments, transfers, conveyances and any and all other instruments necessary or appropriate to carry out any powers herein granted;

(k) To cause any investments from time to time held by it hereunder to be registered in, or transferred into, its name as Trustee or the name of its nominee or nominees, and with or without designation of fiduciary capacity, or to retain any investments unregistered or in form permitting transfer by delivery, but the books and records of the Trustee shall at all times show that all such investments are part of the Trust Fund;

(I) To hold any part or all of the Trust Fund uninvested;

(m) The Trustee may not invest in securities (including stock and the rights to acquire stock) or obligations issued by PPL or an Employer as that term is defined in the Plan, except by reason of the inclusion of such securities in a broadly inclusive index, mutual fund, or collective investment medium.

Notwithstanding anything else in this Agreement to the contrary, including, without limitation, any specific or general power granted to the Trustee, including the power to invest in real property, no portion of the Trust Fund shall be invested in real estate. For this purpose, "real estate" includes, but is not limited to, any direct or indirect interest in real property, leaseholds or mineral interests.

5.2 If Trustee undertakes or defends any litigation arising in connection with this Trust, Trustee shall act only under the Prudent Man Standard of Care, and PPL agrees to indemnify Trustee against Trustee's costs, expenses and liabilities (including, without limitation, attorney's fees and expenses) relating thereto and to be primarily liable for such payments if the following conditions are met: (a) Trustee shall notify the Accounting Party as soon as practicable after it has received actual notice of litigation, or when Trustee has reached a decision to undertake litigation but prior to filing a complaint or other written notice to any party or agency, and (b) Trustee shall at all times afford the Accounting Party the reasonable opportunity to approve (which approval shall not be unreasonably withheld) the hiring or discharge of legal counsel and the settlement or other conclusion of any such litigation. If PPL does not pay such costs, expenses and liabilities in a reasonably timely manner, Trustee may obtain payment from the Trust. In no event shall Trustee have any liability or responsibility to undertake or defend any litigation unless the Trustee is reasonably assured of receiving payment of related fees and expenses. Trustee shall have, without exclusion, all powers conferred on trustees by applicable law, unless expressly provided otherwise herein; provided, however, that if an insurance policy is held as an asset of the Trust, the Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy. Subject to the foregoing, the Trustee shall have the exclusive authority:

(a) to retain an actuary to calculate the amount of any benefit payments due pursuant to Paragraph 1.4 of Article I; and

(b) to do all acts which the Trustee may deem necessary or proper and to exercise any and all of the powers of the Trustee under this Trust Agreement upon such terms and conditions as to the Trustee may seem in the best interests of the Trust Fund.

5.3 Trustee, at the expense of the Trust or PPL, may consult with legal counsel (who prior to the occurrence of a Change in Control may also be counsel for PPL generally) with respect to any of its duties or obligations hereunder. The Trustee may consult with counsel, and the Trustee shall not be deemed imprudent by reason of its taking or refraining from taking any action, prior to the occurrence of a Change in Control, in accordance with the opinion of counsel for PPL. PPL agrees to indemnify and hold the Trustee harmless from and against any loss, costs and expenses including without limitation reasonable attorneys' fees and other costs and expenses incident to any suit, action, investigation, claim or proceeding that the Trustee may incur in the administration of the Trust Fund, and this provision shall survive termination of this Trust Agreement and the Trust, provided the following conditions are met: (a) Trustee shall act at all times under the Prudent Man Standard of Care, (b) Trustee shall notify the Accounting Party as soon as practicable after it has received actual notice of the suit, action, investigation, claim or proceeding, and (c) Trustee shall at all times afford the Accounting Party the reasonable opportunity to approve (which approval shall not be unreasonably withheld) the hiring or discharge of legal counsel and the settlement or other conclusion of any such matter. The Trustee shall not be required to give any bond or any other security for the faithful performance of its duties under this Trust Agreement, except such as may be required by any law which prohibits the waiver thereof.

5.4 Trustee, at the reasonable and prudent expense of the Trust or PPL, may hire agents, accountant, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder. The Trustee shall be entitled, as it may deem appropriate from time to time, to require of PPL such certifications and proofs of facts or other information and/or cooperation as shall permit the Trustee to perform its duties or to exercise the powers granted the Trustee under this Trust Agreement and shall be entitled to rely thereon.

5.5 The Trustee shall not be responsible in any manner whatsoever for the correctness of the recitals of fact herein (other than recitals of fact relating solely to the Trustee and its power and authority to enter into and perform this Trust Agreement) all of which have been made by PPL solely; and the Trustee shall not be responsible or accountable in any manner whatsoever for or with respect to the validity or sufficiency of this Trust Agreement and makes no representation with respect thereto. The Trustee shall not be responsible for the sufficiency of the Trust to pay the benefits contemplated by the Plans or for the use or application by PPL of any monies held in the Trust when disbursed in conformity with this Trust Agreement.

5.6 During the term of this Trust, all of the income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested.

5.7 Notwithstanding any powers granted to Trustee pursuant to this Trust Agreement or to applicable law, Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

5.8 If Trustee has at all times acted under the Prudent Man Standard of Care, Trustee shall not be liable for any expense, loss, claim or damage (including counsel fees) suffered by the Plan or Participant arising out of or caused by any delay in, or failure of, performance by Trustee, in whole or in part, arising out of, or caused by, unforeseeable circumstances beyond Trustee's control, including without limitation: acts of God, interruption, delay in, or loss (partial or complete) of electrical power or external computer (hardware or software) or communication services (including access to book entry securities systems maintained by Federal Reserve Bank of New York and/or any clearing corporation); act of civil or military authority; sabotage; natural emergency; epidemic; war or other government actions; civil disturbance; flood, earthquake, fire, other catastrophe; strike or other labor disturbance by employees of nonaffiliates; government, judicial, or self regulatory organization order, rule or regulation; riot; energy or natural resource difficulty or shortage; and inability to obtain materials, equipment, or transportation, provided, in all cases, Trustee has acted under the Prudent Man Standard of Care to mitigate, control, and prevent losses and expenses due to such circumstances.

5.9 The Trustee is not a party to, and has no duties or responsibilities under, the Plan other than those that may be expressly contained in this Trust Agreement. In any case in which a provision of this Trust Agreement conflicts with any provision in the Plan, this Trust Agreement shall control. The Trustee shall have no duties, responsibilities or liability with respect to the acts or omissions of any prior or successor trustee.

5.10 Trustee shall have no responsibility with respect to: (i) the selection or monitoring of any insurance policies or insurance contracts held in the Trust or the insurers issuing such policies or contracts; or (ii) the payment of any premiums with respect to such policies or contracts.

5.11 The duties of the Trustee shall be limited to the assets held in the Trust, and the Trustee shall have no duties with respect to assets held by any other person including, without limitation, any other trustee for the Plan. PPL hereby agrees that the Trustee shall not serve as, and shall not be deemed to be, a co-trustee under any circumstances. The Accounting Party may request the Trustee to perform a recordkeeping service with respect to property held by others and not otherwise subject to the terms of this Trust Agreement. To the extent the Trustee shall agree to perform this service, its sole responsibility shall be to accurately reflect information on its books which it has received from an authorized party.

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**Article VI**  
**Fees, Expenses and Taxes**

6.1 PPL shall pay the reasonable expenses incurred by the Trustee in or as a result of the performance of its duties hereunder, including reasonable fees and expenses for services rendered to the Trustee, and such compensation to the Trustee as may be agreed upon in writing from time to time between PPL and the Trustee. After the occurrence of a Change in Control, the compensation of the Trustee shall be determined by the application of the current rates then charged by the Trustee for the provision of the types of investment and trustee services contemplated in this Trust Agreement to trusts of a similar character and size.

6.2 PPL shall pay the reasonable expenses incurred by the Accounting Party, if other than PPL, in or as a result of the performance by its members of their duties hereunder. Such expenses shall include but not be limited to the cost of travel as well as the cost of any communications with the Trustee or Plan Participants. PPL shall also pay to the Accounting Party, if other than PPL, such compensation as may be provided for by resolution of the Board of Directors of PPL prior to the occurrence of a Change in Control.

6.3 If PPL fails to pay any such expenses and compensation as provided for in Paragraphs 6.1 and 6.2, the Trustee shall pay them from the Trust Fund.

6.4 Any taxes, including real and personal property taxes, income taxes, transfer taxes and other taxes of any kind whatsoever that may under any existing or future laws be assessed against or levied upon or in respect of the Trust Fund or its assets or any interest therein shall be paid by PPL. The word "taxes" in this Article VI shall be deemed to include any interest or penalties that may be levied or imposed in respect to any taxes.

6.5 To the extent the Accounting Party has provided necessary information to the Trustee, the Trustee shall be responsible for any necessary withholding and reporting of federal taxes related to the payment of benefits pursuant to the terms of the Plan and shall pay amounts withheld to the appropriate taxing authorities. In addition, to the extent the Accounting Party has provided necessary information to the Trustee, the Trustee shall use reasonable efforts to assist such Accounting Party with respect to any "Tax Obligations." The term "Tax Obligations" means the responsibility for payment of taxes, withholding, certification and reporting requirements, claims for exemptions or refund, interest, penalties and other related expenses of the Trust, including but not limited to the requirements set forth in Section 2(a) of this Trust Agreement. Notwithstanding the foregoing, the Trustee shall have no responsibility or liability for any Tax Obligations now or hereafter imposed on PPL or the Trust by any taxing authorities, domestic or foreign, except as provided by applicable law. To the extent the Trustee is responsible under any applicable law for any Tax Obligation, the Accounting Party shall inform the Trustee of all Tax Obligations, shall direct the Trustee with respect to the performance of such Tax Obligations. All such Tax Obligations shall be paid from the Trust unless paid by PPL.



**Article VII**  
**Accounts of the Trustee**

7.1 The Trustee shall keep accurate and detailed accounts of all investments, receipts and disbursements and other transactions hereunder, and all accounts, books and records relating thereto shall be open at all reasonable times to inspection and audit by any person or persons designated by the Accounting Party. The cost of any audit if requested by the Accounting Party shall be paid by PPL.

7.2 Within ninety (90) days following the close of each calendar year, the Trustee shall file with the Accounting Party and PPL, if different, a written account setting forth all investments, receipts, disbursements, and other transactions of the Trust Fund effected by it during such fiscal year including a description of all securities and investments purchased and sold, with the cost or net proceeds of such purchases or sales, and showing all cash, securities and other property held, including values at the end of such calendar year.

7.3 Upon the expiration of one hundred eighty days following the filing as above provided of such account, such account shall be considered as final and binding upon the Accounting Party, PPL, its subsidiaries, directors, former directors, Participants, employees, former employees, retired employees, their beneficiaries, and the Trustee, as if settled by a court of competent jurisdiction, and the Trustee shall be forever released and discharged from any liability or accountability to anyone in connection with or arising or resulting from any of the acts or transactions shown therein, except with respect to such acts or transactions as to which the Accounting Party shall within such one hundred eighty day period file with the Trustee written objections or which involve manifest error, gross negligence, willful misconduct or fraud.

7.4 Accounts of the Trustee need only be settled with the Accounting Party. Subject to any express provision of applicable law as may be in effect from time to time to the contrary, no other person or party shall be entitled to any accounting by the Trustee.

7.5 Nothing contained in this Trust Agreement shall, however, preclude the Trustee from having any of its accounts settled by a court of competent jurisdiction. In any action or proceeding for settlement of the accounts of the Trustee or concerning administration of the Trust Fund, the Accounting Party and the Trustee shall be the only necessary parties thereto. To the extent provided by law, service of any notice or process upon the Accounting Party shall be deemed for all purposes service on PPL, its subsidiaries, directors, former directors, Participants, employees, former employees, and retired employees of PPL, and their beneficiaries and any final judgment in any such action or proceeding shall be binding and conclusive on the Accounting Party, PPL, employees, former employees, directors, former directors and retired employees of PPL and their beneficiaries and the Trustee.

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**Article VIII**  
**Resignation or Removal of the Trustee**

8.1 The Trustee may be removed by the Accounting Party to the extent provided in Article X at any time upon sixty days notice in writing. The Trustee shall have the right to resign at any time by giving sixty days notice in writing to the Accounting Party, provided that such resignation shall not become effective until a successor trustee has accepted its appointment. Upon such removal or notice of resignation of the Trustee, the Accounting Party shall appoint and designate a successor Trustee, which shall be a corporate trustee qualified to conduct trust business in Pennsylvania, which is independent of and not subject to control by PPL. Such successor trustee shall qualify as such by delivering a written acceptance of the trust to the Accounting Party and the retiring Trustee, and thereupon all the provisions hereof shall relate and be applicable to such successor Trustee. Until the effective date of the assumption by the successor Trustee of its duties under this Trust Agreement, the retiring Trustee shall continue to function and be bound hereunder as trustee hereof. Upon receipt of such written acceptance the retiring Trustee shall forthwith file with the Accounting Party a written account of its acts in the same form as its annual account above provided for in Article VII from the date of its last annual account to the date of the acceptance of the Trust by the successor trustee and settlement of such account shall be accomplished as in Article VII. Upon the filing of such account, the retiring Trustee shall transfer and deliver the Trust Fund to the successor Trustee but shall be entitled to reserve therefrom and hold such assets as it may reasonably deem necessary to provide for any and all expenses and payments properly chargeable against the Trust Fund or for which the Trust Fund may be liable or to which the retiring Trustee may be entitled by way of fees and expenses in the settlement of its account. If the assets so withheld are insufficient or excessive for such purposes, the retiring Trustee shall be entitled to reimbursement for any deficiency out of the Trust Fund from the successor Trustee, or shall deliver the excess to the successor Trustee, as the case may be. To the extent permitted by law, upon the transfer of the Trust Fund as above provided and the settlement of its account, the retiring Trustee's previous annual accounts having been settled as provided in Article VII, the retiring Trustee shall thereupon be discharged from any further duty, obligation or responsibility with respect to the operation of the Trust Fund or any matter connected therewith prior to the delivery of said written acceptance except matters which relate to manifest error, gross negligence, willful misconduct or fraud.

8.2 If Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 8.1 hereof, by the effective date of resignation or removal under Section 8.1. If no such appointment has been made, Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

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**Article IX**  
**Action of PPL or Accounting Party**

9.1 Any action of PPL pursuant to any of the provisions of this Trust Agreement shall be evidenced by a written notice or direction to such effect over the signature of: i) any officer or ii) other representative of PPL who shall have been certified to the Trustee by the President, Treasurer or Secretary of PPL as having such authority. The Trustee shall be fully protected in acting in accordance with such notices or directions. All communications from PPL to the Trustee shall be in writing, signed by the person designated as having such authority as PPL shall certify to the Trustee, and the Trustee shall act and be fully protected in acting in accordance with such communications.

9.2 Any action of the Accounting Party pursuant to provisions of this Trust Agreement shall be evidenced by a written notice or direction to such effect over the signature of any one or more members of the Accounting Party. Prior to the occurrence of a Change in Control, the President, Treasurer or Secretary of PPL shall advise the Trustee of the name or names of the person or persons who will serve as members of the Accounting Party after the occurrence of such Change in Control. After such Change in Control, current members of the Accounting Party shall advise the Trustee of the name or names of any new person or persons serving as members of the Accounting Party.

9.3 All communications from the Accounting Party to the Trustee shall be in writing, signed by the person designated as having such authority as PPL or member of the Accounting Party shall certify to the Trustee, and the Trustee shall be fully protected in acting in accordance with such communications.

9.4 PPL shall furnish the Trustee with a written list of the names, signatures and extent of authority of all persons constituting the Accounting Party as defined in Section 2.4. The Trustee shall be entitled to rely on and shall be fully protected in acting upon direction from such person until notified in writing by PPL, as appropriate, of a change in the make up of the Accounting Party.

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**Article X**  
**Reservation of Powers**

10.1 The Accounting Party expressly reserves the powers to:

- (a) remove the Trustee;
- (b) direct the investment and reinvestment of the principal and income of the Trust Fund; it shall be the duty of the Trustee to act strictly in accordance with such investment directions, and any changes therein, as so communicated to the Trustee from time to time in writing. To the maximum extent permitted by law, Trustee shall have no duty or responsibility (i) to advise with respect to, or inquire as to the propriety of, any such investment direction or (ii) for any investment decisions made with respect to the Trust by PPL or the Accounting Party. In the absence of investment direction by the Accounting Party, the Trustee shall invest Trust assets in any manner permitted under Section 5.1; and
- (c) following the occurrence of a Potential Change in Control as defined in Paragraph 10.3, modify, alter or amend this Trust Agreement, provided that no such modification, alteration or amendment may directly or indirectly (i) affect any Participant's entitlement to receive benefit payments under any Plan or under this Trust Agreement or the amount, form or timing of such benefit payments, (ii) alter the relative funding levels of the Plan Accounts, (iii) alter the method of allocation of Trust Fund earnings and losses among the Plan Accounts, (iv) eliminate the requirement under this Trust Agreement of separate accounting for the interests of each Plan in the Trust Fund, (v) impair or otherwise affect any claims which general creditors of PPL may have with respect to the Trust Fund in the event of PPL becomes Insolvent, (vi) change the rights, duties, powers, liabilities or immunities of the Trustee hereunder without the Trustee's written consent, except as provided upon the Trustee's removal in Article VIII, (vii) eliminate the restrictions set forth in this subparagraph 10.1(c), or (viii) confer upon the Trustee or any other person, directly or indirectly, the power or authority to effect any result prohibited under clauses (i)-(vii) of this subparagraph 10.1(c). No provision of this Trust Agreement may be amended by PPL in any manner adverse to Participants following a Potential Change in Control.

10.2 Subject to the provisions of Paragraphs 10.1 and 10.3 of this Article X, PPL expressly reserves the powers to:

- (a) modify, alter, amend, terminate or revoke this Trust Agreement and the trust hereby created to any extent and in any respect deemed advisable by PPL, through an action of PPL that is in writing duly executed and acknowledged and delivered to the Trustee; provided however, that the rights, duties, powers, liabilities or immunities of the Trustee hereunder shall not be changed without its written consent, except as provided upon the Trustee's removal in Article VIII;
- (b) withdraw from the Trust Fund any property forming a part of the Trust Fund, any such withdrawal shall be considered a revocation of this Trust solely with respect to such property;
- (c) reallocate amounts among Plan Accounts in the Trust Fund;
- (d) require the Trustee to furnish such information as may be reasonably requested in regard to the operations of the Trust Fund and the investment thereof;
- (e) add to or delete from Appendix A one or more nonqualified deferred compensation plans or agreements for PPL's or its subsidiaries employees;
- (f) add to or delete from Appendix A one or more individual employment agreements with employees of PPL or any of its subsidiaries; and
- (g) contribute to the Trust Fund property other than cash or marketable securities to the extent not expressly prohibited by the Plans or within the terms of this Trust, if acceptable to Trustee.

10.3 The right of PPL to exercise the powers reserved to it under Paragraph 10.2 of this Article shall expire upon the occurrence of a Change in Control or Potential Change in Control. For purposes of this Trust Agreement, a Change in Control shall be deemed to have occurred

(a) if one of the following events occurs:

(I) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareowners was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended;

(II) any Person becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors;

(III) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation or other entity, other than (I) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or

by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, at least 60% of the combined voting power of the securities of the Company or at least 60% of the combined voting power of the securities of such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; or (II) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (excluding in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing 20% or more of the combined voting power of the Company's then outstanding securities;

- (IV) the shareowners of the Company approve a plan of complete liquidation or dissolution of the Company; or
- (V) the Board adopts a resolution to the effect that a "Change in Control" has occurred or is anticipated to occur.

(b) For purposes of this Trust Agreement, a "Potential Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

- (I) PPL enters into an agreement, the consummation of which would result in the occurrence of a Change in Control;
- (II) any Person publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control;
- (III) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of PPL representing 5% or more of the combined voting power of PPL's then outstanding securities entitled to vote generally in the election of directors; or
- (IV) the Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

For purposes of this Paragraph 10.3:

"Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act; and "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) PPL or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of PPL or any of its Affiliates (as defined in Rule 12b-2 promulgated under Section 12 of the Exchange Act), (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the stockholders of PPL in substantially the same proportions as their ownership of stock of PPL.

10.4 The Board of Directors or the Chief Executive Officer or any Plan Participant may notify the Trustee in writing as promptly as practicable following the occurrence of a Change in Control or Potential Change in Control, and the Trustee shall not be charged with knowledge of such Change in Control or Potential Change in Control in the absence of written notification.

10.5 The Trustee is not a party to any Plan except insofar as the Trustee has assumed duties under a Plan as specifically provided in this Trust Agreement. PPL retains the right to amend any provision of any Plan to the extent provided for in such Plan, including provisions relating to the Trustee; provided, however, that the allocation of responsibilities to the Trustee shall not be amended, altered or modified without the prior written consent of the Trustee, and no amendment to any Plan shall allocate responsibilities between the Trustee and PPL in a manner

inconsistent with the terms of this Trust Agreement.

**Article XI**  
**Surplus Plan Accounts and Termination of Trust**

11.1 If this Trust Agreement is terminated under Article X with respect to any Plan at a time when there is a Plan Account attributable to such Plan or if the Trustee determines that certain amounts attributable to a Plan Account will not be required to make benefit payments under the Plan for which such Plan Account is maintained, the value of the Plan Account or portion thereof attributable to such Plan shall be allocated in the Trustee's discretion among the remaining Plan Accounts in a way that the Trustee believes best maximizes benefit payments under Article IV.

11.2 Unless the Trust is revoked under Article X, the Trust shall not terminate until the date on which no person is or will ever be entitled to benefit payments under the Plans. Any assets remaining in the Trust shall be returned to PPL upon revocation or termination of the Trust.

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**Article XII**  
**Merger or Consolidation of Trustee**

12.1 Any corporation into which the Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger, reorganization or consolidation to which the Trustee may be a party, or any corporation to which all or substantially all of the trust business of the Trustee may be transferred shall be the successor of the Trustee hereunder without the execution or filing of any instrument or the performance of any further act; provided that in case of any such transfer of trust business the transferee corporation shall file with PPL written acceptance of the Trust hereby created.

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**Article XIII**  
**Miscellaneous**

13.1 This Trust Agreement, as amended from time to time, shall be administered, construed and enforced according to the laws of the Commonwealth of Pennsylvania and in courts situated in that Commonwealth. The situs of the Trust shall be Lehigh County, Pennsylvania.

13.2 This Trust Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and said counterparts shall constitute but one and the same instrument.

13.3 Nothing in this Trust Agreement shall require PPL to retain any employee in its service or the service of any of its subsidiaries.

13.4 The Trustee by joining in the execution of this Trust Agreement hereby signifies its acceptance of the Trust hereby created.

13.5 Notwithstanding anything in this Trust Agreement to the contrary, this Trust shall terminate no later than twenty-one years after the death of the last survivor in being upon the cessation of PPL's powers under Article X of the class consisting of the persons entitled to receive benefits under the Plans.

13.6 No attempt by any person entitled to benefits under the Plan to assign, alienate, anticipate, sell, transfer, pledge, encumber or place a charge upon any benefit or any installment thereof shall be recognized by the Trustee, nor shall the Trustee recognize any such attempt to attach or garnish or otherwise subject the Trust Fund or any benefit or any installment thereof to legal process, except as the Trustee may be required to do by law.

13.7 Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

13.7 This Trust Agreement shall be binding upon any successors or assigns of PPL and any transferee(s) of all or substantially all of PPL's assets.

13.8 Any notice to the Trustee shall be sent to the following:

First Union National Bank  
Attn: Robert Hord  
1525 West W. T. Harris Boulevard  
Charlotte, North Carolina 28288

Any notice to PPL shall be sent to the

PPL Corporation  
Attn: Thoburn Hatten  
Two North Ninth Street  
Allentown, Pennsylvania 18101

Either party hereto may designate a new representative for the purpose of receiving notices by notifying the other party in writing of the name and address of such new representative. An Accounting Party other than PPL shall notify both PPL and Trustee of the name and address of its designated representative authorized from time to time to receive notices.



IN WITNESS WHEREOF, this Trust Agreement has been duly executed by the authorized officers of the parties hereto.

ATTEST:

/s/ Diane M. Koch

Assistant Secretary

PPL CORPORATION

By: /s/ James E. Abel

Name: James E. Abel

Title: Vice President-Finance & Treasurer

Date: April 10, 2001

ATTEST:

/s/ Samantha Miller

FIRST UNION NATIONAL BANK AS TRUSTEE

By: /s/ Robert E. Hord Jr.

Name: Robert E. Hord Jr.

Title: Vice President

Date: April 26, 2001

**APPENDIX A**

**Name of Plan**

**Designated  
Hereunder  
Effective**

PPL Corporation Directors Deferred Compensation Plan

April 1, 2001

**TRUST AGREEMENT**

**Between**

**PPL CORPORATION**

**And**

**FIRST UNION NATIONAL BANK AS TRUSTEE**

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## PPL EMPLOYEE NON-QUALIFIED PLAN TRUST

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**TRUST AGREEMENT**  
**Between**  
**PPL CORPORATION**  
**And**  
**FIRST UNION NATIONAL BANK, AS TRUSTEE**

This Agreement and Declaration of Trust (hereinafter called the "Trust Agreement") made as of the 1st day of April 2001, as amended, by and between PPL Corporation, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, with its principal place of business at Allentown, Pennsylvania, hereinafter referred to as "PPL," and First Union National Bank, with its principal place of business at Charlotte, North Carolina, hereinafter called the "Trustee",

WITNESSETH:

WHEREAS, PPL has heretofore adopted a nonqualified deferred compensation plan and agreement for certain of its Directors (such Directors and their designated beneficiaries where applicable being hereinafter referred to collectively as the "Participants" and individually as a "Participant") and may hereafter adopt other such plans or agreements; and

WHEREAS, PPL wishes to establish this grantor trust, hereinafter called the "Trust," for the collective investment of such property as may from time to time be contributed thereto, subject only to the claims of PPL's general creditors in the event of PPL's Insolvency (as defined in Article III); and

WHEREAS, PPL wishes the Trust to be used in connection with such plan or plans or agreements as it may from time to time designate under Article X of this

Trust Agreement (which plans and agreements are hereinafter called the "Plans" collectively or the "Plan" individually), although the Trust may not necessarily hold sufficient assets to satisfy all of the benefits to be provided under the Plans; and

WHEREAS, the Trustee is willing to hold and administer such trust assets pursuant to the terms of this Trust Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual

covenants herein contained, PPL and the Trustee intending to be legally bound hereby, do covenant and agree as follows:

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**Article 1**  
**Establishment, Purpose and Nature of Trust Fund**

1.1 PPL hereby establishes with the Trustee a trust consisting of such cash and/or marketable securities as shall be paid to the Trustee with respect to the Plans pursuant to Article II, Paragraph 2.1. The Trust shall be known as the PPL EMPLOYEE NONQUALIFIED PLANS TRUST. The creation of this Trust is not intended to create an employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974. The Trust is intended to constitute an unfunded arrangement and shall not affect the status of the Plans as unfunded plans maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended. 1.2 The Trust shall consist of all contributions to the Trust by PPL and the earnings and losses thereon (including unrealized gains and losses), less disbursements therefrom (hereinafter called the "Trust Fund"). The principal of the Trust, and any earnings thereon shall be held separate and apart from other funds of PPL and shall be used exclusively for the uses and purposes of Participants, and general creditors as herein set forth. Participants shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plans and this Trust Agreement shall be mere unsecured contractual rights of Participants against PPL. Any assets held by the Trust will be subject to the claims of PPL's general creditors under federal and state law in the event PPL becomes Insolvent.

1.3 The Trust hereby established is revocable by PPL; provided, however, that it shall be irrevocable (a) during the pendency of a Potential Change in Control and (b) upon a Change in Control, each as defined in Paragraph 10.3.

1.4 The Trust Fund shall be held by the Trustee, subject to the reservation of powers under Paragraphs 10.1 and 10.2 of Article X, for the purpose of providing benefits in accordance with the terms of the Plans. The Trustee shall pay all benefits as they become due and payable pursuant to the Plans in accordance with Article III and Article IV to the extent there are sufficient funds in the Trust to do so. Notwithstanding the foregoing, the Trust Fund shall be treated as an asset of PPL and shall remain subject to the claims of PPL's general creditors in the event of PPL becomes Insolvent.

1.5 The rights, powers, titles, duties, discretions and immunities of the Trustee shall be governed solely by this Trust Agreement and applicable state and federal law.

1.6 The Trust is intended to be a grantor trust, of which PPL is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, Sections 671-678, and any successor statute thereto, and shall be construed accordingly.

1.7 The Plans and any persons who may be entitled to benefit payments under the terms of the Plans shall not have any preferred claim on the Trust Fund. Persons who may be entitled to benefit payments under the terms of the Plans shall have no greater right or status than an unsecured creditor of PPL with respect to such amounts.

1.8 Notwithstanding anything else in this Agreement to the contrary: (1) the Trustee is not a party to, and has, except as expressly provided herein, no duties or responsibilities under, the Plans; (2) PPL shall be required to certify in writing to the Trustee the identity of any party or person, whether or not a fiduciary named in any Plans, which has the power to manage and control Plan assets, and the Trustee shall be entitled to rely upon such certification until notified otherwise in writing by PPL; and (3) in any case in which a provision of this Agreement conflicts with any provision in any Plans, this Agreement shall control. Notwithstanding the preceding sentence, the Trustee reserves the right to seek a judicial and/or administrative determination as to its proper course of action under this Agreement.

1.9 The terms of the Plans shall govern the amount, form and timing of benefit payments to which a Participant is entitled under the Plans. The Trustee shall have no right or obligations with respect to any of the provisions of the Plans except as provided in this Trust Agreement.

**Article II**  
**Contributions to Trust Fund and Allocation to Plan Accounts**

2.1 Subject to the provisions of Paragraph 2.2, PPL may from time to time make, or cause to be made, such contributions to the Trust Fund of cash and/or marketable securities as it determines to be appropriate in its sole discretion and are acceptable to the Trustee, which shall be held by the Trustee for the benefit of the Participants covered by each respective Plan, subject to the reservation of powers under Paragraphs 10.1 and 10.2 of Article X and the claims of PPL's general creditors in the event PPL becomes Insolvent. The Trustee shall be accountable for all such contributions, but shall have no duty to determine that the amounts thereof comply with the provisions of the Plans. PPL shall designate the Plan Account or Accounts as defined in Paragraph 2.3 to which each contribution shall be allocated and the amount of such contribution to be allocated to each such Plan Account.

2.2 Immediately prior to a Change in Control (as defined in Paragraph 10.3), the Chief Executive Officer of PPL (or his or her designee) shall authorize an irrevocable cash contribution to be made to the Trust in an amount equal to the amount that, in the determination of PPL, is sufficient to pay each Participant or beneficiary the benefits to which Participants or their beneficiaries would be entitled pursuant to the terms of the Plans as of the date of the Change in Control assuming each Participant terminated employment as of such date under circumstances giving rise to payment of benefits under the Plans. After a Change in Control, the Trustee may compel any contribution that is required under the Trust. Within 60 days following the end of each Plan year ending after a Change in Control has occurred, PPL shall be required to irrevocably deposit additional cash or other property to the Trust in an amount sufficient and to the extent necessary, to pay each Participant or beneficiary the benefits payable pursuant to the terms of the Plans as of the close of the Plan years.

2.3 The Trustee shall hold the Trust Fund without distinction as to principal or income as a single commingled fund, but for bookkeeping purposes shall maintain a separate account (hereinafter called a "Plan Account" or an "Account") reflecting the interest of each Plan in the Trust Fund. Each Plan Account shall consist of contributions to and payments from the Trust Fund which are allocable to each such Plan, and the earnings thereon, less disbursements therefrom attributable to the interest of each Plan in the entire Trust Fund. The Trustee shall advise the Accounting Party (as defined in Paragraph 2.4 below) of the Fair Market Value (as defined in Paragraph 2.5 below) of assets in the Trust Fund as of the close of each calendar year of the Trust, or at such more frequent intervals as may be mutually agreed upon between the Accounting Party and Trustee, among the Plan Accounts based upon the actual return of each Plan Account.

2.4 For purposes of this Trust Agreement, the Accounting Party is PPL prior to the occurrence of a Change in Control, and after the occurrence of a Change in Control, in lieu of PPL, a committee composed of three members appointed by the Board of Directors of PPL prior to the occurrence of a Change in Control. Any vacancy on the committee after the occurrence of a Change in Control (arising for any reason, including the failure of the Board of Directors of PPL to appoint three members willing to serve on the committee or the death or resignation of any member) will be filled by the employee or former employee of PPL with an accrued benefit under any of the Plans designated by the remaining members or member of the committee, who is willing to serve as a member of the committee. If the remaining members of the committee cannot agree on a new member or there are no members of the committee (for any reason, including the failure of the Board of Directors of PPL to appoint prior to the occurrence of a Change in Control any person who is willing to serve on the committee or the death or resignation of all members) any vacancy after the occurrence of a Change in Control shall be filled by the Participant with the largest accrued benefit under the Plans and who is willing to serve as a member. If at any time after an occurrence of a Change in Control, there are no members of the committee willing or able to serve, the determination as to the Participant with the largest accrued benefit under the Plans shall be made by the Trustee. In the event that there are less than three persons who are willing to serve as members, the committee shall consist of the number of such persons who are willing to serve as members.

2.5 For purposes of this Trust Agreement, "Fair Market Value" for any security shall be determined as follows:

(a) securities listed on the New York Stock Exchange, the American Stock Exchange or any other recognized exchange shall be valued at their last sale prices on the exchange on which securities are principally traded on the valuation date (NYSE-Composite Transactions or AMEX-Composite Transactions prices to prevail on any security listed on either of these exchanges as well as on another exchange); and where no sale is reported for that date, the last bid price shall be used.

(b) all other securities and assets shall be valued at their market values as fixed by the Trustee's staff regularly engaged in such activities.

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**Article III**  
**Cessation of Payments from**  
**Trust Fund While Company Insolvent**

3.1 The Trust Fund shall be subject to claims of general creditors of PPL in the event PPL becomes Insolvent, and at any time the Trustee has actual knowledge, or has determined, that PPL is Insolvent, the Trustee shall deliver the Trust Fund to satisfy such claims as a court of competent jurisdiction may direct. PPL shall be considered "Insolvent" for purposes of this Trust Agreement if (1) PPL is unable to pay its debts as they become due or (2) PPL is subject to a pending proceeding as a debtor or a debtor-in-possession under the federal Bankruptcy Code, 11 U.S.C. 101 et seq.

(or any successor federal statute).

3.2 At all times during the continuance of this Trust, as provided in Section 1.3 hereof, the principal and income of the Trust shall be subject to claims of general creditors of PPL under federal and state law as set forth below.

3.3 The Board of Directors and the Chief Executive Officer of PPL shall have the duty to inform the Trustee in writing that PPL has become Insolvent and the basis on which they consider PPL to be Insolvent. If a person claiming to be a creditor of PPL alleges in writing to the Trustee that PPL has become Insolvent, the Trustee shall determine whether PPL is Insolvent and, pending such determination, the Trustee shall discontinue payment of benefits to Participants or their beneficiaries.

3.4 If the Board of Directors or the Chief Executive Officer of PPL informs the Trustee in writing that PPL has become Insolvent, the Trustee shall independently determine, within a reasonable time that in no event shall exceed sixty days after receipt of such notice, whether PPL is Insolvent and, pending such determination, the Trustee shall discontinue payments from the Trust Fund, shall hold the Trust Fund for the benefit of PPL's general creditors, and shall resume payments from the Trust Fund only after the Trustee has determined that PPL is not Insolvent (or is no longer Insolvent, if the Trustee initially determined PPL to be Insolvent).

3.5 If at any time the Trustee has determined that PPL is Insolvent, the Trustee shall discontinue payments to Participants and shall hold the assets of the Trust for the benefit of PPL's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights of Participants or their beneficiaries to pursue their rights as general creditors of PPL with respect to benefits due under the Plans or otherwise.

3.6 Trustee shall resume the payment of benefits to Participants in accordance with Article IV of this Trust Agreement only after the Trustee has determined that PPL is not Insolvent (or is no longer Insolvent). If the Trustee discontinues payments from the Trust Fund and subsequently resumes such payments, the first payments following such discontinuance shall include the aggregate amount of all payments which would have been made to Participants under Article IV during the period of such discontinuance (together with interest based upon the daily average, as determined by the Trustee, of the Average Prime Rate Charged by Banks (Percent) as published in the Business Conditions Digest, or any successor publication, of the Social and Economic Statistics Administration, Bureau of Economic Analysis, of the U.S. Department of Commerce, or any successor governmental agency), less the aggregate amount of payments made to any such persons by or on behalf of PPL in lieu of the

payments provided for in Article IV during any such period of discontinuance.

3.7 Except as provided in Paragraph 3.3 or 3.4, or unless the Trustee has actual knowledge that PPL is Insolvent, the Trustee shall have no duty to inquire whether PPL is Insolvent. The Trustee may in all events rely on such evidence concerning PPL's insolvency as may be furnished to the Trustee which will give the Trustee a reasonable basis for making a determination concerning PPL's insolvency.

3.8 Nothing in this Trust Agreement shall in any way diminish any rights of a person to pursue his rights as a general creditor of PPL under the Plans.



**Article IV**  
**Payments from Trust Fund While Company Solvent**

4.1 All payments from the Trust Fund while PPL is solvent shall be made by the Trustee only to such persons who at any time prior to the occurrence of a Change in Control were employees of PPL, or any of its subsidiaries, and, in such manner, at such times, and in such amounts as required by the terms of each respective Plan in effect when such payment is made or, if such payment is made after a Change in Control occurs, as required by the terms of each respective Plan in effect when any such Change in Control occurs.

4.2 Immediately preceding the occurrence of a Change in Control, PPL shall deliver to the Trustee: a) a schedule (the "Payment Schedule") that indicates the amounts payable in respect of each Participant, that provides a formula or other instructions acceptable to the Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Plans), and the time of commencement for payment of such amounts, and b) copies of all then current Plans and any subsequent amendments thereto. Except as otherwise provided herein, the Trustee shall make payments to the Participants in accordance with such Payment Schedule. The Trustee shall make provision for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Plans and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by PPL.

4.3 PPL hereby agrees that the Accounting Party (as defined in Section 2.4) shall have the exclusive responsibility, and the Trustee shall not have any responsibility or duty under this Trust Agreement for determining that any change in the Payment Schedule is in accordance with the terms of the Plan and applicable law, including without limitation, the amount, timing or method of payment and the identity of each person to whom such payments shall be made. The Trustee shall have no responsibility or duty to determine the tax effect of any payment or to see to the application of any payment.

4.4 The entitlement of a Participant to benefits under the Plans shall be determined under the Plans, and any claim for such benefits shall be considered and reviewed under the procedures, if any, set out in the Plans.

4.5 Notwithstanding anything contained in Paragraph 4.1, PPL may make payment of benefits directly to Participants as they become due under the terms of the Plans. PPL shall notify the Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to Participants. In addition, if the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Plans, PPL shall make the balance of each such payment as it falls due. The Trustee shall notify PPL where principal and earnings are not sufficient. The Trustee shall have no responsibility to inquire whether payments have been made pursuant to the Plans in question.

4.6 In no event shall the Trustee knowingly cause any payment or distribution to be made from the Trust Fund pursuant to the terms of any Plan for any purpose in an amount which is in excess of the then current balance of the Plan Account (as defined in Section 2.3) attributable to that Plan.

4.7 After the occurrence of a Change in Control, if a Participant does not receive a payment that the Participant believes he or she has become entitled to under any Plan, he or she shall notify the Trustee of such entitlement. Within thirty (30) days of its receipt of such notice, the Trustee shall determine whether the terms of the Plan dictate that the Participant is entitled to a payment. If the Trustee determines that a payment is required, the Trustee shall make the payment to the Participant as soon as practicable, but in no event shall the payment be made later than thirty (30) days after the expiration of the initial thirty-day period. The Trustee shall provide PPL with written confirmation of the fact and amount of such payment after it is made. The Trustee's decision shall be final and binding, and the Participant shall be notified of the decision in writing within ten (10) days. The notice shall include specific reasons for the decision, including specific references to the pertinent Plan provisions on which the decision is based, and shall be written in a manner calculated to be understood by the Participant. The provisions of this Paragraph 4.7 shall apply only after the occurrence of a Change in Control. The Trustee may rely upon direction from the Accounting Party in making such determinations.

4.8 The Trustee shall not be liable for any payment made in good faith without actual notice or knowledge of the changed condition or status of any recipient thereof. If the Trustee has responsibility for benefit payments and if any payment is not

claimed, the Trustee shall retain the payment as part of the Trust Fund.

4.9 Except as provided in this Article IV, after the Trust has become irrevocable, PPL shall have no right or power to direct the Trustee to return to PPL or to divert to others any of the Trust assets before all payments of benefits have been made to Participants and their beneficiaries pursuant to the terms of the Plans and all expenses of the Trust have been paid. At any time prior to the Trust becoming irrevocable, however, PPL shall have the right or power to direct the Trustee to return to PPL any of the assets of the Trust.

**Article V**  
**Responsibilities of Trustee**

5.1 Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims (the "Prudent Man Standard of Care"), provided however, that Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by PPL or the Accounting Party which is contemplated by, and in conformity with, the terms of the Plan or this Trust and is given in writing by PPL or the Accounting Party. In the event of a dispute between PPL and a party, Trustee may apply to a court of competent jurisdiction to resolve the dispute. The Trustee shall not be responsible for the title, validity or genuineness of any property or evidence of title thereto received by it or delivered by it pursuant to this Trust Agreement and shall be held harmless in acting upon any notice, request, direction, instruction, consent, certification or other instrument believed by it to be genuine and delivered by the proper party or parties. Under no circumstances shall Trustee be liable for consequential, special, or speculative damages under the Trust Agreement even if the Trustee is advised as to the possibility thereof. It is understood and agreed that Trustee shall be under no duty to take any action other than herein specified with respect to any securities or other property at any time deposited hereunder unless specifically agreed to by the Trustee in writing or as otherwise provided in this Trust Agreement. Subject to the Accounting Party's power of investment direction under Article X, the Trustee shall have exclusive authority and discretion to hold, manage, care for and protect the Trust Fund and shall have the following powers and discretions in addition to those conferred bylaw:

- (a) To invest and reinvest the Trust Fund in such equities (of any classification, including common and preferred stocks), fixed income, cash, cash equivalents or other property (real, personal or mixed) and interests in investment companies and investment trusts as the Trustee shall deem advisable, excluding any obligations or security, or other property of PPL, whether or not such investments and reinvestments be authorized by any state law for the investment of Trust Funds generally;
- (b) To sell, exchange, convey, transfer or dispose of, and also to grant options with respect to, any property, whether real or personal, at any time held by it by private contract or by public auction, for cash or upon credit, or partly for cash and partly upon credit, as the Trustee may deem best, and no person dealing with the Trustee shall be bound to see to the application of the purchase money or to inquire into the validity, expediency or propriety of any such sale or other disposition;
- (c) To acquire, hold and dispose of any real estate, at such time, in such manner and upon such terms as the Trustee may deem advisable; to retain, manage, operate, repair, improve, partition, mortgage or lease for any term or terms of years any such real estate, or to exchange all or any part thereof for other real estate, upon such terms and conditions as the Trustee deems proper, using other Trust assets for any of such purposes if deemed advisable;
- (d) To compromise, compound and settle any debt or obligation due to or from it as Trustee and to reduce the rate of interest thereon, to extend or otherwise modify, or to foreclose upon default or otherwise enforce or act with respect to any such obligation;
- (e) If directed by the Accounting Party, Trustee shall vote as instructed by Accounting Party, in person or by general or limited proxy, any stocks or other securities at any time held in the Trust Fund, at any meeting of stockholders or security holders, in respect to any business which may come before the meeting.
- (f) To vote, in person or by general or limited proxy, any stocks or other securities at any time held in the Trust Fund, at any meeting of stockholders or security holders, in respect to any business which may come before the meeting; to exercise any options appurtenant to any stocks, bonds or other securities for the conversion thereof into other stocks, bonds or securities; to exercise or sell any conversion or subscription rights appurtenant to any stocks, bonds or other securities at any time held in the Trust Fund, and to make any and all necessary payments therefor; to join in, and to approve, or to dissent from and to oppose, any corporate act or proceeding, including any reorganization, recapitalization, consolidation, merger, dissolution, liquidation, sale of assets or other action by or plan in respect of corporations or properties, the stocks or securities of which may at any time be held in the Trust Fund; to deposit with any committee or depository, pursuant to any plan or agreement of protection, reorganization, consolidation, sale, merger, or other readjustment, any property held in the Trust Fund; and to make payment from the Trust Fund of any charges or assessments imposed by the terms of any such plan or agreement;
- (g) To accept and hold any securities or other property received by it under the provisions of any of the subdivisions of this Article whether or not the Trustee would be authorized hereunder then to invest therein;
- (h) To borrow money on behalf of the Trust upon such terms and conditions as the Trustee shall deem advisable to carry out the purposes of the Trust and to pledge securities or other property of the Trust Fund in repayment of any such loan;
- (i) To enforce any right, obligation or claim in its discretion and in general to protect in any way the interests of the Trust Fund, either before or after default, and in case the Trustee shall, in its discretion, consider such action for the best interest of the Trust Fund, to abstain from the enforcement of any right, obligation or claim and to abandon any property, whether real or personal, which at any time may be held by the Trustee;
- (j) To make, execute, acknowledge and deliver any and all deeds, leases, assignments, transfers, conveyances and any and all other instruments necessary or appropriate to carry out any powers herein granted;
- (k) To cause any investments from time to time held by it hereunder to be registered in, or transferred into, its name as Trustee or the name of its nominee or nominees, and with or without designation of fiduciary capacity, or to retain any investments unregistered or in form permitting transfer by delivery, but the books and records of the Trustee shall at all times show that all such investments are part of the Trust Fund;

(l) To hold any part or all of the Trust Fund uninvested;

(m) The Trustee may not invest in securities (including stock and the rights to acquire stock) or obligations issued by PPL or an Employer as that term is defined in the Plan, except by reason of the inclusion of such securities in a broadly inclusive index, mutual fund, or collective investment medium.

Notwithstanding anything else in this Agreement to the contrary, including, without limitation, any specific or general power granted to the Trustee, including the power to invest in real property, no portion of the Trust Fund shall be invested in real estate. For this purpose, "real estate" includes, but is not limited to, any direct or indirect interest in real property, leaseholds or mineral interests.

5.2 If Trustee undertakes or defends any litigation arising in connection with this Trust, Trustee shall act only under the Prudent Man Standard of Care, and PPL agrees to indemnify Trustee against Trustee's costs, expenses and liabilities (including, without limitation, attorney's fees and expenses) relating thereto and to be primarily liable for such payments if the following conditions are met: (a) Trustee shall notify the Accounting Party as soon as practicable after it has received actual notice of litigation, or when Trustee has reached a decision to undertake litigation but prior to filing a complaint or other written notice to any party or agency, and (b) Trustee shall at all times afford the Accounting Party the reasonable opportunity to approve (which approval shall not be unreasonably withheld) the hiring or discharge of legal counsel and the settlement or other conclusion of any such litigation. If PPL does not pay such costs, expenses and liabilities in a reasonably timely manner, Trustee may obtain payment from the Trust. In no event shall Trustee have any liability or responsibility to undertake or defend any litigation unless the Trustee is reasonably assured of receiving payment of related fees and expenses. Trustee shall have, without exclusion, all powers conferred on trustees by applicable law, unless expressly provided otherwise herein; provided, however, that if an insurance policy is held as an asset of the Trust, the Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy. Subject to the foregoing, the Trustee shall have the exclusive authority:

(a) to retain an actuary to calculate the amount of any benefit payments due pursuant to Paragraph 1.4 of Article I; and

(b) to do all acts which the Trustee may deem necessary or proper and to exercise any and all of the powers of the Trustee under this Trust Agreement upon such terms and conditions as to the Trustee may seem in the best interests of the Trust Fund.

5.3 Trustee, at the expense of the Trust or PPL, may consult with legal counsel (who prior to the occurrence of a Change in Control may also be counsel for PPL generally) with respect to any of its duties or obligations hereunder. The Trustee may consult with counsel, and the Trustee shall not be deemed imprudent by reason of its taking or refraining from taking any action, prior to the occurrence of a Change in Control, in accordance with the opinion of counsel for PPL. PPL agrees to indemnify and hold the Trustee harmless from and against any loss, costs and expenses including without limitation reasonable attorneys' fees and other costs and expenses incident to any suit, action, investigation, claim or proceeding that the Trustee may incur in the administration of the Trust Fund, and this provision shall survive termination of this Trust Agreement and the Trust, provided the following conditions are met: (a) Trustee shall act at all times under the Prudent Man Standard of Care, (b) Trustee shall notify the Accounting Party as soon as practicable after it has received actual notice of the suit, action, investigation, claim or proceeding, and (c) Trustee shall at all times afford the Accounting Party the reasonable opportunity to approve (which approval shall not be unreasonably withheld) the hiring or discharge of legal counsel and the settlement or other conclusion of any such matter. The Trustee shall not be required to give any bond or any other security for the faithful performance of its duties under this Trust Agreement, except such as may be required by any law which prohibits the waiver thereof.

5.4 Trustee, at the reasonable and prudent expense of the Trust or PPL, may hire agents, accountant, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder. The Trustee shall be entitled, as it may deem appropriate from time to time, to require of PPL such certifications and proofs of facts or other information and/or cooperation as shall permit the Trustee to perform its duties or to exercise the powers granted the Trustee under this Trust Agreement and shall be entitled to rely thereon.

5.5 The Trustee shall not be responsible in any manner whatsoever for the correctness of the recitals of fact herein (other than recitals of fact relating solely to the Trustee and its power and authority to enter into and perform this Trust Agreement) all of which have been made by PPL solely; and the Trustee shall not be responsible or accountable in any manner whatsoever for or with respect to the validity or sufficiency of this Trust Agreement and makes no representation with respect thereto. The Trustee shall not be responsible for the sufficiency of the Trust to pay the benefits contemplated by the Plans or for the use or application by PPL of any monies held in the Trust when disbursed in conformity with this Trust Agreement.

5.6 During the term of this Trust, all of the income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested.

5.7 Notwithstanding any powers granted to Trustee pursuant to this Trust Agreement or to applicable law, Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

5.8 If Trustee has at all times acted under the Prudent Man Standard of Care, Trustee shall not be liable for any expense, loss, claim or damage (including counsel fees) suffered by the Plan or Participant arising out of or caused by any delay in, or failure of, performance by Trustee, in whole or in part, arising out of, or caused by, unforeseeable circumstances beyond Trustee's control, including without limitation: acts of God, interruption, delay in, or loss (partial or complete) of electrical power or external computer (hardware or software) or communication services (including access to book entry securities systems maintained by Federal Reserve Bank of New York and/or any clearing corporation); act of civil or military authority; sabotage; natural emergency; epidemic; war or other government actions; civil disturbance; flood, earthquake, fire, other catastrophe; strike or other labor disturbance by employees of nonaffiliates; government, judicial, or self regulatory organization order, rule or regulation; riot; energy or natural resource difficulty or shortage; and inability to obtain materials, equipment, or transportation, provided, in all cases, Trustee has acted under the Prudent Man Standard of Care to mitigate, control, and prevent losses and expenses due to such circumstances.

5.9 The Trustee is not a party to, and has no duties or responsibilities under, the Plan other than those that may be expressly contained in this Trust Agreement. In any case in which a provision of this Trust Agreement conflicts with any provision in the Plan, this Trust Agreement shall control. The Trustee shall have no duties, responsibilities or liability with respect to the acts or omissions of any prior or successor trustee.

5.10 Trustee shall have no responsibility with respect to: (i) the selection or monitoring of any insurance policies or insurance contracts held in the Trust or the insurers issuing such policies or contracts; or (ii) the payment of any premiums with respect to such policies or contracts.

5.11 The duties of the Trustee shall be limited to the assets held in the Trust, and the Trustee shall have no duties with respect to assets held by any other person including, without limitation, any other trustee for the Plan. PPL hereby agrees that the Trustee shall not serve as, and shall not be deemed to be, a co-trustee under any circumstances. The Accounting Party may request the Trustee to perform a recordkeeping service with respect to property held by others and not otherwise subject to the terms of this Trust Agreement. To the extent the Trustee shall agree to perform this service, its sole responsibility shall be to accurately reflect information on its books which it has received from an authorized party.

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**Article VI**  
**Fees, Expenses and Taxes**

6.1 PPL shall pay the reasonable expenses incurred by the Trustee in or as a result of the performance of its duties hereunder, including reasonable fees and expenses for services rendered to the Trustee, and such compensation to the Trustee as may be agreed upon in writing from time to time between PPL and the Trustee. After the occurrence of a Change in Control, the compensation of the Trustee shall be determined by the application of the current rates then charged by the Trustee for the provision of the types of investment and trustee services contemplated in this Trust Agreement to trusts of a similar character and size.

6.2 PPL shall pay the reasonable expenses incurred by the Accounting Party, if other than PPL, in or as a result of the performance by its members of their duties hereunder. Such expenses shall include but not be limited to the cost of travel as well as the cost of any communications with the Trustee or Plan Participants. PPL shall also pay to the Accounting Party, if other than PPL, such compensation as may be provided for by resolution of the Board of Directors of PPL prior to the occurrence of a Change in Control.

6.3 If PPL fails to pay any such expenses and compensation as provided for in Paragraphs 6.1 and 6.2, the Trustee shall pay them from the Trust Fund.

6.4 Any taxes, including real and personal property taxes, income taxes, transfer taxes and other taxes of any kind whatsoever that may under any existing or future laws be assessed against or levied upon or in respect of the Trust Fund or its assets or any interest therein shall be paid by PPL. The word "taxes" in this Article VI shall be deemed to include any interest or penalties that may be levied or imposed in respect to any taxes.

6.5 To the extent the Accounting Party has provided necessary information to the Trustee, the Trustee shall be responsible for any necessary withholding and reporting of federal taxes related to the payment of benefits pursuant to the terms of the Plan and shall pay amounts withheld to the appropriate taxing authorities. In addition, to the extent the Accounting Party has provided necessary information to the Trustee, the Trustee shall use reasonable efforts to assist such Accounting Party with respect to any "Tax Obligations." The term "Tax Obligations" means the responsibility for payment of taxes, withholding, certification and reporting requirements, claims for exemptions or refund, interest, penalties and other related expenses of the Trust, including but not limited to the requirements set forth in Section 2(a) of this Trust Agreement. Notwithstanding the foregoing, the Trustee shall have no responsibility or liability for any Tax Obligations now or hereafter imposed on PPL or the Trust by any taxing authorities, domestic or foreign, except as provided by applicable law. To the extent the Trustee is responsible under any applicable law for any Tax Obligation, the Accounting Party shall inform the Trustee of all Tax Obligations, shall direct the Trustee with respect to the performance of such Tax Obligations. All such Tax Obligations shall be paid from the Trust unless paid by PPL.

**Article VII**  
**Accounts of the Trustee**

7.1 The Trustee shall keep accurate and detailed accounts of all investments, receipts and disbursements and other transactions hereunder, and all accounts, books and records relating thereto shall be open at all reasonable times to inspection and audit by any person or persons designated by the Accounting Party. The cost of any audit if requested by the Accounting Party shall be paid by PPL.

7.2 Within ninety (90) days following the close of each calendar year, the Trustee shall file with the Accounting Party and PPL, if different, a written account setting forth all investments, receipts, disbursements, and other transactions of the Trust Fund effected by it during such fiscal year including a description of all securities and investments purchased and sold, with the cost or net proceeds of such purchases or sales, and showing all cash, securities and other property held, including values at the end of such calendar year.

7.3 Upon the expiration of one hundred eighty days following the filing as above provided of such account, such account shall be considered as final and binding upon the Accounting Party, PPL, its subsidiaries, directors, former directors, Participants, employees, former employees, retired employees, their beneficiaries, and the Trustee, as if settled by a court of competent jurisdiction, and the Trustee shall be forever released and discharged from any liability or accountability to anyone in connection with or arising or resulting from any of the acts or transactions shown therein, except with respect to such acts or transactions as to which the Accounting Party shall within such one hundred eighty day period file with the Trustee written objections or which involve manifest error, gross negligence, willful misconduct or fraud.

7.4 Accounts of the Trustee need only be settled with the Accounting Party. Subject to any express provision of applicable law as may be in effect from time to time to the contrary, no other person or party shall be entitled to any accounting by the Trustee.

7.5 Nothing contained in this Trust Agreement shall, however, preclude the Trustee from having any of its accounts settled by a court of competent jurisdiction. In any action or proceeding for settlement of the accounts of the Trustee or concerning administration of the Trust Fund, the Accounting Party and the Trustee shall be the only necessary parties thereto. To the extent provided by law, service of any notice or process upon the Accounting Party shall be deemed for all purposes service on PPL, its subsidiaries, directors, former directors, Participants, employees, former employees, and retired employees of PPL, and their beneficiaries and any final judgment in any such action or proceeding shall be binding and conclusive on the Accounting Party, PPL, employees, former employees, directors, former directors and retired employees of PPL and their beneficiaries and the Trustee.

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**Article VIII**  
**Resignation or Removal of the Trustee**

8.1 The Trustee may be removed by the Accounting Party to the extent provided in Article X at any time upon sixty days notice in writing. The Trustee shall have the right to resign at any time by giving sixty days notice in writing to the Accounting Party, provided that such resignation shall not become effective until a successor trustee has accepted its appointment. Upon such removal or notice of resignation of the Trustee, the Accounting Party shall appoint and designate a successor Trustee, which shall be a corporate trustee qualified to conduct trust business in Pennsylvania, which is independent of and not subject to control by PPL. Such successor trustee shall qualify as such by delivering a written acceptance of the trust to the Accounting Party and the retiring Trustee, and thereupon all the provisions hereof shall relate and be applicable to such successor Trustee. Until the effective date of the assumption by the successor Trustee of its duties under this Trust Agreement, the retiring Trustee shall continue to function and be bound hereunder as trustee hereof. Upon receipt of such written acceptance the retiring Trustee shall forthwith file with the Accounting Party a written account of its acts in the same form as its annual account above provided for in Article VII from the date of its last annual account to the date of the acceptance of the Trust by the successor trustee and settlement of such account shall be accomplished as in Article VII. Upon the filing of such account, the retiring Trustee shall transfer and deliver the Trust Fund to the successor Trustee but shall be entitled to reserve therefrom and hold such assets as it may reasonably deem necessary to provide for any and all expenses and payments properly chargeable against the Trust Fund or for which the Trust Fund may be liable or to which the retiring Trustee may be entitled by way of fees and expenses in the settlement of its account. If the assets so withheld are insufficient or excessive for such purposes, the retiring Trustee shall be entitled to reimbursement for any deficiency out of the Trust Fund from the successor Trustee, or shall deliver the excess to the successor Trustee, as the case may be. To the extent permitted by law, upon the transfer of the Trust Fund as above provided and the settlement of its account, the retiring Trustee's previous annual accounts having been settled as provided in Article VII, the retiring Trustee shall thereupon be discharged from any further duty, obligation or responsibility with respect to the operation of the Trust Fund or any matter connected therewith prior to the delivery of said written acceptance except matters which relate to manifest error, gross negligence, willful misconduct or fraud.

8.2 If Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 8.1 hereof, by the effective date of resignation or removal under Section 8.1. If no such appointment has been made, Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

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**Article IX**  
**Action of PPL or Accounting Party**

9.1 Any action of PPL pursuant to any of the provisions of this Trust Agreement shall be evidenced by a written notice or direction to such effect over the signature of: i) any officer or ii) other representative of PPL who shall have been certified to the Trustee by the President, Treasurer or Secretary of PPL as having such authority. The Trustee shall be fully protected in acting in accordance with such notices or directions. All communications from PPL to the Trustee shall be in writing, signed by the person designated as having such authority as PPL shall certify to the Trustee, and the Trustee shall act and be fully protected in acting in accordance with such communications.

9.2 Any action of the Accounting Party pursuant to provisions of this Trust Agreement shall be evidenced by a written notice or direction to such effect over the signature of any one or more members of the Accounting Party. Prior to the occurrence of a Change in Control, the President, Treasurer or Secretary of PPL shall advise the Trustee of the name or names of the person or persons who will serve as members of the Accounting Party after the occurrence of such Change in Control. After such Change in Control, current members of the Accounting Party shall advise the Trustee of the name or names of any new person or persons serving as members of the Accounting Party.

9.3 All communications from the Accounting Party to the Trustee shall be in writing, signed by the person designated as having such authority as PPL or member of the Accounting Party shall certify to the Trustee, and the Trustee shall be fully protected in acting in accordance with such communications.

9.4 PPL shall furnish the Trustee with a written list of the names, signatures and extent of authority of all persons constituting the Accounting Party as defined in Section 2.4. The Trustee shall be entitled to rely on and shall be fully protected in acting upon direction from such person until notified in writing by PPL, as appropriate, of a change in the make up of the Accounting Party.

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**Article X**  
**Reservation of Powers**

10.1 The Accounting Party expressly reserves the powers to:

(a) remove the Trustee;

(b) direct the investment and reinvestment of the principal and income of the Trust Fund; it shall be the duty of the Trustee to act strictly in accordance with such investment directions, and any changes therein, as so communicated to the Trustee from time to time in writing. To the maximum extent permitted by law, Trustee shall have no duty or responsibility (i) to advise with respect to, or inquire as to the propriety of, any such investment direction or (ii) for any investment decisions made with respect to the Trust by PPL or the Accounting Party. In the absence of investment direction by the Accounting Party, the Trustee shall invest Trust assets in any manner permitted under Section 5.1; and

(c) following the occurrence of a Potential Change in Control as defined in Paragraph 10.3, modify, alter or amend this Trust Agreement, provided that no such modification, alteration or amendment may directly or indirectly (i) affect any Participant's entitlement to receive benefit payments under any Plan or under this Trust Agreement or the amount, form or timing of such benefit payments, (ii) alter the relative funding levels of the Plan Accounts, (iii) alter the method of allocation of Trust Fund earnings and losses among the Plan Accounts, (iv) eliminate the requirement under this Trust Agreement of separate accounting for the interests of each Plan in the Trust Fund, (v) impair or otherwise affect any claims which general creditors of PPL may have with respect to the Trust Fund in the event of PPL becomes Insolvent, (vi) change the rights, duties, powers, liabilities or immunities of the Trustee hereunder without the Trustee's written consent, except as provided upon the Trustee's removal in Article VIII, (vii) eliminate the restrictions set forth in this subparagraph 10.1(c), or (viii) confer upon the Trustee or any other person, directly or indirectly, the power or authority to effect any result prohibited under clauses (i)-(vii) of this subparagraph 10.1(c). No provision of this Trust Agreement may be amended by PPL in any manner adverse to Participants following a Potential Change in Control.

10.2 Subject to the provisions of Paragraphs 10.1 and 10.3 of this Article X, PPL expressly reserves the powers to:

(a) modify, alter, amend, terminate or revoke this Trust Agreement and the trust hereby created to any extent and in any respect deemed advisable by PPL, through an action of PPL that is in writing duly executed and acknowledged and delivered to the Trustee; provided however, that the rights, duties, powers, liabilities or immunities of the Trustee hereunder shall not be changed without its written consent, except as provided upon the Trustee's removal in Article VIII;

(b) withdraw from the Trust Fund any property forming a part of the Trust Fund, any such withdrawal shall be considered a revocation of this Trust solely with respect to such property;

(c) reallocate amounts among Plan Accounts in the Trust Fund;

(d) require the Trustee to furnish such information as may be reasonably requested in regard to the operations of the Trust Fund and the investment thereof;

(e) add to or delete from Appendix A one or more nonqualified deferred compensation plans or agreements for PPL's or its subsidiaries employees;

(f) add to or delete from Appendix A one or more individual employment agreements with employees of PPL or any of its subsidiaries; and

(g) contribute to the Trust Fund property other than cash or marketable securities to the extent not expressly prohibited by the Plans or within the terms of this Trust, if acceptable to Trustee.

10.3 The right of PPL to exercise the powers reserved to it under Paragraph 10.2 of this Article shall expire upon the occurrence of a Change in Control or Potential Change in Control. For purposes of this Trust Agreement, a Change in Control shall be deemed to have occurred

(a) if one of the following events occurs:

(I) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareowners was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended;

(II) any Person becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors;

(III) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation or other entity, other than (I) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or

by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, at least 60% of the combined voting power of the securities of the Company or at least 60% of the combined voting power of the securities of such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; or (II) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (excluding in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing 20% or more of the combined voting power of the Company's then outstanding securities;

- (IV) the shareowners of the Company approve a plan of complete liquidation or dissolution of the Company; or
- (V) the Board adopts a resolution to the effect that a "Change in Control" has occurred or is anticipated to occur.

(b) For purposes of this Trust Agreement, a "Potential Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

- (I) PPL enters into an agreement, the consummation of which would result in the occurrence of a Change in Control;
- (II) any Person publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control;
- (III) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of PPL representing 5% or more of the combined voting power of PPL's then outstanding securities entitled to vote generally in the election of directors; or
- (IV) the Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

For purposes of this Paragraph 10.3:

"Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act; and "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) PPL or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of PPL or any of its Affiliates (as defined in Rule 12b-2 promulgated under Section 12 of the Exchange Act), (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the stockholders of PPL in substantially the same proportions as their ownership of stock of PPL.

10.4 The Board of Directors or the Chief Executive Officer or any Plan Participant may notify the Trustee in writing as promptly as practicable following the occurrence of a Change in Control or Potential Change in Control, and the Trustee shall not be charged with knowledge of such Change in Control or Potential Change in Control in the absence of written notification.

10.5 The Trustee is not a party to any Plan except insofar as the Trustee has assumed duties under a Plan as specifically provided in this Trust Agreement. PPL retains the right to amend any provision of any Plan to the extent provided for in such Plan, including provisions relating to the Trustee; provided, however, that the allocation of responsibilities to the Trustee shall not be amended, altered or modified without the prior written consent of the Trustee, and no amendment to any Plan shall allocate responsibilities between the Trustee and PPL in a manner

inconsistent with the terms of this Trust Agreement.

**Article XI**  
**Surplus Plan Accounts and Termination of Trust**

11.1 If this Trust Agreement is terminated under Article X with respect to any Plan at a time when there is a Plan Account attributable to such Plan or if the Trustee determines that certain amounts attributable to a Plan Account will not be required to make benefit payments under the Plan for which such Plan Account is maintained, the value of the Plan Account or portion thereof attributable to such Plan shall be allocated in the Trustee's discretion among the remaining Plan Accounts in a way that the Trustee believes best maximizes benefit payments under Article IV.

11.2 Unless the Trust is revoked under Article X, the Trust shall not terminate until the date on which no person is or will ever be entitled to benefit payments under the Plans. Any assets remaining in the Trust shall be returned to PPL upon revocation or termination of the Trust.

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**Article XII**  
**Merger or Consolidation of Trustee**

12.1 Any corporation into which the Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger, reorganization or consolidation to which the Trustee may be a party, or any corporation to which all or substantially all of the trust business of the Trustee may be transferred shall be the successor of the Trustee hereunder without the execution or filing of any instrument or the performance of any further act; provided that in case of any such transfer of trust business the transferee corporation shall file with PPL written acceptance of the Trust hereby created.

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**Article XIII**  
**Miscellaneous**

13.1 This Trust Agreement, as amended from time to time, shall be administered, construed and enforced according to the laws of the Commonwealth of Pennsylvania and in courts situated in that Commonwealth. The situs of the Trust shall be Lehigh County, Pennsylvania.

13.2 This Trust Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and said counterparts shall constitute but one and the same instrument.

13.3 Nothing in this Trust Agreement shall require PPL to retain any employee in its service or the service of any of its subsidiaries.

13.4 The Trustee by joining in the execution of this Trust Agreement hereby signifies its acceptance of the Trust hereby created.

13.5 Notwithstanding anything in this Trust Agreement to the contrary, this Trust shall terminate no later than twenty-one years after the death of the last survivor in being upon the cessation of PPL's powers under Article X of the class consisting of the persons entitled to receive benefits under the Plans.

13.6 No attempt by any person entitled to benefits under the Plan to assign, alienate, anticipate, sell, transfer, pledge, encumber or place a charge upon any benefit or any installment thereof shall be recognized by the Trustee, nor shall the Trustee recognize any such attempt to attach or garnish or otherwise subject the Trust Fund or any benefit or any installment thereof to legal process, except as the Trustee may be required to do by law.

13.7 Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

13.7 This Trust Agreement shall be binding upon any successors or assigns of PPL and any transferee(s) of all or substantially all of PPL's assets.

13.8 Any notice to the Trustee shall be sent to the following:

First Union National Bank  
Attn: Robert Hord  
1525 West W. T. Harris Boulevard  
Charlotte, North Carolina 28288

Any notice to PPL shall be sent to the

PPL Corporation  
Attn: Thoburn Hatten  
Two North Ninth Street  
Allentown, Pennsylvania 18101

Either party hereto may designate a new representative for the purpose of receiving notices by notifying the other party in writing of the name and address of such new representative. An Accounting Party other than PPL shall notify both PPL and Trustee of the name and address of its designated representative authorized from time to time to receive notices.

IN WITNESS WHEREOF, this Trust Agreement has been duly executed by the authorized officers of the parties hereto.

ATTEST:

/s/ Diane M. Koch

Assistant Secretary

PPL CORPORATION

By: /s/ James E. Abel

Name: James E. Abel

Title: Vice President-Finance & Treasurer

Date: April 10, 2001

ATTEST:

/s/ Samantha Miller

FIRST UNION NATIONAL BANK AS TRUSTEE

By: /s/ Robert E. Hord Jr.

Name: Robert E. Hord Jr.

Title: Vice President

Date: April 26, 2001

**APPENDIX A**

<b><u>Name of Plan</u></b>	<b><u>Designated Hereunder Effective</u></b>
PPL Officers Deferred Compensation Plan	April 1, 2001
PPL Supplemental Executive Retirement Plan	April 1, 2001
PPL Supplemental Compensation Pension Plan	April 1, 2001

**PPL Corporation  
2012 Stock Incentive Plan  
Performance Unit Agreement**

PERFORMANCE UNIT AGREEMENT (the "Agreement") dated as of the Date of Grant set forth in the Notice of Grant (as defined below), by and between PPL Corporation, a Pennsylvania corporation (the "Company"), and the participant whose name appears on the Notice of Grant (the "Participant").

1. Grant of Stock Based Award. Subject to the terms and conditions of this Agreement (including vesting conditions):

(a) The Company hereby evidences and confirms its grant to the Participant, effective as of the Date of Grant, of the number of stock based units contingent upon Company financial performance (the "Performance Units") specified in the Notice of Grant attached hereto as Exhibit A and made a part hereof ("Notice of Grant").

(b) (i) If on any date while the Performance Units are outstanding hereunder the Company shall pay any cash dividend on its shares of Common Stock, the Participant shall be granted, as of the applicable dividend payment date, a "Cash Dividend Equivalent Award" which shall represent a future contingent right to a number of shares of Common Stock (rounded down to the nearest whole share) with a current Fair Market Value equal to the product of (x) the number of "Total Performance Units" (as defined below) held by the Participant hereunder as of the related dividend record date, multiplied by (y) the amount of such cash dividend per share of Common Stock. Any Cash Dividend Equivalent Award shall be subject to the same payment terms and conditions as the corresponding Performance Units to which they relate.

(ii) If on any date while the Performance Units are outstanding hereunder the Company shall pay any dividend on its shares of Common Stock in the form of shares of Common Stock, the Participant shall be granted, as of the applicable dividend payment date, the contingent right to a future number of shares of Common Stock, equal to the product of (x) the number of Total Performance Units held by the Participant hereunder as of the related dividend record date, multiplied by (y) the number of shares of Common Stock (including any fraction thereof) payable as a dividend on one share of Common Stock, rounded down to the nearest whole Unit.

(iii) At any point in time, the total number of shares of Common Stock of all Performance Units, Cash Dividend Equivalent Awards, and rights to the stock dividends, if any, referred to in Section 1(b)(i) above, shall be defined as "Total Performance Units."

(c) This Agreement and the Total Performance Units granted hereunder are subject to all of the terms and conditions of the PPL Corporation 2012 Stock Incentive Plan (the "Plan"), which are incorporated by reference herein. If there is any inconsistency between the terms hereof and the terms of the Plan, the terms of the Plan shall govern. Any capitalized terms used herein without definition shall have the meanings set forth in the Plan.

2. Vesting of Total Performance Units.

(a) Vesting.

(i) Except as otherwise provided in Section 2(b) or Section 2(c), or Section 2(d), subject to the achievement of the performance goals (the "Goals") established by the Committee for the "Performance Period" (as set forth in the Notice of Grant), and to the continued Employment of the Participant through the conclusion of the Performance Period, the Total Performance Units will become vested based on the extent to which the Goals are satisfied at the conclusion of the Performance Period, as and to the extent set forth in the Notice of Grant (the percentage of the Total Performance Units which so vest being referred to as the "Vesting Percentage").

(ii) Promptly after the conclusion of the Performance Period, the Committee will determine whether the Goals have been satisfied, and will certify in writing as to whether such Goals were in fact satisfied. Based on the Committee's determination and certification, (A) the Total Performance Units will vest as and to the extent set forth in the Notice of Grant, and (B) the portion of the Total Performance Units, if any, that do not vest in accordance with the foregoing shall be immediately forfeited and cancelled by the Company without any consideration.

(b) Termination of Employment.

(i) General. Except as provided in Section 2(b)(ii) below, in the event of the Participant's termination of Employment for any reason prior to the conclusion of the Performance Period, the Participant's Total Performance Units shall be immediately forfeited and cancelled by the Company without consideration.

(ii) Death, Disability, Retirement.

(A) In the event of the Participant's termination of Employment with the Company and its Affiliates due to death, Disability or Retirement prior to the conclusion of the Performance Period, the Total Performance Units shall remain outstanding and eligible for vesting through the conclusion of the Performance Period (or, if applicable, an earlier Change in Control (as defined below)) as described in Section 2(a) above; provided, that, in such event, only a pro rata portion (as described below in this Section 2(b)(ii)(B)) of the Total Performance Units shall be eligible to become vested, and, to the extent so vested, shall be settled and paid as provided in Section 3; and

(B) Subject to Section 2(c) below (in the event of a Change in Control following termination of Employment due to death, Disability or Retirement and prior to the conclusion of the Performance Period), the pro rata portion described in clause (A) above shall be determined by



multiplying the number of Total Performance Units that would have vested had the Participant's Employment continued through the conclusion of the Performance Period, based on actual achievement of the Goals, by a fraction, the numerator of which is the number of pay periods elapsed from the commencement of the Performance Period through the date of the Participant's termination of Employment, and the denominator of which is the number of pay periods in the Performance Period; and

(C) Upon the determination of the number of Total Performance Units pursuant to Section 2(b)(ii) that shall vest, all remaining unvested Total Performance Units shall be immediately forfeited and cancelled by the Company without consideration.

For purposes of this Agreement, "Retirement" shall mean the Participant's termination of Employment at a time when the Participant is eligible to commence monthly retirement benefits under the Company's Retirement Plan, or, if the Participant is not a participant in the Company's Retirement Plan, under any other defined benefit pension plan (whether or not tax qualified) maintained by the Company Group, or, if the Participant is not covered by any defined benefit pension plan, then Retirement shall mean the Participant's termination of Employment at or after age 55 .

(c) Change in Control. Notwithstanding the foregoing, in the event of a Change in Control prior to the conclusion of the Performance Period while a Participant remains employed with the Company and its Affiliates (or following termination of Employment due to death, Disability or Retirement), (x) the Performance Period shall be deemed to conclude immediately prior to the Change in Control, and (y) a pro rata portion of all then unvested Total Performance Units will become immediately vested as though there had been achievement of Goals satisfying the Target Award (as defined in Exhibit A), such pro rata portion determined by multiplying the number of Total Performance Units, in each case represented by the Target Award, by a fraction, the numerator of which is the number of pay periods elapsed from the commencement of the Performance Period through the date immediately prior to the Change in Control (or, if earlier, the date of the Participant's termination of Employment due to death, Disability or Retirement, consistent with Section 2(b)(ii) above), and the denominator of which is the number of pay periods in the original Performance Period (i.e., if the Performance Period had not terminated upon a Change in Control). All remaining Total Performance Units that do not so vest in accordance with the foregoing provisions of this Section 2(c) shall be immediately forfeited and cancelled by the Company without consideration.

(d) No shares of Common Stock will be issued or issuable (or other consideration be payable) with respect to any portion of the Total Performance Units that do not vest in accordance with the foregoing provisions of Section 2. All Performance Units and shares of Common Stock issued in connection with Performance Units are subject to forfeiture in accordance with the PPL Corporation Policy Regarding Recoupment of Executive Compensation.

3. Payment Date. Subject to Section 7(c), on the Payment Date (as defined below), the Company shall issue to the Participant one share of Common Stock in settlement of the Total Performance Units, if any, that vest as provided in Section 2. The "Payment Date" upon which this Award shall be settled and paid shall occur as soon as practicable following the conclusion of the Performance Period and the date that the Committee (or CLC) determines and certifies that the Goals with respect to the Performance Period have been satisfied (but in no event later than 2½ months after the conclusion of the Performance Period); provided, however, in the case of settlement as a result of a Change in Control pursuant to Section 2(c), the Payment Date shall occur as of immediately prior to the Change in Control and provided, further, no payment shall be made to the Participant following the Participant's termination of Employment for any reason other than death or a Change in Control until six months after the date of termination of Employment.

No fractional shares of Common Stock shall be issued. Fractional shares shall be settled through a cash payment based on the Fair Market Value of the Common Stock on the Payment Date.

4. Securities Law Compliance. Notwithstanding any other provision of this Agreement, the Participant may not sell the shares of Common Stock acquired upon settlement of the Total Performance Units unless such shares are registered under the Securities Act of 1933, as amended (the "Securities Act"), or, if such shares are not then so registered, such sale would be exempt from the registration requirements of the Securities Act. The sale of such shares must also comply with other applicable laws and regulations governing the shares, and Participant may not sell the shares of Common Stock, if the Company determines that such sale would not be in material compliance with such laws and regulations.

5. Participant's Rights with Respect to the Total Performance Units.

(a) Restrictions on Transferability. The Total Performance Units granted hereby are not assignable or transferable, in whole or in part, and may not, directly or indirectly, be offered, transferred, sold, pledged, assigned, alienated, hypothecated or otherwise disposed of or encumbered (including, without limitation, by gift, operation of law or otherwise) other than by will or by the laws of descent and distribution to the estate of the Participant upon the Participant's death; provided that the deceased Participant's beneficiary or representative of the Participant's estate shall acknowledge and agree in writing, in a form reasonably acceptable to the Company, to be bound by the provisions of this Agreement and the Plan, as if such beneficiary or the estate were the Participant.

(b) No Rights as Stockholder. The Participant shall not have any rights as a stockholder including any voting, dividend or other rights or privileges as a stockholder of the Company with respect to any Common Stock corresponding to the Total Performance Units granted hereby, unless and until shares of Common Stock are actually issued to the Participant in respect thereof.

6. Adjustment in Capitalization. In the event of any change in the outstanding Common Stock by reason of any recapitalization, combination or exchange of shares or other similar changes in the Common Stock, appropriate adjustment shall be made by the Committee, in accordance with Section 10 of the Plan.

7. Miscellaneous.

(a) Binding Effect; Benefits. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their respective successors and assigns. Nothing in this Agreement, express or implied, is intended or shall be construed to give any person other than the parties to this Agreement or their respective successors or assigns, any legal or equitable right, remedy or claim under or in respect of any agreement or any provision contained herein.

**(b) No Right to Continued Employment.** Nothing in the Plan or this Agreement shall interfere with or limit in any way the right of the Company or any of its Affiliates to terminate the Participant's Employment at any time, or confer upon the Participant any right to continue in the employ of the Company or any of its Affiliates.

**(c) Tax Withholding.** The Company and its Affiliates shall have the right to deduct from all amounts payable to the Participant (whether under the Plan or otherwise) any amount of taxes required by law to be withheld in respect of settlement of the vested Total Performance Units, as may be necessary in the opinion of the Company to satisfy tax withholding required by law to be withheld. Unless otherwise determined by the Committee, the Company will meet such obligations with respect to the settlement and payment of any vested Total Performance Units by having the Company withhold the least number of whole shares of Common Stock having a Fair Market Value sufficient to satisfy the amount required to be withheld in respect of settlement and payment of the vested Total Performance Units.

**(d) Applicable Law.** This Agreement shall be governed by and construed in accordance with the law of the Commonwealth of Pennsylvania regardless of the application of rules of conflict of laws that would apply to the laws of any other jurisdiction.

**(e) Limitation on Rights; No Right to Future Grants; Extraordinary Item of Compensation.** By entering into this Agreement and accepting the Total Performance Unit Award evidenced hereby, the Participant acknowledges: (i) that the Plan is discretionary in nature and may be suspended or terminated by the Company at any time; (ii) that the Award does not create any contractual or other right to receive future grants of Awards; (iii) that participation in the Plan is voluntary; (iv) that the value of the Total Performance Unit Award is not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; and (v) that the future value of the shares of Common Stock is unknown and cannot be predicted with certainty.

**(f) Headings and Captions.** The section and other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

**(g) Amendments.** The terms of this Agreement may be amended from time to time by the Committee in its sole discretion in any manner it deems appropriate; provided that no such amendment shall, without the Participant's consent, materially diminish the Participant's rights under this Agreement.

**(h) Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which together shall constitute one and the same instrument.

To confirm your acceptance of the foregoing, kindly sign and promptly return one copy of this Agreement and Exhibit A to the Company.

Sincerely,  
PPL Corporation

By: \_\_\_\_\_

**PPL CORPORATION  
2012 STOCK INCENTIVE PLAN**

**PERFORMANCE CONTINGENT RESTRICTED STOCK UNIT AGREEMENT**

*Participant:*

*Date of Grant:*

*Number of RSUs:*

1. Grant of RSUs. The Company hereby grants the number of performance contingent restricted stock units ("RSUs") listed above to the Participant, on the terms and conditions hereinafter set forth. This grant is made pursuant to the terms of the PPL Corporation 2012 Stock Incentive Plan (the "Plan"), which Plan, as amended from time to time, is incorporated herein by reference and made a part of this Agreement. Each RSU represents the unfunded, unsecured right of the Participant to receive a Share on the date(s) specified herein. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan.

2. Vesting/Form and Timing of Issuance or Transfer.

(a) Subject to the Participant's continued Employment with the Company and its Affiliates through [insert dates] (each, a "Vesting Date"), \_\_\_% of the RSUs shall vest upon each such Vesting Date and the Company shall, within 30 days following the relevant Vesting Date, issue or cause there to be transferred to the Participant the corresponding number of Shares equal to the number of vested RSUs. Notwithstanding the preceding sentence, 100% of the outstanding RSUs shall vest upon (i) the Participant's termination of Employment by the Company and its Affiliates without Cause or by the Participant with Good Reason during the 24 month period following a Change in Control or (ii) the Participant's termination of Employment due to death, Disability or Retirement (each of the termination events described under clause (i) and (ii) being a "Qualifying Termination"). The Shares underlying any portion of the RSUs that vest in accordance with the preceding sentence shall be delivered to the Participant on the date that is 6 months and one day following the date of the Participant's termination of Employment. Upon the Participant's termination of Employment with the Company or any Affiliate for any reason other than due to a Qualifying Termination, all RSUs that did not become vested on or prior to such date shall immediately terminate and be forfeited without consideration and no Shares shall be delivered hereunder.

(b) Upon the issuance or transfer of Shares in accordance with Section 2(a) of this Agreement, the number of RSUs equal to the number of Shares issued or transferred to the Participant shall be extinguished.

(c) For purposes of this Agreement:

(i) "Cause" shall mean "Cause" as defined in any employment, severance, or similar agreement then in effect between the Participant and any of the Company or its Affiliates, or, if no such agreement containing a definition of "Cause" is then in effect or if such term is not defined therein, "Cause" shall mean (i) Participant's engagement in misconduct which is materially injurious to the Company or its Affiliates, (ii) Participant's insubordination after clear and lawful direction, (iii) Participant's commission of a felony in the performance of duties to the Company, (iv) Participant's commission of an act or acts constituting any fraud against, or embezzlement from the Company or any of its Affiliates (v) Participant's material breach of any confidentiality or non-competition covenant entered into between the Participant and the Company, or (vi) Participant's employment with a competitor while employed by the Company. The determination of the existence of Cause shall be made by the Committee in good faith, which determination shall be conclusive for purposes of this Agreement.

(ii) "Good Reason" shall mean "Good Reason" or such similar concept as defined in any employment, severance, or similar agreement then in effect between the Participant and any of the Company or its Affiliates, or, if no such agreement containing a definition of "Good Reason" is then in effect or if such term is not defined therein, "Good Reason" shall mean without the Participant's consent, (i) a change caused by the Company in the Participant's duties and responsibilities which is materially inconsistent with the Participant's position at the applicable entity that is a member of the Company Group, (ii) a material reduction in the Participant's annual base salary, annual incentive compensation opportunity or other employee benefits (excluding any such reduction that is part of a plan to reduce annual base salaries, annual incentive compensation opportunities or other employee benefits of comparably situated employees of any entity that is a member of the Company Group generally), or (iii) a relocation of the Participant's principal place of employment to a location that is more than 50 miles from the Participant's current principal place of employment; provided that, notwithstanding anything to the contrary in the foregoing, the Participant shall only have "Good Reason" to terminate employment following the applicable entity's failure to remedy the act which is alleged to constitute "Good Reason" within thirty (30) days following such entity's receipt of written notice from the Participant specifying such act, so long as such notice is provided within sixty (60) days after such event has first occurred.

(iii) "Retirement" shall mean the Participant's termination of Employment at a time when the Participant is eligible to commence monthly retirement benefits under the Company's Retirement Plan, or, if the Participant is not a participant in the Company's Retirement Plan, under any other defined benefit pension plan (whether or not tax qualified) maintained by the Company Group, or, if the Participant is not covered by any defined benefit pension plan, then Retirement shall mean the Participant's termination of Employment at or after age 55.

(iv) "Unvested RSUs" shall mean, on a given date, the number of RSUs which remain unvested.

(v) "Vested RSUs" shall mean, on a given date, the number of RSUs which are then vested, but for which Shares have not yet been delivered.

3. **Dividend Equivalent RSU's.** RSU's shall not pay cash dividends. The Participant shall be entitled to receive additional RSU's equal to the number of whole Shares that could have been purchased on the date that any dividends on Shares may be paid, at the Fair Market Value of Shares on that date, as if the dollar amount of any ordinary dividends that are declared on Shares applied to the Shares underlying the RSUs. All such additional RSU's shall be subject to the same terms and conditions applicable herein to the underlying RSU's, including such RSUs becoming Vested RSUs. Notwithstanding the foregoing, if on any date while RSUs are outstanding hereunder the Company shall pay any extraordinary dividend on the Shares, the Committee shall equitably adjust the outstanding RSUs pursuant to Section 10 of the Plan.

4. **No Right to Continued Employment.** The granting of RSUs evidenced by this Agreement shall impose no obligation on the Company or any Affiliate to continue the Employment of the Participant and shall not lessen or affect the Company's or its Affiliate's right to terminate the Employment of such Participant.

5. **No Rights of a Shareholder.** The Participant shall not have any rights as a shareholder of the Company until the Shares have been issued or transferred to such Participant.

6. **Legend on Certificates.** Any Shares issued or transferred to the Participant pursuant to Section 2 of this Agreement shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable federal or state laws or relevant securities laws of the jurisdiction of the domicile of the Participant, and the Committee may cause a legend or legends to be put on any certificates representing such Shares to make appropriate reference to such restrictions.

7. **Transferability.** RSUs may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance not permitted by this Section 7 shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance.

8. **Notices.** Any notice under this Agreement shall be addressed to the Company in care of its General Counsel at the principal executive office of the Company and to the Participant at the address appearing in the personnel records of the Company for the Participant or to either party at such other address as either party hereto may hereafter designate in writing to the other. Any such notice shall be deemed effective upon receipt thereof by the addressee.

9. **Withholding.** The Participant shall be required to pay to the Company or any Affiliate applicable withholding taxes with respect to any issuance or transfer under this Agreement or under the Plan, and the Company or any Affiliate shall have the right and is hereby authorized to withhold from any issuance or transfer due under this Agreement or under the Plan or from any compensation or other amount owing to the Participant an amount in respect of such withholding taxes, and to take such action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such withholding taxes.

10. **Choice of Law.** **THE INTERPRETATION, PERFORMANCE AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.**

11. **RSUs Subject to Plan.** By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan and agrees that all RSUs and Shares received in respect of RSUs are subject to the Plan. The terms and provisions of the Plan, as may be amended from time to time, are hereby incorporated by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms of the Plan will govern and prevail.

12. **Modifications.** Notwithstanding any provision of this Agreement to contrary, the Company reserves the right to modify the terms and conditions of this Agreement including, without limitation, the timing or circumstances of the issuance or transfer of Shares to the Participant hereunder, to the extent such modification is determined by the Company to be necessary to comply with applicable law or preserve the intended deferral of income recognition with respect to the RSUs until the issuance or transfer of Shares hereunder.

13. **Signature in Counterparts.** This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

14. **Compliance with IRC Section 409A.** Notwithstanding anything herein to the contrary, (i) if at the time of the Participant's termination of employment with the Company and its Affiliates the Participant is a "specified employee" as defined in Section 409A of the Code and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary in order to prevent any accelerated or additional tax under Section 409A of the Code, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to the Participant) until the date that is six months and one day following the Participant's termination of employment with the Company and its Affiliates (or the earliest date as is permitted under Section 409A of the Code) and (ii) if any other payments or other benefits due to the Participant hereunder could cause the application of an accelerated or additional tax under Section 409A of the Code, such payments or other benefits shall be deferred if deferral will make such payment or other benefits compliant under Section 409A of the Code, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner, determined by the Committee, that does not cause such an accelerated or additional tax. The Company shall use commercially reasonable efforts to implement the provisions of this Section 14 in good faith; provided that neither the Company, the Committee nor any of the Company's employees, directors or representatives shall have any liability to the Participant with respect to this Section 14.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

PPL CORPORATION

By: /s/ William H. Spence  
William H. Spence  
President & CEO

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**PPL CORPORATION  
2012 STOCK INCENTIVE PLAN /  
INCENTIVE COMPENSATION PLAN FOR KEY EMPLOYEES**

**Performance Contingent Restricted Stock Unit Agreement**

**Exhibit A**

**Granted to:** Participant Name  
**SSN:** SSN or I-Number

**Date of Award:** Grant date  
**Date restrictions expire:** three years from Date of Award (above)  
**Units:** Number of shares granted

**PPL CORPORATION  
2012 STOCK INCENTIVE PLAN**

**NONQUALIFIED STOCK OPTION AGREEMENT**

THIS AGREEMENT (the "Agreement"), is made effective as of the date set forth on the signature page hereto, (hereinafter called the "Date of Grant"), between PPL Corporation, a Pennsylvania corporation (hereinafter called the "Company"), and the individual set forth on the signature page hereto (hereinafter called the "Participant"), pursuant to the PPL Corporation 2012 Stock Incentive Plan (the "Plan"), which Plan is incorporated herein by reference and made a part of this Agreement.

**1. Grant of the Option.**

The Company hereby grants to the Participant the right and option (the "Option") to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate of the number of Shares set forth on the signature page hereto, subject to adjustment as set forth in the Plan. The purchase price of the Shares subject to the Option shall be the Option Price set forth on the signature page hereto (the "Option Price"). The Option is intended to be a non-qualified stock option, and is not intended to be treated as an option that complies with Section 422 of the Internal Revenue Code of 1986, as amended.

**2. Definitions.** Whenever the following terms are used in this Agreement, they shall have the meanings set forth below. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan.

(a) "Cause" shall mean "Cause" as defined in any employment, severance, or similar agreement then in effect between the Participant and any of the Company or its Affiliates, or, if no such agreement containing a definition of "Cause" is then in effect or if such term is not defined therein, "Cause" shall mean (i) Participant's engagement in misconduct which is materially injurious to the Company or its Affiliates, (ii) Participant's insubordination after clear and lawful direction, (iii) Participant's commission of a felony in the performance of duties to the Company, (iv) Participant's commission of an act or acts constituting any fraud against, or embezzlement from the Company or any of its Affiliates, (v) Participant's material breach of any confidentiality or non-competition covenant entered into between the Participant and the Company, or (vi) Participant's employment with a competitor while employed by the Company. The determination of the existence of Cause shall be made by the Committee in good faith, which determination shall be conclusive for purposes of this Agreement.

(b) "Good Reason" shall mean "Good Reason" or such similar concept as defined in any employment, severance, or similar agreement then in effect between the Participant and any of the Company or its Affiliates, or, if no such agreement containing a definition of "Good Reason" is then in effect or if such term is not defined therein, "Good Reason" shall mean without the Participant's consent, (i) a change caused by the Company in the Participant's duties and responsibilities which is materially inconsistent with the Participant's position at the applicable entity that is a member of the Company Group, (ii) a material reduction in the Participant's annual base salary, annual incentive compensation opportunity or other employee benefits (excluding any such reduction that is part of a plan to reduce annual base salaries, annual incentive compensation opportunities or other employee benefits of comparably situated employees of any entity that is a member of the Company Group generally), or (iii) a relocation of the Participant's principal place of employment to a location that is more than 50 miles from the Participant's current principal place of employment; provided that, notwithstanding anything to the contrary in the foregoing, the Participant shall only have "Good Reason" to terminate employment following the applicable entity's failure to remedy the act which is alleged to constitute "Good Reason" within thirty (30) days following such entity's receipt of written notice from the Participant specifying such act, so long as such notice is provided within sixty (60) days after such event has first occurred.

(c) "Retirement" shall mean the Participant's termination of Employment at a time when the Participant is eligible to commence monthly retirement benefits under the Company's Retirement Plan, or, if the Participant is not a participant in the Company's Retirement Plan, under any other defined benefit pension plan (whether or not tax qualified) maintained by the Company Group, or, if the Participant is not covered by any defined benefit pension plan, then Retirement shall mean the Participant's termination of Employment at or after age 55.

**3. Vesting.**

(a) Subject to the Participant's continued Employment through the applicable vesting date, the Option shall vest and become exercisable at the time(s) set forth on the signature page hereto.

(b) Notwithstanding the foregoing, in the event of a termination of the Participant's Employment by the Company and its Affiliates without Cause or by the Participant with Good Reason during the 24 month period following a Change in Control (a "CIC Termination"), the Option shall, to the extent not then vested or previously forfeited or cancelled, become fully vested and exercisable effective as of such termination date.

(c) Subject to Section 3(b) above, if the Participant's Employment with the Company is terminated for any reason other than death, Disability, or Retirement, the vested portion of the Option shall remain exercisable for the period set forth in Section 4(a), and the unvested portion of the Option shall immediately terminate. In the event of Participant's Retirement, all unvested Options then held by the Participant shall become vested and exercisable on the date of Retirement, except where a separation program or policy provides improved retirement benefits, in which case the express terms of such program or policy concerning exercise of Options shall control. In the event of the Participant's termination of Employment due to death or Disability, all unvested Options then held by the Participant shall remain outstanding and shall become vested and exercisable at the same time as originally scheduled pursuant to this Agreement (as if the Participant remained in Employment through such dates)

**4. Exercise of Option.**

(a) **Period of Exercise.** Subject to the provisions of the Plan and this Agreement, the Participant may exercise all or any part of the Option at any time prior to the earliest to occur of:

- (i) the Participant's termination of Employment by the Company or any of its Affiliates for Cause;
  - (ii) 60 days following the date of the Participant's termination of Employment for any reason other than due to a CIC Termination or the Participant's death, Disability or Retirement (or termination for Cause);
  - (iii) three years and 60 days following the date of the Participant's termination of Employment due to death, Disability or a CIC Termination;
  - (iv) five years following the date of the Participant's termination of employment due to Retirement; and
  - (v) the tenth anniversary of the Date of Grant.
- (b) Method of Exercise.

(i) Subject to Section 4(a), the Option may be exercised by delivering to the Company at its principal office written notice of intent to so exercise; provided that, the Option may be exercised with respect to whole Shares only. Such notice shall specify the number of Shares for which the Option is being exercised and shall be accompanied by payment in full of the Option Price. The payment of the Option Price may be made at the election of the Participant (A) in cash or its equivalent (e.g., by check), (B) to the extent permitted by the Committee, in Shares having a Fair Market Value equal to the aggregate Option Price for the Shares being purchased and satisfying such other requirements as may be imposed by the Committee; provided, that such Shares have been held by the Participant for no less than six months (or such other period as established from time to time by the Committee in order to avoid adverse accounting treatment applying generally accepted accounting principles), (C) partly in cash and, to the extent permitted by the Committee, partly in such Shares, (D) if there is a public market for the Shares at such time, through the delivery of irrevocable instructions to a broker to sell Shares obtained upon the exercise of the Option and to deliver promptly to the Company an amount out of the proceeds of such Sale equal to the aggregate option price for the Shares being purchased, or (E) to the extent permitted by the Committee, through a "net settlement" as described in Section 6(c) of the Plan.

Participant shall not have any rights to dividends or other rights of a stockholder with respect to Shares subject to an Option until the Participant has given written notice of exercise of the Option, paid in full for such Shares and, if applicable, has satisfied any other conditions imposed by the Committee pursuant to the Plan. Participant shall also have no right to a dividend equivalent payment or unit of value with respect to any outstanding Options.

(ii) Notwithstanding any other provision of the Plan or this Agreement to the contrary, the Option may not be exercised prior to the completion of any registration or qualification of the Option or the Shares under applicable state and federal securities or other laws, or under any ruling or regulation of any governmental body or national securities exchange that the Committee shall in its sole discretion determine to be necessary or advisable.

(iii) Upon the Company's determination that the Option has been validly exercised as to any of the Shares, the Company shall issue certificates in the Participant's name for such Shares. However, the Company shall not be liable to the Participant for damages relating to any delays in issuing the certificates to him, any loss of the certificates, or any mistakes or errors in the issuance of the certificates or in the certificates themselves. Notwithstanding the foregoing, the Company may elect to recognize the Participant's ownership through uncertificated book entry.

(iv) In the event of the Participant's death, the Option shall remain exercisable by the Participant's executor or administrator, or the person or persons to whom the Participant's rights under this Agreement shall pass by will or by the laws of descent and distribution as the case may be, to the extent set forth in Section 4(a) above. Any heir or legatee of the Participant shall take rights herein granted subject to the terms and conditions hereof.

## 5. No Right to Continued Employment.

The granting of the Option evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the Employment of the Participant and shall not lessen or affect the Company's or its Affiliate's right to terminate the Employment of such Participant.

## 6. Legend on Certificates.

Unless the Company issues the Shares in uncertificated form, the certificates representing the Shares purchased by exercise of the Option shall be subject to the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable Federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

## 7. Transferability.

The Option may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the Option to heirs or legatees of the Participant shall be effective to bind the Company unless the Committee shall have been furnished with written notice thereof and a copy of such evidence as the Committee may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof. During the Participant's lifetime, the Option is exercisable only by the Participant.



**8. Withholding.**

The Participant may be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold (including from payroll or any other amounts payable to the Participant), any applicable withholding taxes in respect of the Option, its exercise or any payment or transfer under or with respect to the Option and to take such other action as may be necessary in the opinion of the Committee to satisfy all obligations for the payment of such withholding taxes; provided, however, that no amounts shall be withheld in excess of the Company's statutory minimum withholding liability. Without limiting the generality of the foregoing, to the extent permitted by the Committee, the Participant may satisfy, in whole or in part, the foregoing withholding liability by delivery of Shares held by the Participant (which are fully vested and not subject to any pledge or other security interest) or by having the Company withhold from the number of Shares otherwise deliverable to the Participant hereunder Shares with a Fair Market Value not in excess of the statutory minimum withholding liability. The Participant further agrees to make adequate provision for any sums required to satisfy all applicable federal, state, local and foreign tax withholding obligations of the Company which may arise in connection with the Option.

**9. Securities Laws.**

Upon the acquisition of any Shares pursuant to the exercise of the Option, the Participant will make or enter into such written representations, warranties and agreements as the Committee may reasonably request in order to comply with applicable securities laws or with this Agreement.

**10. Notices.**

Any notice necessary under this Agreement shall be addressed to the Company in care of its Secretary at the principal executive office of the Company and to the Participant at the address appearing in the personnel records of the Company for the Participant or to either party at such other address as either party hereto may hereafter designate in writing to the other. Any such notice shall be deemed effective upon receipt thereof by the addressee.

**11. Choice of Law.**

This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania without regard to conflicts of laws.

**12. Option Subject to Plan.**

By entering into this Agreement the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The Option is subject to the Plan. The terms and provisions of the Plan, as they may be amended from time to time, are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

**13. Signature in Counterparts.**

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This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

*[Signatures on next page.]*

Sincerely,  
PPL Corporation

By: /s/ William H. Spence  
William H. Spence  
President & CEO

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**PPL CORPORATION  
2012 STOCK INCENTIVE PLAN /  
INCENTIVE COMPENSATION PLAN FOR KEY EMPLOYEES**

**STOCK OPTION AGREEMENT  
Non-qualified Stock Option Grant**

<b>Granted to:</b>	Participant Name
<b>Empl ID:</b>	Employee ID Number
<b>Grant Date:</b>	Date of Grant
<b>Date Options Expire:</b>	Date of Expiration
<b>Stock Options Awarded:</b>	Number of Options Awarded
<b>Option Price: \$</b>	<b>Option (Grant) Price</b>

Stock options provide the holder the right to purchase PPL common stock as they become vested. The options vest over a period of three years – one third at the end of each anniversary of the grant date. The dates of vesting and number of options vested on those dates can be viewed in your Fidelity stock plan account at Fidelity NetBenefits.

## PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND  
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	2012	2011	2010	2009	2008
Earnings, as defined:					
Income from Continuing Operations Before Income Taxes	\$ 2,082	\$ 2,201	\$ 1,239	\$ 538	\$ 1,273
Adjustment to reflect earnings from equity method investments on a cash basis (a)	34	1	7	1	
	<u>2,116</u>	<u>2,202</u>	<u>1,246</u>	<u>539</u>	<u>1,273</u>
Total fixed charges as below	1,065	1,022	698	513	568
Less:					
Capitalized interest	53	51	30	43	57
Preferred security distributions of subsidiaries on a pre-tax basis	5	23	21	24	27
Interest expense and fixed charges related to discontinued operations		3	12	15	16
Total fixed charges included in Income from Continuing Operations Before Income Taxes	<u>1,007</u>	<u>945</u>	<u>635</u>	<u>431</u>	<u>468</u>
Total earnings	<u>\$ 3,123</u>	<u>\$ 3,147</u>	<u>\$ 1,881</u>	<u>\$ 970</u>	<u>\$ 1,741</u>
Fixed charges, as defined:					
Interest charges (b)	\$ 1,019	\$ 955	\$ 637	\$ 446	\$ 518
Estimated interest component of operating rentals	41	44	39	42	22
Preferred securities distributions of subsidiaries on a pre-tax basis	5	23	21	24	27
Fixed charges of majority-owned share of 50% or less-owned persons			1	1	1
Total fixed charges (c)	<u>\$ 1,065</u>	<u>\$ 1,022</u>	<u>\$ 698</u>	<u>\$ 513</u>	<u>\$ 568</u>
Ratio of earnings to fixed charges	<u>2.9</u>	<u>3.1</u>	<u>2.7</u>	<u>1.9</u>	<u>3.1</u>
Ratio of earnings to combined fixed charges and preferred stock dividends (d)	<u>2.9</u>	<u>3.1</u>	<u>2.7</u>	<u>1.9</u>	<u>3.1</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(c) Interest on unrecognized tax benefits is not included in fixed charges.

(d) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

## PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	2012	2011	2010	2009	2008
Earnings, as defined:					
Income (Loss) from Continuing Operations Before Income Taxes	\$ 738	\$ 1,212	\$ 881	\$ (13)	\$ 671
Adjustments to reflect earnings from equity method investments on a cash basis		1	7	1	
	<u>738</u>	<u>1,213</u>	<u>888</u>	<u>(12)</u>	<u>671</u>
Total fixed charges as below	238	259	426	364	390
Less:					
Capitalized interest	47	47	33	44	57
Interest expense and fixed charges related to discontinued operations		3	147	102	157
Total fixed charges included in Income (Loss) from Continuing Operations Before Income Taxes	<u>191</u>	<u>209</u>	<u>246</u>	<u>218</u>	<u>176</u>
Total earnings	<u>\$ 929</u>	<u>\$ 1,422</u>	<u>\$ 1,134</u>	<u>\$ 206</u>	<u>\$ 847</u>
Fixed charges, as defined:					
Interest charges (a)	\$ 214	\$ 223	\$ 387	\$ 321	\$ 374
Estimated interest component of operating rentals	24	36	38	42	15
Fixed charges of majority-owned share of 50% or less-owned persons			1	1	1
Total fixed charges (b)	<u>\$ 238</u>	<u>\$ 259</u>	<u>\$ 426</u>	<u>\$ 364</u>	<u>\$ 390</u>
Ratio of earnings to fixed charges (c)	<u>3.9</u>	<u>5.5</u>	<u>2.7</u>	<u>0.6</u>	<u>2.2</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

(c) In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. As a result, PPL Global's operating results were reclassified as Discontinued Operations. Upon reflecting this reclassification, earnings were less than fixed charges for 2009. See Note 9 in PPL Energy Supply's 2011 Form 10-K for additional information. The total amount of fixed charges for this period was approximately \$364 million and the total amount of earnings was approximately \$206 million. The amount of the deficiency, or the amount of fixed charges in excess of earnings, was approximately \$158 million.

**PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES**  
**COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND**  
**PREFERRED STOCK DIVIDENDS**  
*(Millions of Dollars)*

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Earnings, as defined:					
Income Before Income Taxes	\$ 204	\$ 257	\$ 192	\$ 221	\$ 278
Total fixed charges as below	<u>107</u>	<u>105</u>	<u>102</u>	<u>121</u>	<u>114</u>
Total earnings	<u>\$ 311</u>	<u>\$ 362</u>	<u>\$ 294</u>	<u>\$ 342</u>	<u>\$ 392</u>
Fixed charges, as defined:					
Interest charges (a)	\$ 104	\$ 102	\$ 101	\$ 120	\$ 113
Estimated interest component of operating rentals	<u>3</u>	<u>3</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total fixed charges (b)	<u>\$ 107</u>	<u>\$ 105</u>	<u>\$ 102</u>	<u>\$ 121</u>	<u>\$ 114</u>
Ratio of earnings to fixed charges	<u>2.9</u>	<u>3.4</u>	<u>2.9</u>	<u>2.8</u>	<u>3.4</u>
Preferred stock dividend requirements on a pre-tax basis	\$ 6	\$ 21	\$ 23	\$ 28	\$ 28
Fixed charges, as above	<u>107</u>	<u>105</u>	<u>102</u>	<u>121</u>	<u>114</u>
Total fixed charges and preferred stock dividends	<u>\$ 113</u>	<u>\$ 126</u>	<u>\$ 125</u>	<u>\$ 149</u>	<u>\$ 142</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>2.8</u>	<u>2.9</u>	<u>2.4</u>	<u>2.3</u>	<u>2.8</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

## LG&amp;E AND KU ENERGY LLC AND SUBSIDIARIES

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor			Predecessor		
	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31,	
				2009	2008	
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 331	\$ 419	\$ 70	\$ 300	\$ (1,235)	\$ (1,536)
Adjustment to reflect earnings from equity method investments on a cash basis (a)	33	(1)		(4)	11	
Loss on impairment of goodwill					1,493	1,806
Mark to market impact of derivative instruments			2	(20)	(19)	34
	<u>364</u>	<u>418</u>	<u>72</u>	<u>276</u>	<u>250</u>	<u>304</u>
Total fixed charges as below	<u>157</u>	<u>153</u>	<u>25</u>	<u>158</u>	<u>186</u>	<u>199</u>
Total earnings	<u>\$ 521</u>	<u>\$ 571</u>	<u>\$ 97</u>	<u>\$ 434</u>	<u>\$ 436</u>	<u>\$ 503</u>
Fixed charges, as defined:						
Interest charges (b)	\$ 151	\$ 147	\$ 24	\$ 153	\$ 176	\$ 184
Estimated interest component of operating rentals	6	6	1	5	5	5
Estimated discontinued operations interest component of rental expense					5	10
Total fixed charges	<u>\$ 157</u>	<u>\$ 153</u>	<u>\$ 25</u>	<u>\$ 158</u>	<u>\$ 186</u>	<u>\$ 199</u>
Ratio of earnings to fixed charges	<u>3.3</u>	<u>3.7</u>	<u>3.9</u>	<u>2.7</u>	<u>2.3</u>	<u>2.5</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

## LOUISVILLE GAS AND ELECTRIC COMPANY

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor			Predecessor		
	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009      2008	
Earnings, as defined:						
Income Before Income Taxes	\$ 192	\$ 195	\$ 29	\$ 167	\$ 142	\$ 131
Mark to market impact of derivative instruments			1	(20)	(20)	35
	<u>192</u>	<u>195</u>	<u>30</u>	<u>147</u>	<u>122</u>	<u>166</u>
Total fixed charges as below	<u>44</u>	<u>46</u>	<u>8</u>	<u>40</u>	<u>46</u>	<u>60</u>
Total earnings	<u>\$ 236</u>	<u>\$ 241</u>	<u>\$ 38</u>	<u>\$ 187</u>	<u>\$ 168</u>	<u>\$ 226</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 42	\$ 44	\$ 8	\$ 38	\$ 44	\$ 58
Estimated interest component of operating rentals	<u>2</u>	<u>2</u>		<u>2</u>	<u>2</u>	<u>2</u>
Total fixed charges	<u>\$ 44</u>	<u>\$ 46</u>	<u>\$ 8</u>	<u>\$ 40</u>	<u>\$ 46</u>	<u>\$ 60</u>
Ratio of earnings to fixed charges	<u>5.4</u>	<u>5.2</u>	<u>4.8</u>	<u>4.7</u>	<u>3.7</u>	<u>3.8</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.



## KENTUCKY UTILITIES COMPANY

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Successor			Predecessor		
	Year Ended Dec. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31,	
					2009	2008
Earnings, as defined:						
Income Before Income Taxes	\$ 215	\$ 282	\$ 55	\$ 218	\$ 200	\$ 226
Adjustment to reflect earnings from equity method investments on a cash basis (a)	33	(1)		(4)	11	
Mark to market impact of derivative instruments					1	(1)
	<u>248</u>	<u>281</u>	<u>55</u>	<u>214</u>	<u>212</u>	<u>225</u>
Total fixed charges as below	<u>72</u>	<u>73</u>	<u>11</u>	<u>71</u>	<u>79</u>	<u>77</u>
Total earnings	<u>\$ 320</u>	<u>\$ 354</u>	<u>\$ 66</u>	<u>\$ 285</u>	<u>\$ 291</u>	<u>\$ 302</u>
Fixed charges, as defined:						
Interest charges (b)	\$ 69	\$ 70	\$ 10	\$ 69	\$ 76	\$ 74
Estimated interest component of operating rentals	3	3	1	2	3	3
Total fixed charges	<u>\$ 72</u>	<u>\$ 73</u>	<u>\$ 11</u>	<u>\$ 71</u>	<u>\$ 79</u>	<u>\$ 77</u>
Ratio of earnings to fixed charges	<u>4.4</u>	<u>4.8</u>	<u>6.0</u>	<u>4.0</u>	<u>3.7</u>	<u>3.9</u>

(a) Includes other-than-temporary impairment loss of \$25 million in 2012.

(b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

**PPL Corporation  
Subsidiaries of the Registrant  
At December 31, 2012**

**Exhibit 21**

<b>Company Name Business Conducted under Same Name</b>	<b>State or Jurisdiction of Incorporation/Formation</b>
LG&E and KU Energy LLC	Kentucky
Louisville Gas and Electric Company	Kentucky
Kentucky Utilities Company	Kentucky and Virginia
PPL Electric Utilities Corporation	Pennsylvania
PPL Energy Funding Corporation	Pennsylvania
PPL Energy Supply, LLC	Delaware
PPL Generation, LLC	Delaware
PPL Susquehanna, LLC	Delaware
PPL Martins Creek, LLC	Delaware
PPL Montana Holdings, LLC	Delaware
PPL Montana, LLC	Delaware
PPL Global, LLC	Delaware
PMDC International Holdings, Inc.	Delaware
PPL UK Holdings, LLC	Delaware
PPL UK Resources Limited	United Kingdom
PPL WW Holdings Limited	United Kingdom
Westem Power Distribution LLP	United Kingdom
Westem Power Distribution (South West) plc	United Kingdom
Westem Power Distribution (South Wales) plc	United Kingdom
PPL UK Investments Limited	United Kingdom
PPL WEM Holdings plc	United Kingdom
WPD Midlands Holdings Limited	United Kingdom
Western Power Distribution (East Midlands) plc	United Kingdom
Western Power Distribution (West Midlands) plc	United Kingdom

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in PPL Corporation's Registration Statement on Form S-3 No. 333-180410, the Registration Statement on Form S-3D No 333-161826, and the Registration Statements on Form S-8 (Nos. 333-02003, 333-112453, 333-110372, 333-95967, 333-144047, 333-175680, and 333-181752) of our reports dated February 28, 2013, with respect to the consolidated financial statements of PPL Corporation and the effectiveness of internal control over financial reporting of PPL Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania  
February 28, 2013

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in PPL Energy Supply, LLC's Registration Statement on Form S-3 No. 333-180410-04 and the Registration Statement on Form S-4 No. 333-185996 of our report dated February 28, 2013, with respect to the consolidated financial statements of PPL Energy Supply, LLC, included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania  
February 28, 2013

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in PPL Electric Utilities Corporation's Registration Statement on Form S-3 No. 333-180410-03 of our report dated February 28, 2013, with respect to the consolidated financial statements of PPL Electric Utilities Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania  
February 28, 2013

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in PPL Corporation's Registration Statement on Form S-3 No. 333-180410, the Registration Statement on Form S-3D No 333-161826, and the Registration Statements on Form S-8 (Nos. 333-02003, 333-112453, 333-110372, 333-95967, 333-144047, 333-175680 and 333-181752) of our reports dated February 25, 2011, relating to the consolidated financial statements and financial statement schedule of LG&E and KU Energy LLC, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Louisville, Kentucky  
February 28, 2013

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-180410-05) of LG&E and KU Energy LLC and in the related Prospectus of our report dated February 28, 2013, with respect to the consolidated financial statements and schedule of LG&E and KU Energy LLC included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Louisville, Kentucky  
February 28, 2013

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-180410-01) of Louisville Gas and Electric Company and in the related Prospectus of our report dated February 28, 2013, with respect to the financial statements of Louisville Gas and Electric Company included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Louisville, Kentucky  
February 28, 2013



Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-180410-02) of Kentucky Utilities Company and in the related Prospectus of our report dated February 28, 2013, with respect to the financial statements of Kentucky Utilities Company included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Louisville, Kentucky  
February 28, 2013

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in LG&E and KU Energy LLC's Registration Statement on Form S-3 No. 333-180410-05 of our reports dated February 25, 2011, relating to the consolidated financial statements and financial statement schedule of LG&E and KU Energy LLC, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Louisville, Kentucky  
February 28, 2013

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in Louisville Gas and Electric Company's Registration Statement on Form S-3 No. 333-180410-01 of our reports dated February 25, 2011, relating to the financial statements of Louisville Gas and Electric Company, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Louisville, Kentucky  
February 28, 2013

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in Kentucky Utilities Company's Registration Statement on Form S-3 No. 333-180410-02 of our reports dated February 25, 2011, relating to the financial statements of Kentucky Utilities Company, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Louisville, Kentucky  
February 28, 2013

PPL CORPORATION  
 2012 ANNUAL REPORT  
 TO THE SECURITIES AND EXCHANGE COMMISSION  
 ON FORM 10-K

POWER OF ATTORNEY

The undersigned directors of PPL Corporation, a Pennsylvania corporation, that is to file with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, its Annual Report on Form 10-K for the year ended December 31, 2012 ("Form 10-K Report"), do hereby appoint each of William H. Spence, Paul A. Farr, Robert J. Grey, Michael A. McGrail and Frederick C. Paine, and each of them, their true and lawful attorney, with power to act without the other and with full power of substitution and resubstitution, to execute for them and in their names the Form 10-K Report and any and all amendments thereto, whether said amendments add to, delete from or otherwise alter the Form 10-K Report, or add or withdraw any exhibits or schedules to be filed therewith and any and all instruments in connection therewith. The undersigned hereby grant to each said attorney full power and authority to do and perform in the name of and on behalf of the undersigned, and in any and all capacities, any act and thing whatsoever required or necessary to be done in and about the premises, as fully and to all intents and purposes as the undersigned might do, hereby ratifying and approving the acts of each of the said attorneys.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands this 25th day of February, 2013.

/s/ Frederick M. Bernthal  
 Frederick M. Bernthal

/s/ Venkata Rajamannar Madabhushi  
 Venkata Rajamannar Madabhushi

/s/ John W. Conway  
 John W. Conway

/s/ Craig A. Rogerson  
 Craig A. Rogerson

/s/ Steven G. Elliott  
 Steven G. Elliott

/s/ William H. Spence  
 William H. Spence

/s/ Louise K. Goeser  
 Louise K. Goeser

/s/ Natica von Althann  
 Natica von Althann

/s/ Stuart E. Graham  
 Stuart E. Graham

/s/ Keith H. Williamson  
 Keith H. Williamson

/s/ Stuart Heydt  
 Stuart Heydt

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Corporation (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ William H. Spence

William H. Spence  
 Chairman, President and Chief Executive Officer  
 (Principal Executive Officer)  
 PPL Corporation

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Corporation (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Paul A. Farr  
 \_\_\_\_\_  
 Paul A. Farr  
 Executive Vice President and Chief Financial Officer  
 (Principal Financial Officer)  
 PPL Corporation

CERTIFICATION

I, DAVID G. DECAMPLI, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Energy Supply, LLC (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ David G. DeCampli  
 David G. DeCampli  
 President  
 (Principal Executive Officer)  
 PPL Energy Supply, LLC



CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Energy Supply, LLC (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Paul A. Farr  
 Paul A. Farr  
 Executive Vice President  
 (Principal Financial Officer)  
 PPL Energy Supply, LLC

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Electric Utilities Corporation (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Gregory N. Dudkin  
 Gregory N. Dudkin  
 President  
 (Principal Executive Officer)  
 PPL Electric Utilities Corporation

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Electric Utilities Corporation (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Vincent Sorgi

Vincent Sorgi  
 Vice President and Chief Accounting Officer  
 (Principal Financial and Accounting Officer)  
 PPL Electric Utilities Corporation

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this annual report on Form 10-K of LG&E and KU Energy LLC (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Victor A. Staffieri  
 Victor A. Staffieri  
 Chairman of the Board, Chief Executive Officer and President  
 (Principal Executive Officer)  
 LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of LG&E and KU Energy LLC (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Kent W. Blake  
 \_\_\_\_\_  
 Kent W. Blake  
 Chief Financial Officer  
 (Principal Financial Officer and Principal Accounting Officer)  
 LG&E and KU Energy LLC

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Victor A. Staffieri  
 Victor A. Staffieri  
 Chairman of the Board, Chief Executive Officer and President  
 (Principal Executive Officer)  
 Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Kent W. Blake  
 \_\_\_\_\_  
 Kent W. Blake  
 Chief Financial Officer  
 (Principal Financial Officer and Principal Accounting Officer)  
 Louisville Gas and Electric Company

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this annual report on Form 10-K of Kentucky Utilities Company (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Victor A. Staffieri  
 Victor A. Staffieri  
 Chairman of the Board, Chief Executive Officer and President  
 (Principal Executive Officer)  
 Kentucky Utilities Company



CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of Kentucky Utilities Company (the "registrant") for the year ended December 31, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2013

/s/ Kent W. Blake  
 Kent W. Blake  
 Chief Financial Officer  
 (Principal Financial Officer and Principal Accounting Officer)  
 Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
FOR PPL CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012

In connection with the annual report on Form 10-K of PPL Corporation (the "Company") for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Paul A. Farr, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2013

/s/ William H. Spence

William H. Spence  
Chairman, President and Chief Executive Officer  
(Principal Executive Officer)  
PPL Corporation

/s/ Paul A. Farr

Paul A. Farr  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)  
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
FOR PPL ENERGY SUPPLY, LLC'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012

In connection with the annual report on Form 10-K of PPL Energy Supply, LLC (the "Company") for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, David G. DeCampli, the Principal Executive Officer of the Company, and Paul A. Farr, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2013

/s/ David G. DeCampli  
David G. DeCampli  
President  
(Principal Executive Officer)  
PPL Energy Supply, LLC

/s/ Paul A. Farr  
Paul A. Farr  
Executive Vice President  
(Principal Financial Officer)  
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012

In connection with the annual report on Form 10-K of PPL Electric Utilities Corporation (the "Company") for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Vincent Sorgi, the Principal Financial and Accounting Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2013

/s/ Gregory N. Dudkin  
Gregory N. Dudkin  
President  
(Principal Executive Officer)  
PPL Electric Utilities Corporation

/s/ Vincent Sorgi  
Vincent Sorgi  
Vice President and Chief Accounting Officer  
(Principal Financial and Accounting Officer)  
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
FOR LG&E AND KU ENERGY LLC'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012

In connection with the annual report on Form 10-K of LG&E and KU Energy LLC (the "Company") for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2013

/s/ Victor A. Staffieri  
Victor A. Staffieri  
Chairman of the Board, Chief Executive Officer and President  
(Principal Executive Officer)  
LG&E and KU Energy LLC

/s/ Kent W. Blake  
Kent W. Blake  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)  
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012

In connection with the annual report on Form 10-K of Louisville Gas and Electric Company (the "Company") for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2013

/s/ Victor A. Staffieri  
Victor A. Staffieri  
Chairman of the Board, Chief Executive Officer and President  
(Principal Executive Officer)  
Louisville Gas and Electric Company

/s/ Kent W. Blake  
Kent W. Blake  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)  
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012

In connection with the annual report on Form 10-K of Kentucky Utilities Company (the "Company") for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2013

/s/ Victor A. Staffieri  
Victor A. Staffieri  
Chairman of the Board, Chief Executive Officer and President  
(Principal Executive Officer)  
Kentucky Utilities Company

/s/ Kent W. Blake  
Kent W. Blake  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)  
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

